

# BTI 2008 | South Africa Country Report

<b>Status Index</b>	1-10	<b>7.98</b>	# 18 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	46.9	HDI	0.65	GDP p.c.	\$	9,884
Pop. growth <sup>1</sup>	% p.a.	1.1	HDI rank of 177	121	Gini Index		57.8
Life expectancy	years	48	UN Education Index	0.80	Poverty <sup>3</sup>	%	34.1
Urban population	%	59.3	Gender equality <sup>2</sup>	-	Aid per capita	\$	15.5

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

South Africa continues to be on the road to democratic and economic transformation and reform. During the period under review, there have not been breakthroughs either in the economic or political field. The last democratic elections on the national level were in April 2004. With an overwhelming victory – taking nearly 70% of the total vote – the African National Congress’s (ANC) position as the dominant party was consolidated. Clearly, the democratic system has won legitimacy. The South African economy is performing well, and some observers even speak of an economic boom. The ANC is in political turmoil. Allegations of large-scale corruption against the popular Vice President Jacob Zuma have triggered a major crisis within the party. The corruption crisis has led to a split in the informal Tripartite Alliance consisting of the ANC in a centrist position, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). SACP and COSATU support Zuma despite his failures, and the ANC appears divided. The situation is complicated by the fact that Zuma is a candidate in the race to succeed President Mbeki, whose second and last term in office ends in 2009. There is an inherent danger that the fight for the succession will paralyze politics and affect the ability of the political leadership to continue its reforms at the same pace.

## History and Characteristics of Transformation

In terms of a transition to democracy, South Africa (SA) can be regarded as one of the rare success stories on the African continent. The negotiated (“pacted”) transition to democracy started in 1990 and led – after a difficult period of immense violence and uncertainty about the future of the country – to the founding elections in 1994. The

legacy of the hundreds of years of discrimination and the apartheid period (from 1948 on) has been a deeply divided and segregated society. Major challenges in democratic consolidation include the establishment of representative and efficient political institutions, the economic reform of a country that had been weakened by sanctions and international isolation, and reconciliation between different racial groups. The task has been to create or at least foster a new South African nation and find a common identity for all groups.

The economically and socially disadvantaged black South African population demanded and hoped for an extension of the welfare system to improve their situation. At the same time, the reintegration of the SA economy into the global economy and a shift in foreign relations, especially toward the African continent, were at stake. Thirteen years after the final demise of apartheid, South Africa is still regarded as one of the rare success stories for democracy in Africa. Although there had been notable disillusionment on the side of the population about the government's ability to cope with the problems as well as growing skepticism toward democracy, the government nevertheless maintained a high level of electoral support. Although support for the ANC is still strong, the first quarter of 2006 was marred by several protests against a lack of service delivery, which in some cases developed into public violence characterized by arson, intimidation and the destruction of public and private property.

Recent surveys reveal strong support for democratic principle and values and the Mbeki government. According to the Institute for a Democratic South Africa (IDASA), one reason for the general satisfaction is that the majority of South Africans reported that their material conditions have improved, although research studies have found that levels of inequality have not declined substantially.

Economic development over the last two years has seen a flourishing economy with the highest grow rates in the last two decades. As a result of economic growth and social policy, poverty has decreased slightly. Whereas the overall economic situation has improved, the political setting reveals a rather confused picture. On the one hand, as already mentioned, South Africa is on the way to democratic consolidation. On the other, two major political developments have sent mixed signals: The crisis within the Tripartite Alliance (consisting of the ANC in a centrist position, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) on the left) has reached unprecedented levels.

The conflict now has three aspects: First, the traditional dividing line, which is responsible for much infighting, runs between a more free market-oriented part of the Alliance that strongly advocates for privatization and further liberalization and a more socialist- oriented part promoting a major role for the state in the economy. The Mbeki government has tried to accommodate the critics from the left and cautiously started a reorientation of economic policy. The president and the influential Finance Minister Trevor Manuel have pushed for a greater role for the state. In 2004, they announced

budget shifts in favor of increased social spending to enhance greater social justice and lessen inequality.

Second, the Zuma/ Schabir Shaik corruption scandal (see 15.3) led to a split within the Alliance and within the organizations of the Alliance, in particular within the ANC. South African Vice President Jacob Zuma, a hero from the anti-apartheid struggle and a heavyweight in the ANC, was accused of massive corruption and fraud. Whereas the ANC establishment remained critical of his role and insisted that he should leave his office at least temporarily, COSATU and the ANC Youth League supported him vigorously. The case was pending for a long time. Finally, Zuma's corruption case has been struck from the court role in 2006 because the court refused the state a further postponement to conduct investigations and because it believed that an injustice would be done to Zuma if the case were postponed yet again. The National Prosecuting Authority is currently considering whether Zuma will be charged again, which is allowed because the court has not ruled on his guilt or innocence. Meanwhile, the economic advisor to Jacob Zuma, businessman and ANC veteran Schabir Shaik has been sentenced to 15 years in prison. In June 2005, President Mbeki "released" Zuma from his duties of vice president. Allegations against Zuma, who was accused of having raped a woman activist opposed to the government's HIV/AIDS policy and who was HIV positive, ended up in court, but Zuma was not found guilty. Nevertheless, the case affected his image negatively and raised concerns about his moral credibility.

Third, the Zuma Affair highlighted the fact that the fight for Mbeki's succession has already begun. The South African constitution allows only two terms in office and the president's term ends in April 2009. Because Mbeki was the vice president during Mandela's term in office before he himself became president, South Africans view the vice president as a president-in-waiting. Although he never belonged ideologically to that camp, Jacob Zuma is regarded by the left as their candidate. He is perceived and presented as the candidate of the underprivileged and dispossessed masses. At its congress in December 2007, the ANC will choose a new party leader who will most likely also be the new president. The succession crisis has undoubtedly increased political uncertainty.

Much of the political debate in South Africa is concerned with macroeconomics and social matters. Owing to government inertia and the lack of efficiency of programs, however, the HIV/AIDS pandemic remains one of its biggest challenges. It remains to be seen whether the new minister for health and the restructuring of the HIV/AIDS policy will lead to a more adequate policy.

## Transformation Status

### I. Democracy

The consolidation of SA's democracy has continued. In the period under review, no major dramatic changes have occurred. So far, there is no evidence that the dominance of the ANC has affected democratic institutions. The ANC's dominance has weakened institutional checks and balances, especially in most of SA's provinces. A vibrant and well-organized civil society and print media, which plays the role of democracy "watchdog," have been counterweights. Negative developments consist of a tolerance for political corruption and a growing alienation between the electorate and politicians, which has led to decreased support for democratic institutions.

