



**Universiteit  
Leiden**  
The Netherlands

## **South Africa**

Kessel, W.M.J. van; Mehler, A.; Melber, H.; Walraven, K. van

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## South Africa



In the third democratic election since the end of apartheid, the African National Congress (ANC) consolidated its hold on power with an even larger majority. South Africa confirmed its role as the leading economic, political and military power in sub-Saharan Africa and as Africa's interlocutor with major foreign powers. While President Thabo Mbeki set out on his second term in office, debate on his succession opened up. Vice-President Jacob Zuma, the most likely candidate for the presidency, became entangled in a drawn-out court case in which one of his business associates faced charges of fraud and corruption.

Criticism of government performance focused on its ineffective HIV/AIDS policies, its policy of 'constructive engagement' with President Robert Mugabe of Zimbabwe and the widening gap between rich and poor in South Africa itself. Economic growth, at 3.7%, exceeded expectations but with little effect on high unemployment figures. In his state of the nation address, Mbeki announced a swing in socioeconomic policies from neo-liberalism towards the concept of the developmental state.

### Domestic Politics

Unemployment emerged as the biggest single issue in the election **campaign for the national and provincial elections** on 14 April. The main opposition parties, the

Democratic Alliance (DA) and the Inkatha Freedom Party (IFP) had concluded an electoral alliance on a platform of free market policies, extending to deregulation of the labour market. The alliance blamed the continuing high unemployment on over-regulation and over-protection of workers in the formal economy, whose hard-won rights are being jealously protected by the trade unions. The liberal alternative is a two-tier labour market, with the 'third world' at the bottom effectively unregulated. The DA has also suggested export-processing zones, where South Africa's labour laws would not apply. The DA did not succeed in its attempts to shed its image of being a party of white liberals protecting white privilege, in spite of ongoing efforts to attract prominent black faces into the party. For its part, IFP did not manage to extend its electoral base beyond its core constituency of Zulus and a section of white voters in KwaZulu-Natal. The alliance with the IFP enabled the DA, however, to present a more balanced racial profile on platforms and in local government. The political alternative advocated by this opposition alliance is unacceptable to the Congress of South African Trade Unions (COSATU), the main trade union movement that makes up part of the **tripartite alliance** with the ANC and the South African Communist Party (SACP). In the electoral campaign, the ANC benefited from the celebration of 'Ten Years of Freedom' by underscoring the hard-won liberties and rights in the ten years of democratic rule, which it equated with ten years of ANC government. Among the achievements are vast improvements in access to water and electricity, the building of 1.4 m new houses, an increase in adult literacy from 83% to 89%, an increase in welfare benefits and the beginnings of a more equitable distribution of land. The election campaign passed uneventfully, with none of the campaign-related violence that marked earlier elections. Despite fears of a revival of tensions in KwaZulu-Natal, there were few incidents.

Turnout was 76.7% of registered voters, compared with 89.3% in 1999. Of 27.4 m eligible voters, about 75% had registered. The ANC achieved its largest majority yet. For the first time, the ANC also became the majority party in all nine provinces, including the hotly contested Western Cape and KwaZulu-Natal. With 69.6% of the national vote, the ANC polled well above a **two-third majority**. The official opposition DA came second again, with 12.3%, while the IFP polled only 6.9%, compared to 8.6% in 1999. The **New National Party** (NNP) was virtually annihilated, with 1.8% (seven seats in parliament).

Of a total of 400 seats, 279 went to the ANC, 50 to the DA and 28 to the IFP. Next was the United Democratic Movement (UDM) with nine seats. Patricia de Lille's Independent Democrats, like the NNP, won seven seats; the African Christian Democratic Party six seats; the Freedom Front Plus four seats; and the Pan Africanist Congress (PAC) and the United Christian Democratic Party three seats each. AZAPO (Azanian People's Organisation) obtained two seats, as did the (largely Indian) Minority Front. As in previous elections, most South Africans voted along racial lines, although the ANC made substantial inroads into the Indian working class neighbourhoods of Durban and the Coloured working class areas of the Western Cape.

Mbeki retained a strong women's presence in the **cabinet**. Jacob Zuma was returned as vice-president, in spite of his involvement in a complex case of alleged fraud and corruption (see below). Zuma has been hailed for his conciliatory role in defusing the potentially explosive conflict in KwaZulu-Natal, where IFP-ANC rivalry has claimed hundreds of lives since the mid-1980s. With Mangosuthu Buthelezi sidelined, the Zulu presence in the cabinet was significantly diminished. The reappointment of Zuma, one of the most prominent Zulus in the ANC leadership, may be prompted by the imperative to maintain some kind of ethnic balance in the cabinet. Pallo Jordan, known as an outspoken voice with an independent mind, returned to the limelight with his appointment as minister of culture. Ronnie Kasrils switched from water affairs back to being minister of intelligence services. Alec Erwin moved from the department of trade to public enterprises. Trevor Manuel stayed on as minister of finance. A surprise was the appointment of AZAPO's Mosibudi Mangena as minister of the newly created portfolio of science and technology. The IFP no longer figured in Thabo Mbeki's new cabinet. IFP leader Mangosuthu Buthelezi, who served as minister of home affairs previously, was not appointed to any cabinet position. Two IFP candidates for junior cabinet posts withdrew. After the elections, IFP said it would continue its cooperation with the DA.

