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Energy prices are driving society to its breaking point

Inflation and the energy crisis have caused expensive food, no electricity and unaffordable petrol. We look at South Africa, Vietnam and Ecuador

South Africa

'One of my fears ... is that we are going to have our own version of the Arab Spring', former president Thabo Mbeki has warned. 'You can't have so many people unemployed, so many people living in poverty, faced with lawlessness and faced with corrupt leadership and not expect the situation to not one day explode'. But Mbeki's admonition roused South Africa only briefly. South Africa's social peace is clearly on a knife edge. Half the population lives in poverty, and both unemployment (44 per cent) and inequality are higher than virtually anywhere else in the world. Large segments of the population have no access to public services and are excluded from economic opportunities and effective political participation. And as if that wasn't enough, there is the global energy crisis.

South Africans are well-acquainted with energy crises, above all electricity shortages. Both the network and the power stations of state energy company Eskom are in a desperate state. Without the sophisticated implementation of rolling blackouts (so-called 'loadshedding') the system would collapse completely. South Africa's electricity is also dirty. Around 85 per cent is obtained from coal. An energy sector conversion towards renewable energies and a satisfactory and secure power supply have been controversial issues for years. But to date, there has been no breakthrough.

It's winter in the southern hemisphere and many households have electric heating. The rolling blackouts became more frequent in July; some areas had no electricity for up to six hours a day. Popular discontent reached such a height that President Cyril Ramaphosa tabled a new energy action plan in late July, which is heavily reliant on private

investors and expanding renewable energies. The Just Transition Energy Partnership – providing support worth about US$8.5 bn – agreed at the last world climate conference should give some momentum to the phasing out of fossil fuels, but it has yet to be defined in much detail.

Rising global coal prices give every incentive to step up coal mining at home. Only a few South Africans benefit, however. For the great majority, the global energy crisis above all means painful price increases on essentials. Inflation has topped 7 per cent in recent months, the highest level since 2009. According to the Pietermaritzburg Economic Justice and Dignity Group prices on basic foodstuffs, in particular, have risen much more sharply. The price of an average basket of groceries has risen by 13 per cent over the past year.

According to Statistics South Africa, fuel prices are the major inflationary drivers. In June 2022 they were 45 per cent higher than in the previous year. In April the government announced the suspension of the fuel levy of (initially) 1.5 rand (around 9 cents) and then 0.75 rand per litre, up to the beginning of August. But given the price of 26 rand (1.54 euros) per litre in July this barely scratched the surface. Furthermore, it remains unclear what will follow the Covid-19 emergency support which expires next March. Although the African National Congress (ANC) remains committed to the goal of basic social security discussed under the name of the Universal Basic Income Grant no concrete plan for implementation has yet been agreed upon.

Social tensions are continuing to grow as a result of the increasing economic pressure. Among other things, this has erupted in xenophobic attacks and violent protests. In contrast to the unrest in July last year, these protests are aimed at government concessions on economic and political participation. ‘They only come when they see smoke’, said a protester in Tembisa.

In the face of multiple crises, the government does little more than put out fires. In particular, the ruling African National Congress (ANC) is completely taken up with internal power struggles and coping with corruption scandals in the run-up to the party congress in December, at which it will be decided whether Cyril Ramaphosa can run for a second term.

Social peace in South Africa is a fragile construct requiring many compromises. The constant deterioration of access to public goods and the shrinking political and economic opportunities are taking their toll. Economists expect an easing of inflationary pressure in autumn. But without structural change, this will at best offer only short-term relief.

Vietnam

In Vietnam, the best indication of the real impact of price rises is the normally very reasonable price of street food, which most Vietnamese take for granted. The average price of a bowl of pho, the popular rice noodle soup, usually eaten for breakfast, rose by 30-45 per cent from May to August. It now costs the equivalent of 1.95 euros.

The main driver is rising fuel prices or rather knock-on effects of the kind observed at German filling stations. Fuel prices are now already at the same level as in February, partly as a result of a cut in the environmental tax. But falling production costs are not being passed on directly to consumers. Furthermore, the high price of gas, which is often used in cooking, is 24 per cent more expensive than it was last year.

Electricity prices are regulated by the state electricity monopolists Vietnam Electricity (EVN). Price shocks thus tend to be passed on to consumers with some delay and considerably attenuated. Over half of electricity generation in Vietnam is based on imported fossil fuels. Correspondingly, rising world market prices exert a strong influence on the calculation of electricity prices and thus the pressure to pass on price rises to consumers is likely to increase.

Apart from higher prices for energy, foodstuffs, transport, imported products and restaurant and hotel services, inflation in Vietnam has remained moderate in comparison with the euro area, according to official figures. It is expected to remain at the government's envisaged 4 per cent. This will not represent an existential threat to Vietnam's rapidly growing middle class. For low-wage workers, however, price rises will pose enormous problems, for example in the shoe and textile industries and in the large informal sector.