#### 1 | Stateness

The government's monopoly on the use of force is established throughout the country and is not seriously challenged. Rampant crime in certain areas, especially in the cities and in some suburbs ("townships") where poorer, non-white South Africans live, is not always combatted by local authorities and the police.

Monopoly on the use of force

Despite the beliefs of a few white, right-wing groups, some of them living in the autonomous area of "Orania," the concept of the nation-state is not questioned. Due to the historical experience of apartheid, the South African constitution strictly forbids any discrimination on the basis of race, socioeconomic status, ethnicity or gender. The growing number of immigrants, coming mainly from neighboring countries, has fuelled a controversial debate about the treatment of immigrants and their rights.

State identity

Religion plays an important role in daily life, and the secular nature of the state is generally accepted by the citizens, except by a few radical Muslim groups.

No interference of religious dogmas

South Africa's administrative structure is established throughout the whole territory. It is geographically differentiated into local (municipal), regional and national administrative bodies. Government effectiveness is hampered by incompetence and a lack of human resources. Deficits are noticeable, especially in some areas within the North Cape and the Eastern Cape provinces.

Basic administration

## 2 | Political Participation

The third democratic elections held in April 2004 were judged as being free and fair both by the Independent Electoral Commission (IEC) and international and national election observers. The ANC enjoyed an overwhelming victory, gaining over two-thirds of the vote in the national parliamentary elections and up to 80% of the total vote in some provinces. The third local elections were characterized by an ANC victory throughout the country. But in Cape Town's highly prestigious elections, Helen Zille, the leader of the Democratic Alliance (DA) party, won a marginal victory in the major elections and leads a coalition of smaller parties. The voter turnout of 48.4% was remarkably stable when compared to the 48.1% in 2000, but if low registration figures are taken into account, one can calculate that only 40% of the population voted. This figure is still relatively high when compared to some other OECD countries (e.g., German regional elections.).

Free and fair elections

There are no veto powers threatening democratic governance. The army is non-political and professional. Big business and some socialist groups within the ANC and the trade union movement support democracy and are included in corporatist arrangements and institutions. Therefore, elected rulers obtain the effective power to govern.

Effective power to govern

The freedom of association and assembly for political parties and civil society is guaranteed by the constitution and respected by the authorities. There are occasional allegations of candidate intimidation in certain parts of the country during electoral campaigns by opponents but not by state agencies.

Association / assembly rights

Freedom of the media and opinions is guaranteed and respected. Only "hate speech" is prosecuted by law. From time to time, the press is heavily criticized by politicians who feel offended or unfairly treated, but this does not lead to any restrictions on the independent media. There have been some cases in which the ANC has put pressure on newspapers reporting on corruption. The ANC has threatened to pursue legal action if journalists were not willing to name their information sources. An incident that can be seen as damaging to media freedom in South Africa was the South African Broadcasting Corporation's (SABC) decision to prohibit journalists in its news department from including some particular sociopolitical commentators in its reports.

Freedom of expression

## 3 | Rule of Law

The formal separation of powers is established by the constitution and respected. The legislative and judicial branches are separate and – within the framework of a

Separation of powers

parliamentary system of government with a convergence between parliamentary majority and the executive – independent. Since the first democratic elections in 1994, the South African Parliament has regularly been technologically modernized and supported by research facilities, but it is still struggling to fulfill its oversight function. The powerful role of the chief executive, the overwhelming dominance of the ANC and the relative weakness of the opposition have limited the parliament's influence. The parliament is not the "hub" of South African politics, and it also has a credibility problem. The so-called "Travelgate Scandal," in which members of parliament improperly used travel vouchers issued to them by parliament, cast a shadow over the institution's integrity. Twenty-three former and sitting members of parliament (of which only two were not members of the ANC) have been indicted. Parliament has indicated that it cannot dismiss members of parliament and that it is the responsibility of the parties to do so. Thus far, all of those found guilty have been publicly reprimanded by the speaker, but none of them has been dismissed from their party. As a side effect of the presidential succession debate, some ANC backbenchers have become more vocal in their criticism of government departments. It seems that parliament is willing to play a more assertive role in the future.

There is no political interference with the judiciary. Political statements from leading ANC politicians that it would be necessary to "transform the judiciary" did not result in any concrete steps being taken to curtail the judiciary's independence. The Department of Justice introduced a set of four bills aimed at judicial reform in December 2005. Two of these, the Constitution 14th Amendment Bill and the Superior Courts Bill, both of which grant the Minister of Justice broad powers to administer the judiciary, evoked heavy criticism from the judiciary, including the Judge President and prominent lawyers who worked in the struggle against apartheid. It was argued that the bills posed a significant danger to judicial independence. After a public outcry, President Mbeki intervened and the bills were put on hold so as to provide opportunity for further comment. There have been reports of some isolated cases of corruption within the judicial system, but these have not affected the judicial system as a whole.

Independent  
judiciary

The legal framework to penalize office holders abusing their power is impressive. In 1999, the Public Finance Act was approved and, in 2003, the Prevention of Corruption and Combating of Corrupt Activities Act was approved by the parliament, which made it illegal to receive unearned benefits. In practice, the legal framework is, in many cases, not enforced. Especially when high-ranking ANC officials are involved, prosecution is not guaranteed and there is political pressure on the judiciary. The most prominent case has been that involving Vice President Jacob Zuma in a dubious corruption case. Finally, after years of investigations, the court case was dropped but the role of the vice president and other ANC members still remains unclear. In addition, there are a number of

Prosecution of  
office abuse

cases in which whistleblowers reporting corruption have not been adequately protected. The Protected Disclosures Act, which should protect such whistleblowers, is largely ignored according to complaints by the public protector, who also serves as a kind of an ombudsman.

Due to the systematic violation of civil rights during the apartheid era, which lasted until 1994, South Africa has established progressive constitutional regulations. There are no systematic violations of civil rights by the state and its security organs. However, national and international human rights groups (see Amnesty International Report 2006) have repeatedly reported civil rights violations with respect to the maltreatment of suspects in police custody as well as excessive police force against demonstrators. Trials have often been postponed for periods lasting years, and investigations have led nowhere. The security of persons in the case of women and girls (especially in schools) is violated by the extremely high numbers of rape and sexual abuse. The Sexual Offense Bill introduced in 2003 is not fully enforced and needs further specification. Five million HIV-infected South Africans lack access to antiretroviral treatment as a result of delays, inadequate funding and inefficient administration. The problems are recognized by the government and authorities such as the Independent Complaints Directorate (ICD), but the implementation of legislation is still inadequate.