The **NNP**, having been deserted by its historical constituency (the white Afrikaans-speaking minority), failed to attract black votes. It decided to dissolve itself as a party after its 90th anniversary in August and invited its followers to join the ANC. NNP leader Marthinus van Schalkwyk himself joined the ANC and was rewarded with the portfolio of environmental affairs and tourism. Former President F.W. de Klerk, however, resigned from the party in protest against the recommendation to join the ANC. Even in the Western Cape, where the NNP succeeded in building a coloured constituency, the party obtained only five seats in the provincial legislature. Afrikaners had either withdrawn from politics or joined forces with the DA or the conservative Freedom Front (Plus). In the 2004 elections, Afrikaners became the largest group of non-voters. It was agreed that local NNP councillors who crossed the floor to the ANC would retain their seats. As a consequence of the floor-crossing option, the ANC also became the majority party in the Cape Town metropolitan council. Thus, the architects of apartheid have been swallowed by their historical foes.

In the **Western Cape**, Ebrahim Rasool took over the premiership from Van Schalkwyk, again heading an ANC-NNP coalition, but with a diminished NNP component. In the **KwaZulu-Natal (KZN)** legislature, the ANC won 38 seats, the IFP 30 and the DA seven. The IFP lodged 42 complaints of irregularities in the election process, but shortly after the independent electoral commission declared the election to be free and fair, the IFP withdrew its legal challenges. Party leader Mangosuthu Buthelezi said that he did not want to spoil the celebrations for the first decade of democracy. In the new ANC-led provincial government, the IFP retained three ministers, but party President Buthelezi said at Inkatha's July conference in Ulundi that the IFP nonetheless considered itself as an opposition party. The new ANC premier S'bu Ndebele declared the city of Pietermaritzburg both the leg-

islative and administrative capital of the province. Under IFP rule, the provincial government had shuttled back and forth between Pietermaritzburg and Ulundi, the former capital of the KwaZulu Bantustan. In the **North West Province**, Popo Molefe, one of the leading figures in the anti-apartheid United Democratic Front in the 1980s, resigned from politics to pursue a career in business.

The **funding of political parties** became a contentious issue, with both the DA and the ANC refusing to accede to requests to open their books. Some large companies, such as the mining giant Anglo-American, AngloVaal Mining, AngloGold, and the communications giant MTN stated that they contributed to the campaigning costs of all parties represented in parliament. Some black business consortia emerging from black empowerment deals (see below) donated substantial amounts to the ANC. At the request of former presidents De Klerk and Mandela, who made a joint appeal for funds for political parties, the insurance firm Sanlam gave R 1 m each to the ANC and the NNP.

A judicial inquiry, the **Hefer Commission**, named after its head, cleared the Public Prosecutor Bulelani Ngcuka of allegations that he had worked as a secret agent for the apartheid regime. Retired Judge Joos Hefer stated that the allegations were "ill-conceived and entirely unsubstantiated." Rumours about Ngcuka having betrayed his comrades in the anti-apartheid struggle started circulating after his announcement in 2003 that he had *prima facie* evidence that Vice-President Jacob Zuma had been involved in soliciting bribes. Ngcuka added, however, that prosecution would have no prospect of success. President Mbeki acted quickly by setting up a judicial inquiry into the allegations against Ngcuka. During the judicial hearings, the origins of the rumours were traced to former Minister of Transport Mac Maharaj and Mo Shaik, an advisor to the foreign ministry. Maharaj had also been questioned about payments from Schabir Shaik (brother of Mo Shaik) into his wife's bank account. The previous year, in July 2003, Ngcuka had called a confidential press briefing with black editors, which resulted in a wave of unfavourable publicity about the vice-president. Zuma laid a complaint with the Public Protector Lawrence Mushwana, who concluded that the public prosecutor was to be blamed for improper conduct. **Ngcuka resigned** in July, after ten years as national director of public prosecutions. Ngcuka also headed the elite investigative unit, the Scorpions, modelled on the FBI. On 8 November, he was appointed executive chairperson of black empowerment company Amabubesi Investments.

Because of this judicial inquiry, public attention was temporarily diverted away from the original **corruption case** against Zuma and Schabir Shaik. Vice-President Zuma is alleged to have solicited a yearly bribe of R 500,000 from the French arms company Thomson CSF (now Thales) to shield the company from being investigated for improper dealings in the controversial multibillion **arms deal** concluded by the South African government in 2000. On 11 October, the trial against Zuma's financial advisor Schabir Shaik opened in the high court in Durban, amid intense media speculation that a conviction of Shaik would also put an end to Zuma's ambitions for the presidency. Shaik faced charges of corruption and fraud.

Both Zuma and Shaik have a long history in the anti-apartheid struggle, during which Shaik acted as a money smuggler for the ANC. He later became a businessman and acted as financial advisor to his long-time friend Zuma. Shaik owns one of the arms companies under investigation. According to the charge sheet, Shaik's company, Nkobi Holdings, has since 1995 paid substantial amounts to Zuma in cash, bonds, loan repayments, school-fees for his children, etc. in return for Zuma's help in obtaining government contracts. Zuma has not been charged, but he did send legal representatives to the court case, which continued into 2005. Zuma hinted that the charges are inspired by political motives.