The minimum wage in Vietnam was frozen for two and a half years from the start of the Covid-19 pandemic, with a moderate increase only in mid-2022. But even with this increase, it remains below the subsistence minimum, as a result of which considerable overtime is the rule in low-wage sectors. Further relief measures are currently being discussed, such as cuts in VAT and certain consumption taxes on oil and petrol.

Overall and by international comparison the negative effects of inflation

and rising energy prices in Vietnam have been relatively mild, at least hitherto. It's possible, however, that the situation is deteriorating sharply for low earners. In the medium term, the dynamically developing Vietnam faces enormous challenges. Rapid economic growth leads to a rapidly rising demand for energy, fuelled by Vietnam's continuing attractiveness as a location for major foreign investment.

In north Vietnam, peak electricity demand for 2022 is expected to rise by 9.5-13 per cent. The country's overall electricity consumption increases by around 10 per cent each year. In these circumstances, the government has for years been diversifying the sources of electricity generation, building on coal imports, renewable energies and liquid gas. But even though – somewhat surprisingly – Vietnam committed itself to climate neutrality by 2050 at the last climate summit in 2021 it has not yet reached the peak of its harmful emissions.

Vietnam still lacks a concrete plan for implementing climate goals and the future of the energy sector. In any case, rising cost pressures in the energy domain and an expressed desire for climate protection do not search the right path any simpler. In the meantime, discussions on a socially just energy transition in Vietnam are still in their infancy.

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Ecuador

While in European countries like Germany politicians are only speculating about the possibility of social unrest because of continuing price rises, this has long been a reality in Ecuador. Barely a couple of months ago an 18-day national strike paralysed the country, organised by the Confederation of Indigenous Nationalities of Ecuador (CONAIE) and other social organisations. Despite a state of emergency and military and police brutality, thousands of young and indigenous strikers blocked streets, businesses, and towns nationwide. They aimed to add weight to CONAIE's ten basic demands. They include the freezing of rapidly rising diesel and petrol prices, more public investment in the utterly dilapidated health care and social insurance system, fair prices for agricultural products from small-scale producers, together with price controls to combat wholesale and industry price speculation, as well as debt moratorium for private households, covering four million families.

The government, led by conservative and economic liberal Guillermo Lasso, initially responded to the protests with severity, criminalisation,

and repression. During the strike, it sought to pacify the strikers with unilateral concessions, such as a slight increase in fuel subsidies and direct payments, as well as the declaration of a state of emergency in the public health care system. Not only did these measures fall far short of the strikers' demands, but the president, nowadays appearing almost exclusively via video link, found himself facing impeachment proceedings in the National Assembly. This failed only because a handful of deputies abstained. To not lose control completely the government and strike committees finally agreed on a dialogue process that was supposed to yield concrete results within 90 days. Little progress has been discernible in the negotiations, however. A new protest wave seems probable.

But price increases in Ecuador are by no means sufficient to explain the protests' vehemence. Thanks to its 'dollarised' economy Ecuador is doing relatively well by regional comparison, with 'only' a 4.2 per cent annual price rise in June. The issue lies in the combination of unresolved structural and cyclical problems with the comparatively modest price rises that have created social dynamite. The highly indebted country was already in the grip of economic and social decline even before the pandemic, with mass protests in October 2019. Covid-19 hit Ecuador hard and only exacerbated the social and economic situation.

The economic recovery promised by the Lasso government in the 2020 election campaign failed to materialise. On the contrary, structural inequalities increased. Today around a quarter of the population live on less than US$87.57 a month. With the average income being just under US$310, well below the statutory minimum wage of US$425. Just under 90 per cent of Ecuadorians earn less than US$750 a month, while the cost of a basket of groceries to meet basic needs has risen to US$751.04 because of inflation with a predicted upward trend.

The labour market doesn't offer much hope either. More than half of all working-age people are employed informally and often precariously. They have no entitlement to health care or social insurance, no employment contract and are paid below the minimum wage. All these indicators are far worse for rural dwellers, indigenous people, Afro-Ecuadorians and women, reflecting the structural racism and patriarchal social structure in Ecuador.

Worst of all, despite having much greater financial leeway as a result of increased revenues from higher export oil prices the government has barely addressed these issues. Instead, breaking its campaign promises, it has staked everything on an economic-liberal 'structural adjustment policy', which lacks majority support both among the public and in the National Assembly. It is no wonder then that in recent opinion polls

three-quarters of respondents stated that the government was doing a bad job. In these circumstances, no rapid end to Ecuador's economic, social and political crisis is in sight.

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