Civil rights

#### 4 | Stability of Democratic Institutions

In general, democratic institutions are capable of performing. As mentioned before, due to the dominance of the executive and the hegemonic position of the ANC, the oversight function of parliament is weak. Frequent conflicts between MPs and the bureaucracy are often won by the latter. The efforts of the Mbeki government to centralize power in the presidency, to increase control over the provincial administrations and to strengthen the authority of individual cabinet ministers has increased the performance of the national executive. As a result, the key problem is not friction between different government departments but more the lack of administrative effectiveness within the institutions. Red tape is often produced. Especially some provincial administrations do not deliver. The performance of some governmental and provincial agencies and government departments has been weakened by a lack of efficiency, organization gaps and the loss of experienced and qualified personnel, which in some case has resulted from affirmative action in favor of formerly disadvantaged population groups.

Performance of democratic institutions

Key and powerful political actors accept the democratic institutions defined by the constitution. There are no veto players who could undermine democratic institutions. Small, radical opposition organizations do not have any significant influence on politics.

Commitment to democratic institutions



## 5 | Political and Social Integration

The last elections in 2004 clearly demonstrated that South Africa has developed a dominant party system. A dominant party system is characterized by uninterrupted electoral dominance and unbroken governance by one party. In addition to dominating politically, dominant parties shape the public agenda and have a major influence on society as a whole. Fears that South Africa would slide from a dominant into a non-democratic one-party system have not been realized. However, the gap between the ANC and the strongest opposition party is huge. Whereas the ANC received over 10 million votes, the DA received only two million. Due to the proportional vote with the low threshold of 0.5%, seven parties with a total share of votes below 5% are in parliament. The hegemonic position of the ANC makes the party system stable, and voter volatility is moderate and mostly noticeable on the side of the opposition parties. The ANC and the DA both have strong ties with civil society.

Party system

The South African party system is still polarized along the lines of skin color. Blacks still vote for the ANC or regional and/or ethnically based parties, such as the IFP (KwaZulu-Natal province, with mostly Zulu voters) and the UDF (Eastern Cape). For most black or even colored voters, with the exception of the situation in the Western Cape, the DA is not a suitable alternative because voter identity is still shaped by the apartheid past. (nb: “Colored” is the widely used term in South Africa to refer to the ethnic group with some sub-Saharan ancestry but which are not necessarily “black” according to South African law.) Blacks perceive the DA as being a white party that – for historical reasons – cannot be their political home. Party identification seems to have decreased. One indicator for this was the relatively low voter turnout in 2004. Although the voter turnout seemed high at 75.5% (against 87.1% in 1999), that figure’s impressiveness is mitigated by the fact that only 57% of the eligible voters cast ballots and millions of voters remained unregistered or did not vote in spite of being registered. The voter-registration campaigns by the IEP and even the extension of the period for registration proved to be of only a limited success. Young voters, in particular, tended to abstain from either registering to vote or voting.

Even 17 years after the ANC returned from exile, the process of transforming the former liberation movement into a democratic political party has yet to come to an end. The ANC is characterized by a lack of a democratic internal culture and an autocratic style of leadership. For many, ANC membership is understood as a ticket to prosperity, a fact that weakens the political and ideological cohesion of the party.

Compared to most African countries and due to its status as a half-industrialized country, South Africa has a well-developed and well-organized system of interest

Interest groups

groups. The South African labor force is highly unionized: 485 individually registered trade unions represent approximately 3.5 million members. By far the largest and most influential trade union federation is COSATU, which had 1.8 million members in 2003. COSATU is also part of the (informal) Tripartite Alliance consisting of the ANC and the SACP. In addition to COSATU, the Federation of Unions of South Africa (FEDUSA) claims to have organized approximately 530,000 mainly white and white-collar workers into 26 unions, and the almost completely black National Council of Trade Unions (NACTU) claims to have approximately 400,000 members organized into 19 trade unions. The “skin color” or racial cleavage also plays an important role as regards interest groups. For example, COSATU trade unions mainly represent black and colored workers, NACTU nearly exclusively black members and FEDUSA predominately white and colored members. In the opposing camp, that is, on the side of business, several powerful umbrella organizations also exist. There is a tendency to unite the thus far separate interest groups representing black and white businesses. The Afrikaanse Handelsinstituut, a traditional organization of the Afrikaner business community, merged with a black business umbrella organization. The corporatist National Economic, Development and Labour Council (NEDLAC) plays an important role in industrial relations by solving conflicts through negotiations and paving the way for compromises. Compared with the urban and the semi-urban periphery, the people living in rural areas are less organized into interest groups. Self-help groups and churches are much more important in those areas. In general, Christian churches and a broad variety of religious sects play an important role.

According to the most recent Afrobarometer survey (2006) ([www.afrobarometer.org](http://www.afrobarometer.org)), support for democracy is high. Sixty-five percent of respondents in the latest survey thought that democracy is preferable to other forms of political rule. The South African scores hold a middle position (mean of 18 countries: 62%) between the extremely high support (over 75%) in Ghana, Kenya and the Senegal and only modest support, such as that in Tanzania (38%) and Madagascar (42%). Non-democratic forms of government, such as one-party rule (reject rate – 66%), military rule (72%) and one-man rule (64%), are rejected by clear majorities. Compared to other countries (with a mean of 54%), South Africans tend to give the government time to solve problems. In contrast to many African countries and despite severe social and economic imbalances, a majority of 63% is satisfied with the performance of democracy (mean 45%). In early 2006, the popularity of the President Mbeki reached an unprecedented height when 77% approved of his job performance. His popularity has nearly reached Mandela’s high-water mark of 79% (Afrobarometer Briefing Paper no. 44, June 2006). Despite general support for democracy, trust in the government has declined. The Institute for Justice and Reconciliation’s SA Reconciliation Barometer Survey for 2006 reports that, while most South Africans trust the

Consent to  
democratic  
norms

government to make the right decisions, over 50% feel that the government does not really care about people like them, although they do trust them to do what is best.