**Winnie Madikizela-Mandela's** appeal against her conviction on numerous charges of fraud and theft was partially successful (5 July). The Pretoria high court changed her four-year sentence to a wholly suspended sentence. The judge dismissed 25 charges of theft against the former president of the ANC's Women's League, but upheld the conviction on 43 charges of fraud. The charges related to a scam involving bank loans, with letters signed by Madikizela-Mandela stating falsely that the applicant was employed by the Women's League. The ANC welcomed the ruling and stated that Madikizela-Mandela still has a valuable role to play in South African society.

Dozens of **parliamentarians** came under scrutiny in a probe launched in 2003 into the **misuse of travel vouchers**. The names of MPs accused of cashing expenses for trips that were never made have not been disclosed. In September, when the Nigerian-owned but Johannesburg-based newspaper 'ThisDay' listed 92 present and former ANC MPs as being involved in the travel scam, the ANC demanded retraction of the article and a written apology to all those named in the article.

**Rifts in the Tripartite Alliance** were temporarily plastered over during elections times, but flared into the open again in the second half of the year. The SACP was unhappy with the pact with the NNP. A massive strike by public servants, organised by unions in the education, health and security sectors in September, was resolved through a deal with five of the eight public sector unions. They accepted a three-year agreement with slightly higher wages than previously offered by the government. A remarkable feature of the strike was that for the first time large numbers of whites turned out to demonstrate alongside their black colleagues. In November, a meeting of the Alliance was postponed indefinitely because of differences over Mbeki's policy on Zimbabwe and over Black Economic Empowerment (BEE) policies (see below). COSATU voiced unprecedentedly harsh criticism of Mbeki's stance on Zimbabwe, which was seen as supportive of President Mugabe. On 26 October, a 14-member COSATU delegation was deported from Zimbabwe shortly after arrival in Harare, and was severely censured by Mbeki, who accused the COSATU leaders of showing contempt for a sovereign government. Mbeki questioned the motives of the COSATU leaders, whom he accused of adventurism and grandstanding while the South African government was seeking to bring about a negotiated settlement in Zimbabwe.

Archbishop emeritus **Desmond Tutu** added his voice to the mounting critique when he questioned BEE policies in an address on 23 November at the Nelson Mandela Foundation

in Houghton. He said that BEE seemed to benefit only a small "recycled" elite and did little for poverty alleviation. He begged his audience to keep the "struggle values" in mind and to strive for a caring, compassionate society. Tutu also raised the issue of Basic Income Grants (BIG) of R 100 to R 200 a month for all South Africans. The government discarded the scheme as unaffordable and undesirable. It also argued that a 'hand-out' would not encourage people to look after themselves. The Nobel laureate branded this response as "extremely cynical" in a society where some people become rich overnight by the stroke of a pen. Tutu praised the many achievements of ten years of democracy, but also voiced concern over freedom of expression and the lack of open debate within the ANC, pointing out the dangers of "uncritical, sycophantic, obsequious conformity." President Mbeki hit back on his ANC website, accusing the archbishop of inadequate knowledge of the facts and a lack of "respect for the truth."

Shortly before the elections, the government announced a national HIV/AIDS treatment programme, involving the provision of antiretroviral drugs in all provinces. Treatment became more widely available, with 103 clinics now accredited by government to provide antiretroviral therapy and counselling facilities. Minister of Health Mantombazana Tshabalala-Msimang was reinstated after the April elections, in spite of her unpopularity with AIDS activists. Shortly after her reinstatement, the director of the government's programme on AIDS resigned. More than 20% of people between the age of 15 and 49 are believed to be HIV positive. By 2010, life expectancy will be 43 years, 17 years less than South Africa would have had without AIDS. The South African government remained reluctant to provide statistics. However, the start of the treatment programme did not silence the acrimonious public debate on the AIDS issue, which increasingly unfolds along racial lines. President Mbeki launched a scathing attack on "white bigots" during a parliamentary debate on HIV/AIDS in October. When asked about his silence on a pandemic, which has infected some 5.6 m people in South Africa, causing at least 600 deaths a day, Mbeki replied that some white people regard blacks as "rampant sexual beasts, unable to control our urges." The DA said Mbeki's comments were a disgrace, and that he had made false accusations of racism.

**White reactionary minorities** remained in the headlines. In Pretoria, the trial began of 22 rightwing whites of the Boeremag (Boer Force) who stand accused of conspiracy to topple the government. Giving evidence, one of the accused stated in May that he believed at the time that a coup d'état was the only way of ensuring the survival of white South Africans. The plotters had planned to take over military bases and police stations. In another case, 60-year-old Eugene Terre'Blanche, leader of the Afrikaner Weerstandsbeweging, was released from jail on 11 June after serving three years of a five-year sentence for attempted murder of a black security guard in 1996.

