

Wal-mart's africa foothold shaky as job worries mount



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Both Wal-Mart and Massmart dispute claims that a merger would lead to job losses. Above, an employee stocks shelves at a Game supermarket, part of Massmart, in Johannesburg last October. Wal-Mart's proposed acquisition of Massmart marks its first foray into the growing sub-Saharan market. Africa's prospects have proved alluring for the world's largest retailer, which plans to use the South African discount retailer as a foothold for continental expansion. Massmart operates several wholesale and retail chains, including Game general-merchandise stores, Builders Warehouse for construction and Makro warehouse-club stores.

The bulk of Massmart's 288 stores are in South Africa, although it also operates in 13 other sub-Saharan countries. The International Monetary Fund projects that sub-Saharan Africa, a collection of 47 countries, will grow 5.5% this year and 6% in 2012. Amid this growth, banks, telecommunications companies and retailers are trying to tap the growing middle class that is emerging. The African Development Bank estimates the continent now has a middle class of about 300 million people, a size on par with China and India.

Wal-Mart isn't the first multinational company attempting to enter South Africa to hit speed bumps. In 2009, India's biggest cellphone company Bharti Airtel Ltd. failed to reach an agreement to buy a stake in South African telecom MTN Group Ltd. after the government voiced concern about the takeover of its flagship phone company. The government report, commissioned by South Africa's economic development and agricultural departments, estimates that if just 1% of Massmart's purchases shift to imports from domestic suppliers, it could lead to roughly 4,000 job losses in industry in South Africa.

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The report said that such a shift " would negatively impact on the public interest through a reduction in domestic employment" and could harm local industries. Massmart and Wal-Mart both disputed the claim that the merger will lead to job losses and undermine domestic suppliers. " This is demonstrated by evidence showing that Wal-Mart's entry into other developing economies—such as Chile—has not resulted in any significant shift from local procurement patterns seen prior to entry," the two companies said, referring to the government's report.

The government departments didn't make a recommendation for or against the deal in the report and have said they are awaiting the tribunal outcome. The South African competition tribunal is weighing comments from the two retailers, unions and the government. The hearing closes on May 16, after which it is expected to make a final decision. A separate independent body, the South African Competition Commission, has recommended approval of Wal-Mart's proposed offer. It doesn't have the authority to approve or deny the deal.

The government's caution has worried some analysts. " If it's not approved it will be a sad day for South Africa," said Nedbank retail analyst Syd Vianello, adding that it could dissuade other foreign investors from trying to enter the South African market. The report highlights just how paramount an issue employment has become for a government struggling to generate jobs. South Africa is now dealing with an unemployment rate estimated about a quarter of working-age persons, or roughly four million people.

President Jacob Zuma has promised to create five million jobs over the next few years, although the nation shed more than a million jobs in 2009 when it was hit by the global financial turmoil. A consortium of unions including the South Africa Commercial, Catering and Allied Workers Union, UNI Global Union, and the United Food and Commercial Workers International Union said the tribunal should only allow the deal to go through if Wal-Mart agrees to conditions on treatment of workers, union rights and sourcing products locally.

Our clear demand is that the merger not be approved," said Christy Hoffman, deputy general secretary of UNI Union. Ms. Hoffman said the hope is that if it does go through Wal-Mart and Massmart will have to reach an agreement on employment issues and agree to a set level of domestic supplier purchases.

—Jackie Bischof and Peter Wonacott contributed to this article.