With nearly 50,000, South Africa has an extraordinary high number of self-help organizations. These organizations, termed as Community-Based Organizations in South Africa, organize – in many cases literally – the survival of marginalized groups, especially in rural areas. In most cases, they do not receive governmental support. They contribute to the formation of social capital. As is characteristic for SA and owing to its history of segregation and apartheid, trust and social capital can be mainly observed at the local level and between citizens belonging to the same ethnic group, race or political camp. Many civic organizations are still split along racial lines. A considerable amount of distrust, dislike and sometimes even hostility between members of different racial and political groupings can be observed. According to the SA Reconciliation Barometer Survey of 2006 of the Institute for Justice and Reconciliation, 40% of South Africans do not trust people from population groups other than their own. This can largely be attributed to the fact that 56% of South Africans have indicated that they have never had informal social contact at their homes with somebody from a different population group. Where interaction does occur, it takes place in the middle class, whose members are employed and thereby more susceptible to the impact of affirmative action and the policy of Black Economic Empowerment (BEE), which in turn forces integration in the workplace. The survey thus shows a strong correlation between interracial interaction and economic status. Those coming from more affluent backgrounds report higher levels of interaction with other groups. This is partly a result of the fact that minority groups tend to be more affluent but, if controlled for race, it also becomes apparent that affluent black South Africans report higher levels of interaction. Negative attitudes, stereotypes and prejudices against other groups can be found in every racial or ethnic group. Recent corruption scandals in parliament (such as the “Travelgate” scandal) and cases of high-level corruption have also negatively affected trust. The formation of solid trust and social capital among the different population groups will take generations.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Social exclusion is deeply engrained as a product of history. A large group of between 30-40% of the entire population is more or less excluded from the formal sector of the economy. The president and cabinet members often refer to “two economies in one country” in public speeches. South Africa ranks 121st out of 177 countries in the UNDP Development Report 2006. It belongs to a group of countries with medium human development. The HDI decreased from 0.691 in 2000 to 0.653 in 2004 mainly as a result of a decrease in life expectancy due to the high number of deaths caused by HIV/AIDS. With between 5-6 million infected individuals, South Africa has the world’s largest infected population. On average, 34.1% of the population lives on less than \$2 a day (1990-2004). The poverty rate remains consistently at a high level despite massive government efforts to fight it. With a GINI coefficient of 57.8, South Africa is still one of the most unequal societies in the world. The GINI also shows high and increasing higher figures within the racial segments of the population. The GDP with 0.79 is relatively high.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	110,882	166,169	214,663	<b>239,543</b>
Growth of GDP	%	3.7	3.0	4.5	<b>4.9</b>
Inflation (CPI)	%	9.2	5.9	1.4	<b>3.4</b>
Unemployment	%	30.7	28.4	27.1	-
Foreign direct investment	% of GDP	0.7	0.5	0.3	<b>2.6</b>
Export growth	%	0.5	0.3	2.5	<b>6.7</b>
Import growth	%	5.1	8.8	14.1	<b>10.1</b>
Current account balance	\$ mn.	884.3	-1902.4	-7003.3	<b>-9141.6</b>
Public debt	\$ mn.	9,427.1	9,120.1	9,793.4	<b>11,661.6</b>
External debt	\$ mn.	25,040.5	27,807.3	28,499.9	<b>30,631.6</b>

External debt service	% of GNI	4.3	2.7	1.8	<b>2</b>
Cash surplus or deficit	% of GDP	-1.6	-2.6	-2.1	<b>0.2</b>
Tax Revenue	% of GDP	24.2	24.2	25.7	<b>27.5</b>
Government consumption	% of GDP	18.4	19.3	19.7	<b>20.2</b>
Public expnd. on edu.	% of GDP	5.2	5.1	5.4	<b>5.4</b>
Public expnd. on health	% of GDP	3.4	3.4	3.5	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.6	1.6	1.4	<b>1.5</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security

## 7 | Organization of the Market and Competition

In general, the foundations of a free market economy are established. The private sector is the backbone of the economy. However, a relatively large state-owned and parastatal sector still exists. According to the latest available figures (2003), approximately one fifth of the labor force works in an informal environment, thereby guaranteeing the survival of many. The number of people working in the informal sector has doubled since 1997. The capacity of this sector to absorb additional job seekers has already been reached. As a result, the size of the informal sector remains constant. Compared to the sub-Saharan African mean, which is estimated at 25.9% of GDP, the role of the informal sector in South Africa is – with an estimated 6.9% of GDP (1995) – rather modest. One important aim of the government is the empowerment of black people by affirmative action and a strategy named Black Economic Empowerment (BEE). It has become a practice to negotiate the BEE targets within specific sectors of the economy and then to draw up a charter that serves as guideline for implementing BEE. The most prominent of these have been the mining charter (the first to be negotiated), the ICT charter, and the financial services charter. In this way, the government has tried to increase the number of enterprises managed, owned and controlled by black South Africans. Black entrepreneurs and enterprises are benefiting from the government policy in that they are favored in the case of privatization or they may receive governmental contracts. Companies do not necessarily need to be fully black-owned, but they must at least prove some form of black ownership or partnership.

Market-based  
competition

There are laws in place to prevent monopolies and there is also the Competition Board, although this entity has yet to be very brave in its actions. Nevertheless, some monopolies still exist in the service sector and disadvantage South African customers. Although the Competition Board has made findings against big companies and parastatals, the penalties imposed have not been sufficient to serve as future deterrents. This is particularly the case with the electricity sector with its state-owned company ESKOM, as well as postal offices and Telkom. Telkom's prices are extremely high when compared with other OECD countries. Furthermore, the privatization of former government-owned large monopolies, such as ISCOR (steel sector), has led in some cases only to private monopolies.

Anti-monopoly  
policy

Foreign trade has been liberalized to a great extent. The free trade agreement with the European Union increased trade, and South African exports have seen a significant increase. After negotiations with the European Union, the country's major trading partner, South Africa announced in November 2006 that it would lower even further duties and levies on cars imported from Europe. The original Trade Development and Cooperation Agreement (TDCA) with the European Union, which came into effect in 2004, is currently being reviewed so as to expand the scope of its impact.

Liberalization of  
foreign trade

The South African capital market is the most important one in Africa. Compared to stock exchanges in other African countries, the Johannesburg Stock Exchange (JSE) is an advanced capital market on which companies from the some neighboring states are listed. The all-share JSE index increased by 38% in 2006 (clearly above the average for middle-income countries). The country has an effectively regulated, well-developed and stable banking system. There are a handful of competing large private banks (e.g., Standard Bank, ABSA, Nedbank, et al.) and a number of smaller banks. South African banks meet international standards. Some have branches or hold substantial shares of banks in other African countries. International banks have branches in the industrial and commercial centers. The single biggest foreign investment in SA in 2006 was when Barclays Bank of Britain obtained a majority share in ABSA Bank. This has increased ABSA's reach into the other parts of Africa, in which Barclays has a presence.

Banking system

## 8 | Currency and Price Stability

The central bank, the South African Reserve Bank (SARB), is formally an independent body, although its leadership is appointed by the president for a five-year term. One of the SARB's main functions is to provide fiscal stability. The SARB has successfully fought inflation, and CPI decreased from 9.3% in 2002 to 4.6% in 2006. A problem for the South African economy is the high volatility of the national currency, the rand. Since 2003, the rand has lost 15-20% of its value

Anti-inflation /  
forex policy

against the US dollar and the euro. The volatility of the rand has affected economic activity. The exchange rate volatility is the result of global financial market turbulence, which could potentially lead to an exodus of foreign capital.

