



Executive summary

[From the South African Monitor Year-End 2016 Report: Political turbulence and business risks in the ANC's hybrid regime]

Unexpected shifts and high political risk: As predicted in the biannual *South African Monitor* reports in the past two years, business in South Africa is currently exposed to significant political risks and economic policy uncertainty. Factional struggles within the African National Congress (ANC) and between the ANC and opposition groups will continue to generate political turbulence in the next three years. Unexpected major shifts and unforeseen high-impact events are possible. This has already happened in various forms, including the sudden electricity crisis, political protests and assassinations linked to the municipal elections, xenophobic attacks, destructive student unrest, and actions by the Zuma government that triggered negative responses by international financial markets in 2015 and 2016.

International business, cultural and education actors, and NGOs are advised to take three steps: first, to institute rigorous and robust risk mitigation measures in South Africa; second, to review the timing, form and extent of planned new investments and activities in South Africa; third, to also consider alternative opportunities outside South Africa. If considering activities in South Africa, such actors should give renewed attention to two important generators of stability and prosperity: the private business sector and institutions for sustainable communities in South Africa.

New symbolic and political order: The current political and economic volatility occurs in a new political and symbolic order. Under the presidency of Jacob Zuma, ANC leader, several key trends and drivers have reached a critical mass and have combined to form a new political order. The new order has effectively replaced the liberal democratic constitutional order, built on the consensus between the ANC of Nelson Mandela, business and the National Party (NP) of F.W. de Klerk in the mid-1990s.

Paradigm shift needed to understand future: Many media and analysts have clung to assessments that underestimated the impact of non-democratic, factional and neopatrimonial dynamics in post-1994 South Africa. As a result, serious risks to business, citizens and communities have been ignored, rationalized away, or minimized. In contrast, the framework of analysis here has provided accurate early warning for several years about the crises currently emerging, the underlying dynamics, and the political risks to business.

Key dimensions of the new order

Hybrid regime: The first key dimension of the new order is a shift to a hybrid regime under Jacob Zuma's ANC. The locus of politics has shifted from accountable democratic institutions to a field of power in which weak democratic institutions and non-democratic institutions interact.

Oligopoly of violence: The second key dimension is an oligopoly of violence instead of the state's monopoly of violence. The ANC government does not consider a restoration of the security of citizens and businesses to be a state priority. Elections still occur. However, intimidation, threats of violence, rehearsals for violence, violent protests, and even political assassinations form part of the new rules of the game, the incentive systems and the positioning of actors in dealing with political claims, counter-claims and contestation.

State rests on new coalitions: The third key dimension is a new, more volatile and fragmented basis of the state's authority and power. The bureaucracy's capacity remains limited and becomes less efficient in service delivery. In an effort to maintain or regain some control, the ANC government and its factions are reshaping the political order around different local deals, relationships and settlements. At present, the active realignment with traditional authorities is especially noticeable.

Shrinking social contract: The fourth key dimension is that the new political order also promotes a shrinking social contract. Both the scope and the nature of the relationship between the governing party and the diverse population have changed. This relationship now includes re-racialized politics and the authoritarian and ethnic dynamics in the ANC. It is a stratified and exclusivist project of nation-building, privileging some groups of citizens above others. The ANC government presents its approach as the sole approach to African liberation in South Africa, excluding or silencing other more inclusive, democratic, federal and social enterprise-based models of African liberation.

Links and mutual obligations between some groups and those in power, as well as patron-client relationships, dominate their understanding of rights and entitlements. They also dominate their understanding of the South African state, which is no longer

seen as first of all being rooted in citizenship, in impartial service delivery, in the Constitution, and in loyalty to other citizens.

Non-pluralist exclusion of opponents and minorities: The fifth key feature is a limited responsiveness as far as the claims or needs of political opposition groups and some smaller ethnic groups are concerned. This relationship with the diverse population differs from the inclusive non-racialism of the Mandela era. It also serves to legitimize government actions and to divert attention from failures in service delivery and government performance by scapegoat politics. However, its shrinking social contract reinforces the limited and partisan protection of citizens. It also legitimizes scapegoat politics by government and non-government actors.

Symbolic de-Westernization: The sixth key dimension is the peaceful or violent promotion of de-Westernization in the symbolic domain, political institutions, as well as in academic institutions. Nativist identity discourses and new combinations of Christianity and indigenous African religion are increasingly prominent in the domestic symbolic domain. However, as is visible in the xenophobic tensions and attacks, and ANC responses to it since 2008, the nativist discourse excludes not only indigenous Western and Asian Africans, but also foreign Africans and Asians.

