



The political risks to business in the next two years

***[From the annual South African Monitor Report of April 2019:
Political factionalism, business risks and the ANC's hybrid regime]***

South Africa continues to present attractive business opportunities. High political risk, combined with global economic challenges, have already contributed to a massive decline in meaningful foreign direct investment in South Africa. It is expected that the political risk to business will remain high in at least the next two years as the internally diverse Ramaphosa faction and Zuma faction continue to contest control over the ANC. Three drivers will strengthen the dynamics of a hybrid regime and democratic decline in the coming years: they are intensified factional competition in the run-up to elections and the repositioning of the deeply divided ANC; 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.

The ANC hybrid regime is likely to remain in place in the medium term. Ramaphosa's presidency has meant a continuing recirculation of elites and new networks of power and patronage, with related changes in rhetoric and policies. However, the Zuma faction and related networks remain strong at all levels of the ANC. Ramaphosa and his supporter networks have been deeply embedded in the current neopatrimonial and one party dominant system for years. They will be unable to significantly change the underlying, and by now well-established dynamics, rules of the game and the incentive systems described.

Once state institutions in a one-party dominant state have become so permeated with factions, patron-client networks, regional and local strongmen, and unaccountable presidentialism, the processes become self-generative. Incumbents have too much to lose and too slim chances of having political or economic alternatives. Democratic checks and balances on these forces will have some partial impact on a case-by-case basis, but overall and ultimately they will be ineffective. It is unlikely that Ramaphosa will be able to institutionalize democratic checks and balances in the hybrid regime to the extent that a future Zuma-like presidency can be prevented.

Faced with new political and trade union challengers, the ANC is desperately trying to find ways of regaining some of its lost support among key constituencies. Due to the current levels of state debt, ANC factions are under pressure to find economic resources to sustain themselves and their patron-client networks.

Policies for economic growth will remain torn between different stakeholders and policy preferences. Policy incoherence and unexpected twists will often reflect phases in factional competition and newly-bargained advantages and alignments, rather than ideological vacillation. Policy swings and uncertainty will be experienced most by companies in those 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.

The ANC has proceeded with several regulations, policy initiatives, bills and laws regarding mining and energy, the security industry, affirmative action and black empowerment, land, patents, and foreign investors in general. The common underlying policy in all of them is the same: they greatly increase the ANC government's interventionist powers in the economy.

The planned and actual measures would weaken property rights and reduce private-sector autonomy. This result would strengthen the position of crony capitalists with links to ANC factions compared to other businesses. The ANC policy move to weaken the constitutional protection of property rights constitutes another step in this direction. It also threatens to undo some of the anchors of the peace settlement of 1994, creating an even more selective social contract and polarization between communities. In addition, the weakening of property rights create more room for executive discretion in decision making and non-accountable dynamics in the hybrid regime.

To date, consumption and short-term fulfilment of patron-client obligations, rather than production, state capacity-building or long-term investment, have dominated the deployment of resources and opportunities gained. The political effect of more ANC resources will be to regenerate the power of ANC factions, since patrons will be able to cultivate new clients and constituencies and sustain relationships with existing ones in the hybrid regime. During the competition with new political and trade union challengers, such steps could also be presented as populist measures aimed at improving the lot of the poor.

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. Sometimes this will have a knock-on impact on existing government undertakings towards business. At present, there is a real risk of the government inducing major pension and investment funds to invest in weakly-managed or failing parastatals.

The search for new sources of income will coincide with an increased effort at economic diplomacy, both formal and informal. 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 ANC's patron-client networks in state structures, rather than South African communities and citizens as a whole.

Factional struggles for scarce resources will drive efforts to increase state income through these measures and others. Unaccountable presidentialism, local big men and informal patron-client networks may play a role in this regard. There are different codes

of conduct in different jurisdictions, and international business would need to heed best practices regarding integrity and reputational risk.

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: the security of citizens and farmers, electricity, water management, waste management, roads, education, postal services, and others that may arise. The impact will differ per province and locality, with pockets of sufficient or good service delivery in provinces and local areas.

Based on the internal and external dynamics of the ANC government, if 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.

Protest politics may have some impact on operations in a specific location, but are likely to be of limited duration. Depending on the locality, protest politics may be more prominent during periods in the run-up to elections, during elections and shortly thereafter.

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

Real or instigated xenophobic, anti-Western or indigenization sentiments may emerge during power plays or tough negotiations. When under pressure over non-democratic or bad governance, the ANC, as in the past, could easily resort to conspiracy theories or to smearing credible critics and political opponents as “imperialists”, “racists”, “fascists” or “colonialists”. Business may sometimes be caught in the crossfire.

There 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 as a state priority. Business and NGOs should review and regularly update their risk mitigation measures.

The search for more resources in the hybrid regime and factional competition could result in an increased dependency of key decision makers on foreign patrons like China, Russia or other political and business actors. The field of competitors and the importance of specific competitive advantages of business may change suddenly. Western business is advised to actively involve their business associations, business media and policy-makers to support their projects in South Africa.

International business may find it worthwhile to conduct corporate social responsibility projects that focus on entrepreneurship training and business education. Given current socio-political dynamics, such initiatives should take into account the cultural capital and mother-language preferences of different groups and the option of private education institutions. 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.

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 and shape the new political order. Business and NGOs are advised to identify potential partners and to use the opportunities involved. ■