As the macroeconomic data clearly shows, South Africa has reached a high degree of macroeconomic stability and inflation targeting is one of its key instruments in doing so. Although the restrictive fiscal policy is strongly criticized by the ANC's alliance partners, the trade unions and the South African Communist Party, the government withstands, to a large extent, political pressures. The Accelerated and Shared Growth Initiative for South Africa (ASGISA) established by the government has increased government spending, but it has not led to fiscal imbalances. South Africa's debt has increased slightly to around \$30 billion, which is low when compared with the debt of countries such as Argentina or Malaysia. Debt-service and debt-export ratios are much lower than in other middle-income countries. One source of worry is the growing negative balance on the country's current account. Up to now, fixed investment and portfolio investments have been able to offset the impact of this negative balance. It remains to be seen what will happen when the world economy starts to cool down.

Macrostability

## 9 | Private Property

Private property is explicitly anchored in the constitution. The main problem with private property is land. Democratic governments have had to address issues relating to the expropriation of land and forced resettlements of approximately 3.5 million people during the apartheid era. In contrast to Zimbabwe, the South African land policy follows strictly legal principles. Occupations of land by landless peoples or activists from the Landless Peoples' Movement are regarded as illegal and not tolerated by the authorities. The government believes in the principle of willing buyer-willing seller. The government provides grants for the purchase of land. Restitution is carried out by government institutions by means of a (time-consuming) case-by-case procedure. Expropriation (again with compensation) has not been used yet, though it is theoretically possible. After two years of negotiation, the government has indicated that it will expropriate the first farm, which is near Lichtenburg, in 2006. The farmer wanted 3 million rand, while the government offered him 1.75 million rand. The farmer is appealing the government's decision in court. Due to resistance by white commercial farmers, a lack of farming skills and increasing prices, the land restitution program has been slowed, and the program is currently under review. It is very unlikely that the strategy will be radically changed. The government plans to cooperate intensively with all relevant stakeholders.

Property rights

In 1994, the new government inherited approximately 300 large, state-owned enterprises. Since 1996, privatization has been a governmental objective, but the pace of privatization has been much slower than envisaged. Between 1997 and 2004, 18 large enterprises or conglomerates were privatized or partly privatized, and only about 8 billion rand – much less than the expected – was raised. Two factors are responsible for this slow development: First, legal procedures proved to be complicated and the large debts of some state-owned enterprises made it impossible to find private buyers. Second, privatization is a hotly debated issue in South Africa. The political left (i.e., the trade unions and the SACP) are opposed to privatization. Between 2000 and 2002, the trade unions organized three general strikes against the government's policy. Even a new social movement, the Anti-Privatization Forum, has been founded and focuses on fighting all governmental attempts to privatize the state-owned or parastatal companies. However, despite such massive resistance, the government has been able to start a process of privatization. In addition, the aforementioned shift in economic policy has enabled the government to pay less attention to the issue. Privatization also has an ideological dimension in South Africa because the government regards it as being an instrument for extending black control over the economy and for providing jobs for a growing black middle class. In some cases, this has resulted in non-transparent, inefficient and corrupt enterprises and structures of control.

Private  
enterprise

## 10 | Welfare Regime

South Africa inherited a racially fragmented social system from the apartheid era with extreme inequality in all aspects of social safety. As a result, it has been one of the new government's most important aims to reduce inequalities and improve the extent and quality of the social system for the non-white majority of South Africans. Since 1994, the social system has seen continuous expansion. Although apartheid created inequality, a rudimentary social system was established that was more advanced than in most other African countries even under apartheid. The government has undertaken enormous efforts to improve the livelihood of the masses. It is estimated that, by now, almost 12 million South Africans receive some form of pension or grant from government. In the long run, financing this will be difficult. Large investments have been directed into the health system and the physical infrastructure (e.g., housing, water, sanitation, electricity). As a result, the daily lives of many poor South Africans have undoubtedly been improved. However, despite all efforts, poverty is still widespread. Although the share of people living on less than \$1 a day is only 10.7% of the entire population, the percentage of those living on less than \$2 a day has increased to 34.2% (1990-2004). The high HIV infection rate is a heavy burden on the welfare system and on families caring for the infected. According to the latest official unemployment figure from Statistics South Africa (STATSSA, September 2006),

Social safety nets



the unemployment rate is 25.6%. If people who have given up looking for a job were included in the statistics, the figure would be considerably (around 10%) higher. The unemployment rate of 25.6% reflects again a marginal decline of about 0.1% as compared to the previous year, despite the fact that about 500,000 new jobs have been created and the number of unemployed has decreased by 96,000. Forty-three percent of working-age South Africans between the ages of 16 and 65 are employed. The increase's small size is indicative of the demographic challenge the country faces. Over the past five years, the economy has created 1.6 million new jobs, yet this number is mitigated by the large number of new entrants into the job market. To make things even more complicated, these new entrants are the products of a school and tertiary education system that is failing to deliver workers with the kind of skills the economy desperately needs for expansion. The official government unemployment rate of 30%, however, seems extremely high.

Equal opportunity exists in principle. Social, religious or ethnic groups and women are not supposed to be discriminated against, and they have access to public office and higher education. However, despite all efforts to realize the ideal of equal opportunity, the institutions to actively compensate for gross social discrepancies remain inadequate or ineffective. Women are also disadvantaged by traditional law. For political reasons, equal opportunity has been manipulated so that formerly disadvantaged groups (mostly black South Africans) benefit from affirmative action measures, especially in the public sector. Affirmative action measures and BEE entail the risk of discriminating against other groups. The programs have been heavily criticized by white South Africans, and they often contribute to individuals' decisions to emigrate. This "positive" discrimination has ideological roots and serves political interests, but it is not in line with the principle of equal opportunity. Many black South Africans argue that there is no equal opportunity because the majority of management positions are held by whites and, for this reason, affirmative action must remain a viable policy instrument.

Equal opportunity

## 11 | Economic Performance

Economic performance has improved during the period under review, and some observers even speak of an economic boom in South Africa. Major achievements include stable economic growth, a moderate budget deficit and a one-digit rate of inflation. In his budget speech in February, Trevor Manuel announced a projected budget surplus of 0.3%. Inflation is still in the single digits, largely as a result of the reserve bank's commitment to targeting inflation. However, there are signs that the country may have more difficulties in keeping the inflation rate between 3% and 6% owing to an increase in fuel prices as well as a large increase in food

Output strength

prices. The Achilles' heel is the persistently high unemployment rate. On the one hand, macroeconomic performance depends on the government's economic and fiscal policy. On the other hand, the international economic environment plays a crucial role because South Africa's economy is very vulnerable to external shocks such as changes in energy prices, interest rates and capital withdrawals. The demand for commodities is primarily driven by the Chinese economy, and the growth of China's economy will also have an impact on the strength of the local South African economy. The country is still too dependent on its resources. While the export of raw materials has not been the major contribution to GDP for a long time, it still plays a critical role. Manufacturing is now the top contributor to GDP, but a large percentage of manufactured goods are products of its raw materials. The country increasingly needs to look at the expansion of its services industry, which in turn would require a major effort at improving skills, which would necessitate a drastic improvement in the education system. In sum, an ambivalent picture marked by structural problems remains, but there is currently an upward trend.