Resource appropriation: The seventh key dimension of the new political order is a different conception of property rights and the conditions of wealth, which often clashes with the existing liberal Constitution. The selective economic empowerment of politically-connected actors, mismanagement and widespread unproductive “politics of the belly” have hollowed out state capabilities and resulted in a weakening of key economic capabilities. The ability of the economy to ensure a successful model of African liberation or African modernity for all citizens has been significantly weakened.

Policies increasingly aim at gaining access to and control over the socio-economic formations of some indigenous and foreign minority cultural groups. The nativist symbolic discourse interacts with this process and sometimes serves as its legitimization. Both greed and grievance interact.

Pro-Russian and pro-Chinese foreign policy: The eighth key dimension is a foreign policy that clearly privileges Russia and China, while being neutral or less favourable to Western powers. In addition, an interventionist and developmental state and ANC-aligned business actors are much more evident in economic diplomacy and various forms of protectionism. Domestic short-term political priorities are prioritized above Western foreign direct investment.

Self-help initiatives and authority migration: The ninth key feature is the limited, but robust evolution of capacity and self-help initiatives within cities, communities,

and the private sector. This feature will involve authority migration and shape the new political order.

Between a modular and a mediated state: The new political order already constitutes an asymmetric modular state. Organizations and institutions that do not form part of the central state fulfil several state functions in different ways in some areas or communities. Although the ANC government theoretically has the capacity to fulfil at least some of these functions, it accepts this modular state as part of its governance model.

In some areas of South Africa, the dynamics of self-help initiatives and authority migration may in time evolve into a mediated state. In those zones, “rule of the intermediaries” will act as substitute for the rule of the central state. The government will accept this situation and try to align with these actors, not voluntarily, but based on necessity.

Hybrid regime

This report finds that during the more than seven years of President Jacob Zuma’s rule, South Africa has moved from a flawed democracy to a hybrid regime. This transformation is partly reflected in a major shift in the international media’s reportage on ANC rule since 1994.

New locus of politics: In South Africa’s hybrid regime, the incentive systems and the rules of the political game have changed. The locus of politics is not in the legislature or elections. The locus of politics has moved to a field of power where democratic and non-accountable actors and processes interact. The hybrid regime could remain in place for years, irrespective of whether Zuma or another ANC president is in power.

One-party dominance and state capture: One non-accountable factor is the ANC as a ruling party after twenty-two years in a one-party-dominant state. It has a non-pluralist political culture. Through its policy of cadre deployment, it has captured most state institutions and watered down the separation of powers. State institutions are now largely politically partisan, and the arena of factional struggles.

Uneven electoral and economic playing fields: The ANC’s capture of the state has allowed the party to become as important a gatekeeper to power as elections, if not more important. It has expanded its hold on key constituencies and the market, also through selective patronage and crony capitalism. Both the electoral and the economic playing fields have been made uneven.

Limited participation: In elections there has been a marked decline in the registration and participation of eligible voters since 1994. In the 2014 national

elections, the ANC only attracted an estimated 35% of eligible voters' support, compared to 54% in 1994. The participation rate of eligible voters in the local elections of 2016 was approximately 42%. High levels of emigration at least partly reflect the lack of responsiveness to citizens by the existing institutions. A high number of protests constitute forms of political competition aimed at gaining access to power and wealth outside elections.

Unaccountable presidentialism: Another driver of the hybrid regime is an unaccountable presidentialism that has exceeded the constitutional bounds of the office. President Jacob Zuma has not been held accountable by his party or Parliament in a one-party-dominant state. The media and institutions like the Public Protector have been able to identify and admonish examples hereof. However, in the current regime, the democratic checks and balances have not been able to restrain the executive in this regard.

The securitization of politics: The securitization of politics has become a trend in the hybrid regime. A long-standing non-pluralist political culture in the ANC, combined with increased factional struggles over positions, access to resources and opportunities within the ANC and its allies, will reinforce this development. Suspicion and fear will set the tone in the inner circles of power in the near term. This will not necessarily be visible to the thousands of tourists and businesspeople visiting South Africa.

Protests and assassinations: Politics in the hybrid regime has also acquired a non-democratic tenor, often involving limited respect for civil rights, intimidation and violence. Widespread protests, often violent, have been used by communities and segments of the citizenry as part of intra-ANC struggles over spoils and to gain government benefits. Political protests and assassinations have become an institutionalised part of local political alternation, again illustrated by 20 political killings before, during and after the local elections of 2016. However, the risk of political assassinations now clearly extends to provincial and national politicians, as well as bureaucrats.

Opaque decision-making: Opaque decision-making, linked to patron-client relations, now permeate the executive and bureaucracy. The judiciary and media remain spaces of freedom, but are under pressure.