A scandal involving South African-based **mercenaries** intent on staging a coup in Equatorial Guinea caused much publicity when it turned out that local resident Mark Thatcher, the son of former British Prime Minister Margaret Thatcher, was among the sus-

pected British financiers. In Zimbabwe, 70 men allegedly on their way in March to stage a coup in Equatorial Guinea were arrested on charges of gunrunning and espionage. They were all travelling on South African passports. Zimbabwean authorities said they were on their way to join 15 other suspected mercenaries, including eight South Africans, who had been arrested in Equatorial Guinea. They were accused of plotting the overthrow of President Teodoro Obiang and to install opposition leader Severo Moto as head of state. Initial reports indicated that both South Africa and Zimbabwe wanted the mercenaries extradited to Equatorial Guinea to stand trial in Malabo. Zimbabwe was apparently offered a highly favourable deal involving the delivery of oil. The recently discovered rich oil fields of Equatorial Guinea also attracted South African interest, but both countries changed their mind after damning reports by Amnesty International about human rights abuses and extrajudicial executions in Equatorial Guinea. Between 12 and 16 local plotters had reportedly been summarily executed. The alleged plotters could face the death penalty in Equatorial Guinea. Lawyers acting for the families of the mercenaries took their case to the constitutional court, demanding that the South African government act to protect the men against human rights abuses and to ask for them to be extradited to South Africa to stand trial under the anti-mercenary acts. Counsel for the states argued that respect for the sovereignty of other African states made it impossible for South Africa to intervene, even by diplomatic means. Judge Albie Sachs (himself a previously exiled ANC activist) argued that it is increasingly accepted that human rights conventions supersede issues of sovereignty. Alleged coup leader Nick du Toit stated on 23 August in the court in Malabo that he had been hired by Briton Simon Mann, who had assured him that the coup attempt was supported by Spain, where opposition leader Severo Moto lives in exile. In Harare, Simon Mann, a former British army officer, pleaded guilty to attempts to purchase arms for a coup in Equatorial Guinea. According to their lawyers, both men had been tortured into making confessions. Mann was sentenced to seven years imprisonment, which were later reduced to four years. The two pilots were sentenced to 16 months, while 62 men were sentenced to one year. Two were acquitted, two more freed for medical reasons and one died in jail. After a hearing in Cape Town, Mark Thatcher was released on bail and later fined R 3 m after pleading guilty to contravening South Africa's anti-mercenary law. The affair was considered beneficial for the credibility of South Africa's intelligence services, as it turned out that they had prior knowledge of the plot. They had, however, not prevented the men from boarding a plane to Harare. Most of the alleged conspirators had served in the apartheid defence force.

Many former apartheid soldiers have not been successfully integrated into civilian society. A substantial number of ex-soldiers and ex-policemen are reported to be active in private security firms in Iraq, where very attractive salaries are paid. Some are employed in the burgeoning private security industry in South Africa itself, which also provides employment to veterans from the anti-apartheid struggle. However, two-thirds of former **liberation fighters** are reported to be unemployed. Since the integration process started in 1994,



17,000 MK veterans (the armed wing of the ANC) and 6,000 APLA members (the Azanian People's Liberation Army was the armed wing of the PAC) were inducted into the new South African National Defence Force (SANDF). Once demobilisation began, many found they lacked the qualifications, such as a high school diploma, to find a civilian job.

South Africa's vibrant **print media** sector underwent some interesting changes during the year. 'ThisDay', the newspaper launched only a year earlier by Nigerian media magnate Nduka Obaigbena, closed on 1 November. It had lost about € 1.5 m, with a circulation of less than 20,000. By contrast, the 'Daily Sun', modelled on the UK tabloid, reported a growth in circulation to over 400,000 copies, a record in sub-Saharan Africa.

South Africa mourned the death of three stalwarts of the anti-apartheid struggle. Former Minister of Justice **Dullah Omar** died on 13 March. The death of the prominent anti-apartheid clergyman Christiaan Frederick **Beyers Naudé** (1915–2004) on 7 September was mourned by a broad spectrum of South Africans. Five days later, trade union leader **Ray Alexander** (1913–2004) died at the age of 91. Born in Latvia, she achieved fame through her pioneering work in organising the rural poor in the Western Cape in the Food and Canning Workers Union.

A few weeks before his 86th birthday in July, **Nelson Mandela** announced his partial withdrawal from public life. He said he now needed some time to read and reflect and to be with his family. However, he would still be available for selective occasions: "The appeal is: don't call me, I will call you."

### Foreign Affairs

South Africa's dominant role on the continent was further strengthened by the election of Foreign Minister Nkosazana Dlamini-Zuma as chair of the newly created Peace and Security Council of the AU. The council should have some muscle, as the EU has agreed to provide it with \$ 320 m for the next two years. African defence ministers reached agreement in January on an African peacekeeping force that may grow to up to 10,000 military and police personnel. At the AU summit, it was agreed that the pan-African parliament would be located in South Africa. Some African states, however, are beginning to display growing resentment towards what they perceive as **South African domination of African affairs**.