## 12 | Sustainability

Environmental concerns are taken seriously in South Africa. The conservation of the country's natural wealth – South Africa has a unique flora and fauna – has also had economic significance since tourism is increasing strongly and has proved to be an important earner of foreign currency. To protect the environment and preserve the country's natural resources, the government has introduced a detailed legal framework and a variety of sector-specific measures, for example, in water management and renewable energy. The basic legislation consists of the National Environmental Management Act (1998), which includes binding principles for economic development. All decisions affecting the environment are subject to Environmental Impact Assessment (EIA) regulations. The effectiveness of South Africa's progressive environmental laws and regulative mechanisms is in many cases hampered by capacity deficits, a lack of experience and unclear community competencies.

Environmental  
policy

After 1994, it became a priority to replace the racially segmented apartheid education system with a non-discriminatory system. Furthermore, it was also necessary to improve the quality of schools and universities, especially in neglected areas such as the former homelands. Between 2002 and 2004, South Africa spent on average 5.4% of GDP on education. In 2004, this made up for 18.8% of the budget (2004), by far the largest part. The share of the budget devoted to education is still relatively high, but it has decreased from 19.2% to 18.8% between 1995 and 2002 (See UNDP 2003, pp. 22-26). Although schools in formerly neglected areas receive more support than before, the majority of

Education policy  
/ R&D

schools are still mono-racial. School fees for white students have increased remarkably, but this makes it even more difficult for blacks to enter these schools. Compared to many developing countries, South Africa has a nationwide, modern education and training system, including some excellent universities and schools. Ninety percent of all children attend school, and the school attendance rate for girls is one of the highest in the world. A tertiary education reform program was begun in 2004. The government decided to reduce the number of universities and so-called “technicons” (polytechnics) from 36 to 24. Universities are or will be merged or incorporated into neighboring institutions. In this way, universities known for weaker and lower standards will be merged with well-established institutions so as to improve their performance. In many cases, the mergers have met strong resistance from universities, and administrative friction can be observed. Despite strong efforts at reform and improvement, the South African educational system reveals massive deficits in the quality. Dropout rates in schools and universities are extremely high. Half of the country’s undergraduate students drop out without completing their degrees or diplomas.

There are various reasons for this failure, ranging from a high number of unqualified or under-qualified teachers (22% in 1994) to widespread delivery and capacity problems, especially in some provinces (e.g., Eastern Cape). Many people who leave school were ill-prepared to attend the universities. The most dangerous threat to the sustainability of the South African education sector is AIDS. The high number of teachers infected with HIV/AIDS has already led to a shortage of teachers and high rates of absenteeism.

On the whole, the standards in many schools and some universities are much too low to meet the requirements of society and the economy. The legacy of apartheid has yet to be overcome and, despite many efforts, severe delivery problems have not been successfully resolved. A similar judgment can be made about programs providing training and developing skills in public service for the local and national governments. Although South Africa has some excellent research facilities both in the university and the private sector, overall expenditure on R&D is low: The share of R&D spending was 0.8% of GDP (5.72 billion rand) in 1997, and it increased only marginally to 0.81% in 2003 and to 0.87% in 2004. This is low when compared to other countries, but the 0.87% represents the highest percentage in the country’s history. The government plans to increase the expenditure on R&D to 1% of GDP by 2009.

## Transformation Management

### I. Level of Difficulty

Compared to other sub-Saharan countries, South Africa's structural constraints to management efforts are lower but not insignificant. These challenges consist of problems many developing countries face, but they have been "racialized" as a result of apartheid. Widespread poverty, an extremely unequal distribution of income, deficiencies in the educational system and a scarcity of skilled workers, especially technicians and engineers, are most prominent in the non-white sections of the population. The extremely high number of people infected with HIV/AIDS remains another obstacle to development and transformation. In remarkable contrast to many African countries, South Africa has a well-developed infrastructure and modern industrial and service sectors. As mentioned before, the educational system is still in a bad shape, despite a high amount of resources spent on reforms and upgrades.

Structural  
constraints

Civil society is strong as a result of the struggle against apartheid, which led to the mobilization and politicization of relatively large sectors of the population, and the country's technological and industrial standard. However, some groups are underrepresented and civil society in rural areas is not particularly organized.

Civil society  
traditions

South Africa's society is still polarized along the social cleavage overlapping with skin color. In addition to this long-standing cleavage, the emergence of a non-white middle- and upper class has led to a social cleavage lacking a racial component. The government is actively trying to bridge the cleavages and aims at developing a new South African nation.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

South Africa's political leadership continues to set strategic priorities to push the transformation farther forward. Ambitious (occasionally overambitious) reform strategies are clearly planned out. The centerpiece of the reform strategy consists of the Accelerated and Shared Growth Initiative for South Africa (ASGISA), announced in July 2005. New Deputy President Phumzile Mlambo-Ngcuka is responsible for its implementation. The initiative's general aim is to raise economic growth to 6% and to halve poverty and unemployment by 2014. A variety of sector programs compliment the ASGISA. The government's main idea is that South Africa should become a "developmental state." Discussions point at Malaysia as a model for the country. Reforms such as the ASGISA are directed at building a constitutional democracy and a social market economy. Although there is a broad consensus among the political stakeholders on these aims, fewer consensus exist between the three alliance partners and within the ANC about the appropriate measures to be taken. Ideas differ, in particular, about how much the government should interference in the economy. There is still much support for an interventionist approach, which is backed by Trade Union, the SACP and left-wing factions of the ANC.

Prioritization

The ambitious reform programs often prove overambitious because the implementation capacity is insufficient. Even the president noted in his "State of the Nation" speech that the government does have the right policies, but that the problem lies in their implementation. Especially on the local and regional levels, implementation is weak due to capacity problems, a lack of skills and over-paid officials.

Implementation

The ANC leadership shows inconsistency in its ability to learn from past mistakes. Deficits are obvious in the HIV-policy, which has failed not because of a lack of resources but as a result of political stubbornness in parts of the leadership to accept the realities of the pandemic and subsequently change its policies. Policy learning takes a long time and depends on the amount of public political pressure. The ANC reacts to critique in a sensitive way. For instance, President Mbeki remarked in a television interview that crime is not as bad as everybody makes it out to be. Public pressure forced him to acknowledge in his State of the Nation speech a few weeks later that the levels of crime were, in fact, intolerable.