Democratic decline: The interaction of the abovementioned forces has created a distinctive hybrid regime. They have resulted in democratic decline and transformed the political rules of the game, institutions and incentive systems in South Africa. The beautiful landscapes, vibrant communities and business opportunities of South Africa are still present, but these dynamics will dominate daily politics in the near and medium term.

Three drivers: Unfortunately, three drivers will reinforce the dynamics of a hybrid regime and democratic decline in the next few years: they are intensified factional competition in the run-up to the presidential succession and national elections in 2019; the further politicization of the security forces and securitization of politics to prop up presidential rule; as well as the weak economy and more limited state resources.

Some consequences

Increased factional struggles: The hybrid regime could remain relatively stable. However, factional struggles inside the ANC are likely to increase in the run-up to the 2017 ANC leadership alternation and the 2019 national elections.

Economic policy uncertainty: Economic policy swings and delays due to the infighting between different factions will continue in the next few years. Policy uncertainty will be experienced most by companies in sectors most exposed to the government's political priorities or regulatory and licensing power. Minerals, energy, security, agriculture, telecoms and pharmaceuticals would be among these sectors.

More state interventionism: The ANC has proceeded with several regulations, policy initiatives, bills and laws regarding mining and energy, the security industry, affirmative action and empowerment issues, land, patents, and foreign investors in general. The common underlying policy in all of these is the same: they greatly increase the ANC government's interventionist powers in the economy and provide potential sources for patronage.

Weaker property rights: Planned and actual measures will weaken property rights and reduce private-sector autonomy, which would strengthen the position of crony capitalists with links to ANC factions, compared to other businesses.

Looking for new resources: The high levels of state debt and the needs of the ANC's patronage networks will drive efforts to look for new sources of income, both domestically and internationally. The value of some state-run corporations, but also other assets or opportunities of which it should be the public custodian, could be capitalized or mortgaged. Beneficiation requirements may also be emphasized. Sometimes this will have a knock-on impact on existing government undertakings towards business.

International ANC fundraising: The search for new sources of income will coincide with an increased effort at economic diplomacy, both formally and informally. The diplomacy will be couched in the rhetoric of branding, using South Africa's many and unquestioned opportunities. However, the actual results would at least partially strengthen the presidential and partisan ANC networks in the hybrid regime, rather than the South African state, communities and citizens as a whole.

Integrity and reputational risks: Factional struggles for scarce resources will drive efforts to increase state income through these measures and others, which may be more indirect and informal. Unaccountable presidentialism, local big men and patron-client networks will play a role in this regard. There are different business and legal codes of conduct in different jurisdictions; international business is advised to heed best practices regarding integrity risk and reputational risk.

Favouritism to Russia and China: The factional search for more resources in the hybrid regime will result in an increased dependency on foreign patrons like Russia, China, or other political and business actors. The field of competitors and the importance of specific competitive advantages of business may change suddenly.

Uneven service delivery: The levels of visible state mismanagement and operational risk are likely to remain high or sometimes even rise. This state of affairs will continue to have an effect in many areas of service delivery, such as the security of citizens and farmers, electricity supply, water management, waste management, roads, education and postal services, and others that may arise. The impact will differ per province and locality, with pockets of adequate or good service delivery in provinces and local areas.

Based on the internal and external dynamics of the ANC government, if government interventions do not have the required effect, there is a risk that such a result would not trigger a reassessment of the intervention, but rather a stronger form of intervention.

Labour unrest: Factions within trade unions and trade unions will compete intensely with each other for members, networks, power, status and resources. As a result, labour unrest will be a major risk during the next few years. Due to the context in which it will be occurring, the potential politicization of disputes could occur fast and could assume militant forms.

Opportunity cost: Many attractive business opportunities remain in South Africa. Businesses and NGOs with a high risk appetite will remain involved or become active in South Africa. However, due to the increased political risk of the hybrid regime, some actors will also consider the opportunity cost when comparing South Africa to other markets.

Entrepreneurship training a priority: Under the ANC government, parts of the education sector have become among the worst in the world, while the autonomy of others is threatened. International business may find it worthwhile to conduct corporate social responsibility projects that focus on entrepreneurship training and business education. If the projects involve cooperation between foreign and South

African institutions of public education, strict criteria and monitoring to reinforce the remaining spaces of academic freedom are recommended in policy-relevant education and research. However, it is recommended that business and NGOs focus on projects involving private and community education institutions.

There is a limited but robust evolution of capacity and self-help initiatives within cities, communities, and the private sector. This trend will involve an authority migration over time which will shape the new political order. Business and NGOs are advised to identify potential partners and to use the opportunities involved. ■