To counterbalance growing South African domination, the AU moved to firmly place **NEPAD** under its wings. Thus far it has had a semi-autonomous status, which probably helped to attract donor funds. NEPAD is one of Mbeki's pet projects, the programme to underpin his vision of an African Renaissance. It has a socioeconomic as well as a political dimension. The socioeconomic programme, although criticised as basically representing a neoliberal agenda, has been widely embraced by AU members. The political dimension, focusing on good governance, has met with less enthusiasm. The panel appointed to conduct peer reviews of member states has been stacked with personalities rep-

resenting the political elite, with a notable absence of social activists. The crisis in Zimbabwe is widely considered as the litmus test for NEPAD's and South Africa's sincerity in the pursuit of good governance, but Mbeki has generally been supportive of Mugabe. In June, Mbeki was invited as one of Africa's spokesmen to the **G8 summit** in Georgia, USA. The G8 has previously committed itself to support NEPAD in exchange for African commitments on good governance and peer reviews.

South Africa took over the chairmanship of the security organ of SADC. One of its priorities is to build African potential for conflict management and **peacekeeping** on the African continent. South Africa favours the formation of a regional SADC brigade, which by the end of 2005 should be ready to undertake peace missions. South Africa itself has peacekeeping forces stationed in two longstanding conflicts: a full battalion and support staff stationed in the DR Congo and just less than two battalions in Burundi. Mbeki also committed 200 men to the AU mission in Darfur. Peacekeeping missions in Africa became more central to South Africa's foreign policy and defence policy. The department of defence budgeted R (rand) 700 m for peacekeeping operations in Africa. The new defence policy no longer lists the defence of the national borders as the primary function of the armed forces, but defines national defence and peacekeeping in Africa as equal priorities. Defence procurements reflected the **shift in strategy**. The government stated its intention to participate in a new type of Airbus, the A400M, which is being developed in a joint project with seven European countries. Pretoria ordered fourteen European Airbus military cargo haulers at a price of R 11 bn to facilitate airlifts for peace missions. Delivery of the new Airbus would take place between 2010 and 2014. South Africa currently charters private planes flown by Russian pilots for haulage flights to other African destinations. The order was additional to previous military procurements, which caused considerable controversy when the spin-off for local contractors proved less than advertised.

On 18 June, South Africa signed **military agreements** with the **DR Congo** and **Rwanda**. The agreements provide for the delivery of military equipment and training from South Africa, and for joint peacekeeping operations. In response to criticism about arms deals with a conflict zone, Minister of Defence Lekota stated that the agreements were signed for defensive purposes only. In the DR Congo, South Africans will also assist with the integration of the various armed forces into one national army. In August, a draft power-sharing deal for **Burundi** was signed in Pretoria. Vice-President Zuma, the South African envoy for Burundi, has been putting pressure on Burundi President Domitien Ndayizeye to speed up the transition process. However, the deal was opposed by the main Tutsi party, 'Union Pour le Progrès National' (UPRONA). South African troops in Burundi now operate under UN command, as the UN took over from the AU on 1 June.

In July, South Africa concluded an **agreement with the US** for the training and equipping of two infantry battalions for peacekeeping missions. Pretoria had thus far been reluctant to accept American involvement in security matters on the African continent. Washington had been offering military training – first through the Africa Crisis Response

Initiative and now through the African Contingency Operations Training and Assistance programme – for the past eight years. In spite of their historical rivalry, the UK, the US and France have become more involved in joint planning and coordination of military interventions in Africa. South Africa also signed two defence pacts with the UK, aimed at boosting South Africa's capacity for peacekeeping missions.

Mbeki's ambitious Africa policy contrasts with the limited capacity of the (SANDF), which is considered over-age and largely unfit for active duty. As a consequence of the merger of the armed wings of the liberation movements with the former defence force, the armed forces could afford little fresh recruitment. With an average age of 34 years, the army is out of tune with most other armies. Moreover, as the incidence of HIV/AIDS in the SANDF is believed to be alarmingly high, many military personnel are unfit for deployment on peacekeeping missions. SANDF told parliament that 23% of the army is HIV/AIDS infected, but unofficial reports have come up with higher estimates.

A substantial increase in the budget for the **intelligence services** reflected the expansion of the presence of the South African secret service on the African continent. Plans were also announced for a more effective system of border control. The choice for South Africa as host for the 2010 Soccer World Cup served as an obvious impetus for a more strict surveillance, as did the decision to locate the pan African parliament in South Africa. According to the Commissioner of Police Jackie Selebi, police foiled a terrorist attack linked to al-Qaida shortly before the April elections, but offered few further details.

South Africa's **diplomatic efforts in the DR Congo** have paved the way for a large-scale expansion of South African **mining interests** into Congo's copper and gold concessions. Black-owned companies are the main beneficiaries, such as the mining corporation Mvelaphanda, headed by ANC veteran Tokyo Sexwale. During a visit to Kinshasa (13–14 January), Mbeki reached agreement on a series of deals totalling more than \$ 10 bn. Among the deals is an agreement that South Africa will assist in the rehabilitation of the main state mining company, Gecamines. Talks are also under way on the rehabilitation and expansion of the giant **power generating plants** at the Inga dam on the Congo River, a project with strategic importance for the provision of electricity and water to large tracts of Southern Africa. If implemented, these agreements will integrate the DR Congo more firmly in SADC and tie the country to South Africa's economy. The importance of the DR Congo to South Africa was underlined by the heavyweight delegation, with no less than eight cabinet ministers and prominent business leaders from a variety of sectors, ranging from mining to banking, telecommunications and security. Kabila's government has welcomed South African investors, who could partly replace Belgian and American interests linked to the Mobutu regime. South Africa also agreed to modernise Kinshasa airport and to build a new motorway from the airport to the city.