Policy learning

## 15 | Resource Efficiency

Most of South Africa's resources are used adequately. Compared to other neighboring countries, South Africa is in a comfortable position because macroeconomic stability and strong economic growth make resources available. Due to capacity problems, some departments and institutions have not been able to spend all available funds. The decentralization policy with the cornerstone of nine provinces has not fully succeeded. Some of the provinces are fully dependent on the national government. The political dominance of the ANC (in some provinces, the party received over 80% of the vote) and a lack of a powerful opposition foster corruption and civil-service appointments for political reasons. The efficiency of provincial and (even more so) of local administration is weakened by affirmative action: Experienced (white or colored) staff is replaced by inexperienced black staff. Furthermore, some local administrations lose professionals as a result of HIV/AIDS.

Efficient use of assets

The ANC is a very heterogeneous organization consisting of many party wings and factions, which often have an informal character. Keeping the tripartite alliance – COSATU, the SACP and the ANC – requires much cooperation. Despite numerous public conflicts, the ANC has so far been very successful at integrating conflicting interests and different perceptions, both those of the alliance partners and those from within the party. The “political price” is that COSATU dominates labor legislation. The coherence of the party and the alliance is much more important than potential frictions between ministries and institutions. The centralization and coordination of policies and the Mbeki administration via the presidency (which has been expanded in terms of personnel and resources) is efficient in the sense that policy coherence between government institutions and line ministries is strong.

Policy coordination

Corruption is growing strongly in South Africa. Given the fact that the country still ranks among the top 50 in the Corruption Perceptions Index of Transparency International (2005 rank 46; 2006 rank 51), this might seem like an exaggerated statement. But, despite the fact that an integrity mechanism within a detailed legal framework and prosecuting agencies are in place, the situation has undeniably worsened. The problem is that high-level corruption is not adequately combated, owing apparently to a general lack of political will. Some incidents during the period under review placed question marks behind the ANC's commitment to ethical governance. A good example thereof can be given by the so-called “Oilgate” scandal. An ANC-aligned businessman, Sandi Majali, of the oil company Imvume, made a donation of 11 million rand to the ANC almost immediately after PetroSA, a state-owned company, lent it 11 million rand to buy oil. Imvume never bought the oil that it intended to. Despite

Anti-corruption policy

numerous indications of impropriety, the public prosecutor, Lawrence Mushwana, found no sufficient grounds to investigate the issue any further. Many commentators agree that this has been one of the lowest points that the office of the public prosecutor has reached to-date. The root cause of the increase in high-level corruption lies in the fact that the distinction between party, private business interests of the ANC elite and the state has been blurred. The elite does not perceive these conflicts of interests as constituting a problem. In the long run, the inability or even unwillingness to combat high-level corruption may affect the lower levels of government, which are still less trouble-ridden than in other African states.

## 16 | Consensus-Building

There is a strong consensus among the major stakeholders and actors about market economy and democracy as long-term aims. Opinions differ with respect to the role of the state, concrete strategies and the priorities for action. A strong faction in the ANC, COSATU and the SAPC believe in the dominant role of the state in the market and resist privatization efforts. Some groups opt for a moderate form of socialism. But an overwhelming majority of relevant actors supports the idea of a market-based democracy.

Consensus on goals

There are no veto actors who are principally opposed to the present political and economic systems. The aforementioned left-wing groups can delay reform processes in certain sectors. The government continues to manage to co-opt most of the leaders and speakers of these groups. Except for some tiny groups on the right (mainly dissatisfied white South Africans), organized anti-democratic actors cannot be found.

Anti-democratic veto actors

The government tries to avoid the escalation of cleavage-based conflicts. One of the most important and – with respect to social order and political stability – most dangerous cleavages is represented by gross inequalities in income and wealth. While the country is experiencing its longest economic upswing to date, substantial dissatisfaction exists regarding the limited scope of its beneficiaries. One of the government's primary vehicles for creating a more equitable society – black economic empowerment (BEE) – has only had limited success to-date. The main criticism leveled against BEE has been that it has created a small group of superrich oligarchs, while the majority of citizens have remained on the margins. In most instances, the wealth was acquired as a result of BEE share allocations from big corporations to prominent former ANC politicians and other individuals with good connections to the party. In a large number of instances in which such transactions have taken place, wealth has been redistributed but rarely created. The government has been successful in preventing racial and ethnic conflicts from escalating into large-scale violence. Cases of ethnic strife and

Cleavage / conflict management

conflicts with a racial component (e.g., land redistribution) reported in the period under review indicate that it will take a long time to overcome the apartheid-induced cleavages. There are many efforts to overcome the divisions of the past, to create a common South African identity (“rainbow-nation”) and to introduce a culture of negotiation. The government also uses traditional negotiation forums (“the imbizos”) to address dissatisfaction and to prevent open conflicts. Imbizo means a face-to-face meeting between the president and hundreds of local residents. The president, often accompanied by the provincial governor, spends a number of hours mostly listening to citizens’ remarks, complaints and questions, and his answers are often only brief. There is a danger that the Coloreds (of mixed race) will become losers in the transition, since they do not benefit from the transformation in the same way that black South Africans do, and crime, drug abuse, etc. are rampant in many colored townships.

South African civil society is partly included in the political process. The most prominent actor is the active and outspoken Treatment Action Campaign (TAC), an organization working for the rights of those infected with HIV. The TAC plays an important role in public discourse and is one of the organizations consulted by the government. COSATU, the most important trade union federation by far, is an informal part of the government and has enormous influence on labor legislation. After the end of apartheid, many civic leaders joined the ANC or the administration, which has weakened civil society in general. The centralization of politics and President Mbeki’s autocratic style of leadership make participation in the political process more difficult and causes civil society to feel excluded. The new social movements (e.g., the Landless Peoples’ Movement) are not included in the political process, and the government perceives them as threats to social peace.

Civil society  
participation

In 1995, the Mandela government decided to introduce the Truth and Reconciliation Commission (TRC) to investigate the injustices of the apartheid era. Perpetrators willing to disclose their deeds and ask victims’ relatives for forgiveness were granted amnesty. The commission, chaired by former archbishop Desmond Tutu, is a key element of SA’s reconciliation effort. In 1998, the TRC published its reports in five volumes. In 2003, the then Mbeki government began dispensing financial compensation to victims and their relatives. The judgments of the TRC were fiercely contested and many white South Africans, in particular, do not acknowledge the work of the TRC. Despite some shortcomings, the TRC has set some new standards in that it was equipped with far-reaching competencies and was innovative (e.g., hearings were open and could be watched on TV), which resulted in a highly attentive public over a number of years. The TRC demonstrated that South African society and politics did not shy away from the apartheid crimes and pursued an offensive strategy. Although the work of the TRC increased the polarization between different

Reconciliation



groups in the short run, it laid the foundation for reconciliation in the long term. The TRC has been given very little attention over the last years, but there remains unfinished business. The period from 1990 to 1994, when tens of thousands of South Africans lost their lives in the conflicts between different political camps of the black population, was excluded from the commission's investigation.

## 17 | International Cooperation

In contrast to most countries in sub-Saharan Africa, South Africa is only to a very limited extent dependent on aid. In 2005, South Africa (with 45 million inhabitants) received US\$700 million in aid from bilateral and multilateral donors, which made up 0.3% of its GNI (OECD statistics). Senegal, with a population of around 12 million, received US\$689 million, or 8.9% of its GNI. The European Union is the largest donor, followed by the United States and Britain. The largest percentages of aid are devoted to education and health (in particular, to HIV/AIDS programs). Assistance is also given to improve capacities and to provide training for officials. In general, the South African government uses aid in a well-focused manner. The government directs foreign aid to certain sectors that have been identified as having priority. Aid agencies describe government officials responsible for channeling aid as self-confident and sometimes even as arrogant.

Effective use of support

The SA government is widely perceived as a credible and reliable partner. Fears of investors and Western governments that the country will give up its market economy are unfounded. Internationally, the country is regarded as a model for Africa and the most important partner with respect to security and political reform in Africa. From a Western point of view, South Africa is in a continental leadership position. The European Union, for instance, regards South Africa as an anchor country for its Africa strategy. Mistrust, or at least a lack of understanding, remains concerning the country's ineffective and contradictory ways of dealing with the challenges of HIV/AIDS and the Zimbabwe question. The "quiet" and up to now unsuccessful diplomacy with regard to Zimbabwe has damaged the country's credibility when it comes to its policy to promote good governance and democracy. Due to a lack of alternatives for a partnership with African countries, South Africa has only seldom been criticized publicly by Western governments for its Zimbabwe policy. The Africa strategies of Western countries and the European Union depend to certain extent on the willingness of the South African government to pursue a policy of active integration and cooperation in sub-Saharan Africa.

Credibility

The South Africa government is not only willing to cooperate in but also to play the role of a motor driving regional and continental integration. It is the driving

Regional cooperation

force behind NEPAD and the transformation of the OAU to the AU. The country is a key player in the security field. At this time, 3,400 troops are deployed in peacekeeping operations, and South African diplomats have tried to promote peace in Burundi and the DRC with some success. However, South Africa's ambition to pursue the leadership role is not fully accepted and is even challenged by some countries, which fear the domination of the political and economic giant from the south. In particular, Zimbabwean President Robert Mugabe is critical of South Africa's leadership role and has often organized resistance of African states against South Africa's policy in the context of the Southern Africa Development Cooperation (SADC), which has to a large extent been paralyzed by the controversy. The expansion (via FDI) of large South African enterprises (e.g., food chains, ESKOM, mobile phone companies) to neighboring countries (especially Mozambique) is often not welcomed by their governments.

## Strategic Outlook

During the period under review, two contradicting tendencies can be noted. On the one hand, the performance of the South African (SA) economy is excellent. On the other hand, the political future of the country is affected by the question of President Mbeki's succession. The latter does not mean that democracy is endangered in South Africa, but uncertainties about the future remain and the political attention of relevant stakeholders focuses increasingly on the succession question, which in turn delays important reforms.

The economy is in a good shape, but, as far as macroeconomic stability is concerned, probably the most significant challenge for the South African economy is to attract the necessary skills to sustain and expand on the gains that it has made in recent years. The country has embarked on a massive infrastructure expansion program involving over 450 billion rand, yet it seems as if this will take longer than expected owing to a scarcity of necessary expertise. This will require not only investment but also creative management of the South African education system so as to ensure that it produces graduates that can take up these positions. The future of South Africa depends also to a large extent on the fight against HIV/AIDS. The situation has been stabilized – the infection rate remains at a high level or has decreased a bit in some segments of society – but it is still a threat for the foreseeable future. It is not an exaggeration to say that the pandemic is comparable to a sword of Damocles hanging above South Africa's development prospects. For this reason, support for educational and anti-HIV/AIDS programs should continue.

The current political situation is very complex. The ANC is likely to stay in power for the foreseeable future. The overwhelming majority of votes for the ANC in the 2004 elections raised concerns about the future of democracy in SA. Due to weak institutional checks and balances and the blurred distinction between state and party, high-level corruption is increasing. Capacity problems, politically motivated selection of personnel and ill-designed Black Economic Empowerment (BEE) programs hamper effective governance, despite that fact that financial resources are sufficient in many sectors. The informal alliance between the African National Congress (ANC), the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) has remained intact, despite increasing tensions about the course of economic and social policy and infighting caused by the race for succession.

Another question is whether Mbeki will try to become the next ANC party president. Up until now, the practice has been that the ANC president also

becomes the country's president. The current intra-party conflict can therefore also be interpreted as a "battle for the soul of the ANC." The double function as party president and president of South Africa is, however, not a rule that has been entrenched in the ANC's constitution. Therefore, it is theoretically possible to have two different persons in the positions of ANC president and president of the republic. It does appear that Mbeki has his eye on retaining the ANC presidency. The SA constitution discourages more than two presidential terms, but Mbeki has noted in a TV interview that he will consider running for president, if asked by his party. There is good reason for this, as the president of the ANC does have tremendous influence on the policy of the ANC-led government. The ANC's national conference, where the next leader of the ANC will be elected, takes place in December 2007 in Polokwane, Limpopo Province. Although this does not fall within the period of review, it must be noted (by means of background) that ANC discussion documents are doing the rounds that propose a stronger alignment between government and ANC policy. This will involve a re-organization of structures that will see more policy-making powers ceded to the ANC head office, and it can possibly weaken the powers of the national president in comparison to that of the president of the ANC.

There is the danger that the race for succession could paralyze the country politically and that the leadership battle will also damage organs of state. The National Prosecuting Authority (NPA) might serve as an example of this. On a number of occasions, the NPA has been accused of being an instrument in the hands of the Mbeki camp to marginalize Zuma but also to serve as a deterrent to those who dare to discredit Mbeki. It has to be said, though, that some of the powers that the NPA has are questionable in terms of their constitutionality. The NPA's over-eagerness probably also cost the state the Zuma fraud case. The high court found that NPA obtained key documents in an unlawful way and that they could therefore not be used as evidence in the trial. The effect has been that what the NPA calls the "fight against corruption" is regarded by others as an attempt to settle ANC political scores. This compromises not only its credibility but also the fight against crime.

In this complicated situation, the donor community can only "wait and see" who will succeed President Mbeki in 2009. Support is necessary for the 2010 Soccer World Cup, which is a prestigious and psychologically important event not only for South Africa but also for the continent as a whole. If it can be proved that (South) Africa could manage the World Cup, more attention and support for the continent would be generated.