With **Zimbabwe** heading for an election in March 2005, the South African government began to exert slightly more pressure towards the end of 2004 on its northern neighbour to adhere to international standards for fair elections. When Harare committed itself to the

SADC protocol for free and fair elections, Pretoria hailed this as a victory for Mbeki's constructive engagement policies. The SADC protocol, signed in August, sets rules for freedom of association and expression, and unobstructed participation in election campaigning, with all registered political parties having access to public media. Pretoria has consistently ruled out the use of sanctions against Zimbabwe. At the beginning of the year, Pretoria claimed that its mediation efforts in Zimbabwe were successful, as both Mugabe's ZANU-PF and the opposition Movement for Democratic Change (MDC) had agreed to start informal talks. In contrast, both parties in Zimbabwe denied that talks had been initiated.

Mbeki's visit to the EU on 15–17 November highlighted the emerging role of South Africa as a strategic partner on the continent, at least for developments in central and southern Africa. Congo and Côte d'Ivoire figured high on the agenda of Mbeki's talks. His mediation efforts in Abidjan (9 November), where he met with President Laurent Gbagbo but not with his political opponents, brought no visible results. South Africa and Belgium agreed to train several brigades of the future integrated Congolese army before the elections in Congo, scheduled for June 2005. The South African police are also involved in training the Congolese police force.

In May, South Africa granted political asylum to the deposed president of **Haiti**, Jean-Bertrand Aristide. At the beginning of the year, Mbeki had given generous support worth R 25 m for Haiti's celebration of 200 years of independence. Mbeki himself attended the anniversary celebrations in January in Port-au-Prince. Shortly afterwards, when President Aristide was beleaguered by his opponents who were closing in on Port-au-Prince, South Africa sent an air force Boeing with arms in support of Aristide's government. The move came too late to stem the tide of the rebel movement and the Boeing landed instead in Jamaica, because Aristide had already left the country. After an initial stay in the Central African Republic, the deposed Haitian president headed for South Africa. Mbeki's stance on Haiti has wider political ramifications, as it is the **first South African intervention in the Western hemisphere**.

### **Socioeconomic Developments**

On 19 February, Finance Minister Trevor Manuel tabled a mildly expansionary **annual budget**, after years of economic restructuring to limit the budget deficit. Manuel allowed the deficit to rise to 3.1% for 2004–05, as compared to 2.6% in the previous year. The state debt, as a percentage of GDP, was reduced from 43.3% in 2000 to 36.8% in 2004. Expenditure in 2004–05 is budgeted at R 369 bn, from R 332 bn in 2003–04. Projected economic growth for the fiscal year 2004–05 was 2.9% compared with a growth in GDP of 1.9% in 2003. Manuel announced a R 20 bn public works programme designed to create a million jobs over five years. Although South Africa has millions of unemployed, the country suffers from a lack of skilled labour. Skills improvement will be one of the new spearheads of government policy. The education budget was increased by 10%. The relaxation

of exchange controls is likely to attract more foreign investors. Most money for social services, poverty relief and social development is spent by the provincial and local governments. Improving the capacity at provincial and local levels is therefore crucial to the success of the delivery of 'a better life for all', the ANC's election slogan. The central state intends to take a more active hands-on approach in dealings with the provinces. The budget was welcomed by COSATU, because of its explicit commitment to job creation.

A UNDP report that indicated continuing **massive poverty and growing inequality** within all racial groups caused much political controversy. The report stated that almost half of South Africa's population (21.9 m) continue to live below the national poverty line of R 354 a month. However, there has been visible improvement since 1995, when 51.1% of the people were living below the poverty line. According to UNDP's statistics, this percentage had fallen to 48.5% in 2002. In reaction, the government complained that UNDP had given insufficient attention to the legacy of apartheid. The democratic government, installed in 1994, first needed to focus on building a new constitutional and legislative framework before it could move towards implementation. Now, in this third term, the institutional changes were firmly in place, enabling rapid progress towards delivery.

In its **economic transformation audit**, the Institute for Justice and Reconciliation also argued that the poor have not yet benefited from the improved growth figures, that BEE has not contributed to job creation, that the education system is failing the majority of black youths and that poverty and inequality have deepened. Though 1.7 m jobs were created between 1995 and 2002, the number of job seekers swelled by 5.3 m over the same period. For the first time since 1994, official data suggested a slight decrease in the **unemployment** rate from 28.4% in September 2003 to 27.8% in March. 4.6 m South Africans were unemployed, using the official definition. According to unofficial figures, as used by COSATU, unemployment hovers around 40%, or 8.4 m people. This figure includes the unemployed who are no longer actively engaged in job seeking, but excludes those employed in the informal sector. In the official definition, every person who has worked at least one hour in the previous week is counted as employed. The gap between the new, racially mixed middle class and the millions of largely black South Africans who continue to live in poverty is causing increasing tensions. Trevor Manuel, speaking at the annual convention of black accountants, stated that the top 20% of earners in South Africa earn almost half of all the income in the country, while the bottom 20% earn just 4% of income. In August, the government introduced an ambitious **job creation scheme**, the Expanded Public Works Programme (EPWP), destined to create 200,000 temporary jobs annually in infrastructure development. At the same time, EPWP is meant to improve service delivery, notably in the informal settlements around the big cities. Several isolated incidents indicated that patience in underprivileged communities is running thin. The City of Johannesburg presented ambitious plans to provide proper infrastructure to informal settlements by 2007. According to a 2003 report by the city's department of housing, an estimated 418,000 people are liv-

ing in backyard shacks, 4,500 people are living on the streets and 170,000 families were being accommodated in dozens of informal settlements across Greater Johannesburg.

Ten years after the formal end of apartheid, **black students** still face a formidable backlog, in spite of the substantial increases in resource allocation to previously disadvantaged schools. In 2003, only 0.5% of matriculation-aged Africans and 3.9% of so-called Coloureds obtained a higher-grade maths pass good enough to gain entry to most natural science, engineering or commerce faculties at universities. Given the low-skills profile of the unemployed, the current skills-intensive growth path for the economy offers no hope for the country's poor. On the other hand, a Merrill Lynch research report noted a spectacular increase in the purchasing power of the **black middle class**, resulting in much increased demand in the consumer market, notably for clothing, furniture, motor vehicles, media, housing and cell phones. Clothing retailers experienced a growth in volume of 15% to 20% over the year. Domestic vehicle sales went up by 5% in 2003. The cell phone market also reported spectacular growth, with an estimated 15 m active cell phone users by the end of 2003. The consumer boom has been encouraged by a sharp fall in interest rates since 2002 and by tax cuts. The reserve bank announced a further cut in interest rates in August, slashing the rate from 8% to 7.5%.

**Economic growth** picked up in the third quarter. With a growth of 5.6% of the GDP, the South African economy had its best performance in eight years. The first quarter registered 4% growth. Finance Minister Manuel, who has been closely associated with neoliberal economic policies, cited the figures as evidence that government policy is working and that the discipline of the past years has paid off. Critics in COSATU believed that the upward trend was caused by the strength of the rand and the high prices on the world market for gold and platinum, rather than an improvement in productivity. The **local currency** strengthened against the dollar and was expected to maintain its new position well into 2005. From 1988 to 2001, the rand declined each year at an average rate of 14%. Since its lowest point in December 2001, when the currency hit R 13.80, the rand has appreciated by 52%. During 2004, the rate of exchange averaged R 6–7 per dollar, or about R 8 to the euro.

**Land reform** lagged behind the stated targets. The **land restitution** programme involves land expropriated since the 1913 'Land Act'. Before the 1998 cut-off date, a total of 79,694 claims had been lodged. The processing of claims has been simplified, and by early 2004, 43,205 claims had been settled, often with an offer of monetary compensation. The restitution process is therefore unlikely to make a significant dent in the very uneven racial pattern of land distribution. The vast majority of the claims, some 80%, relate to urban claims. To speed up the restitution process, scheduled to come to an end in 2005, R 1.6 bn was reserved in the 2004–05 budget. Apart from restitution, a programme of **land redistribution** on the basis of willing seller-willing buyer principles aims to achieve a less racialised pattern of landownership. The government promised that 30% of white-owned land will be redistributed by 2015, a substantial departure from previously stated more ambitious

goals. Since 1994, about 3.5 m hectares of land has been redistributed. To meet the 30% goal, the government needs to redistribute 1.87 m hectares a year, a fivefold increase on the current transfer rate of 350,000 hectares a year. Total farmland in South Africa is about 122 m hectares, of which 82% is white-owned. The costs for this redistribution programme are estimated at R 17 bn, or about R 1.5 bn per year.

South Africa sought to dispel apprehension on the part of foreign investors about the consequences of its BEE programme. Mbeki assured investors that his government has no intention of seizing assets for BEE purposes. Earlier, government officials had stressed that foreign companies were not exempt from meeting empowerment targets. Similar assurances were aimed at China, where Pretoria also hopes to attract investment. Thus far, South African investment in China far outstrips Chinese investment in South Africa. Trade between China and South Africa has expanded considerably, causing massive shutdowns in the South African textile and shoe industry. BEE remained a central tenet of Mbeki's agenda. In order to enlarge Black ownership in the still largely white-owned business sector, the government has set targets for the transfer of shares to black business. By 2014, some 25% to 30% of South African companies should be transferred to black entrepreneurs. BEE has proven unpopular with the ANC's trade union allies. Thus far, most empowerment deals have served a small black elite closely aligned with the ruling ANC. The unions are pressing for worker participation in the share-out.

Top ANC officials acquired 15.1% of the telecommunications giant Telkom, which is destined for partial privatisation. The consortium that bought the black empowerment stake includes the former director-general of the department of communication, Andile Ngcabe, and Mbeki's spokesman Smuts Ngonyama. COSATU proposed a cooling off period for politicians and public servants to avoid suspicions that they had used their official positions as stepping-stones towards a career in business. The trade union leadership branded the deal as the "very worst form of so-called economic empowerment – which benefits only a tiny elite." Other high-profile ANC cadres who have benefited from black empowerment deals over the past years include Bulelani Ngcuka, former Minister of Justice Penuell Maduna and former Minister of Defence Joe Modise. Black empowerment has come under fire not only for enriching a tiny elite, but also for perpetuating the racial categories of apartheid. Its advocates claim that unless decisive action is taken to correct the imbalances in wealth and ownership, South Africa will forever be faced with calls to impose quotas in order to achieve proportionally acceptable representation. However, influential voices within the ANC have joined the chorus of critics. Most outspoken was Kgalema Motlanthe, the ANC's secretary-general, who complained that too few people benefit when large white firms hand over minority stakes to black partners. Minister of Defence Mosiuoa Lekota questioned the wisdom of affirmative action policies in recruitment for the army. Minister of Finance Trevor Manuel was even more outspoken in his criticism when addressing black businessmen and accountants, whom he accused of accumulating undeserved riches on the basis of their skin colour.

In the banking sector, Standard Bank, ABSA, FirstRand and the Liberty Group have each offered about 10% of their shares in **black empowerment deals**. Most of the shares went to business consortia headed by ANC heavyweights Tokyo Sexwale, Saki Macozoma and Cyril Ramaphosa. The SANLAM insurance giant, once a prime example of Afrikaner capital accumulation, signed an empowerment deal with Patrice Motsepe, the chairman of mining company ARMgold. In the wine sector, plans to implement BEE by transferring shares to a small group of black business leaders encountered fierce opposition from the farmworkers' union, FAWU. In response to leftwing criticism that BEE has thus far only served the interests of a small black elite, government officials have stressed that the programme is aimed at broad-based empowerment. **Empowerment charters** are concluded by sector. On schedule for 2004 were information technology, construction, transport, wine and agriculture. Charters for the oil, gas and mining sectors had already been concluded in previous years. The highly successful automobile industry has thus far been shielded from empowerment deals. South Africa's automotive industry ranked 20th in the world in 2003 and the government regards it as setting the pace for diversifying the industrial economy. South Africa is responsible for 84% of Africa's vehicle output. In the tourism sector, pressure has also been building for a larger black share in the proceeds.

**Tourism** is the third largest foreign exchange earner and job creator in South Africa, contributing more than R 25 bn to the economy, or 8.2% of the GDP. A study done in 2003 estimated that only 6% of the tourism enterprises listed on the Johannesburg Stock Exchange were black-owned. The new minister of tourism, Marthinus van Schalkwyk, promised to set clear targets for BEE in the tourism sector that would enable regular monitoring of progress. Both township tourism and ecotourism have the potential to generate more income for black participants in the burgeoning tourism industry. The projected liberalisation of the telecom sector is expected to open new opportunities for **outsourcing**, thanks to a stable economy, relatively low costs and the advantage of sharing the same time zone with Western Europe. Ebrahim Rasool, premier of the Western Cape province, claimed South Africa would be a 'credible alternative' to India. He said that British financial services were already achieving 40% cost savings. A new trade body, 'Calling the Cape', aims to encourage companies in Britain and elsewhere to transfer jobs to South Africa. Randgold Resources announced an expansion of its **mining operations** in Mali, with new programmes scheduled for Senegal, Tanzania and Burkina Faso and a new joint venture in Ghana. AngloGold took over Ashanti Goldfields for \$ 1.55 bn. The merged company, to be known as AngloGold Ashanti, would become the world's largest gold producer, with 26 mines on four continents producing 7.5 m ounces of gold per year. Post-apartheid South Africa has become the biggest source of direct investment on the African continent.

In a series of speeches, Mbeki hinted that South Africa was moving away from neoliberal orthodoxy towards the concept of the '**developmental state**'. He cited various examples, from state-led growth in the East Asian economies to the example of the EU's regional funds, which provide subsidies to stimulate backward regions in member states. The



government promised a slowing down of the pace of privatisations: in the next five years there would be no major privatisation. The government announced in August that the defence group Denel, the transport utility Transnet and power group Eskom would remain state-owned as they were regarded as strategic assets. The policy shift was hailed by the ANC's allies on the left, the SACP and COSATU, as a shift from American-style capitalism to the **social democratic models** prevailing in the EU. Policy measures included a substantial increase in housing subsidies and increases in welfare benefits. The 'activist state' will provide more jobs through an ambitious public works programme, adult education and the promotion of small business through a new micro-lending scheme. After more than five years of preparation, the National Empowerment Fund started in June, with an initial capital of R 2 bn. The fund aims to provide cheap capital to small and medium-sized business. Another shift in policy is the new emphasis on an improved skills base as a precondition for economic growth and new jobs. Part of the scheme is a campaign to encourage the homecoming of mainly white South Africans who have emigrated over the past years. The economic impact of the massive numbers of AIDS-related deaths remains unsure, but the deaths of tens of thousands of skilled people in sectors such as education, health and other public sector services is likely to cause havoc in years to come.

**Ineke van Kessel**