

## The 2014 South African General Election

# A Future Uncertain

22 April 2014

*As the post-Mandela “rainbow nation” prepares to take a further step along the road of pluralistic democracy, Tim Hughes and Max Gebhardt assess the issues at stake and the implications for foreign investors in Africa’s most developed economy.*

South Africa holds its fourth democratic election on Wednesday 7th May 2014. There are few certainties in politics, but a fourth African National Congress (ANC) victory is a political certainty. Everything else about the election is less certain. The ruling party enters the election race dogged by controversy, racked by division and less confident than at any time since its unbanning in 1990. In certain respects, this suggests a normalisation of politics in South Africa, but also masks significant under-currents and shifts in the body politic, that portend even greater changes in future.

Some 25.3 million voters are registered out of a potential 31.4 million eligible to vote. Some 80 percent of new voters who registered in the final month before the campaign got started are under 30 years old. Fully 200 parties are registered with the Independent Electoral Commission, of which a record 33 will contest the May 2014 elections.

This election will be the first time that South Africa’s two million 18 and 19 year olds born after the lifting of apartheid, the so-called ‘born-frees’, will be able to vote. However, only 700,000 of these eligible voters have registered. This low registration figure is symptomatic of a broader disenchantment with, and disinterest in, party politics together with the policies and programmes offered. Whilst not yet numerically determinant, the votes of the born-frees will serve as a plebiscite on the performance of the ANC as the country’s ruling party over the past 20 years.

The low youth voter registration will likely impact the prospects of the populist Economic Freedom Fighters (EFF), given that its appeal is largely to the black youth and urban unemployed. Up to 25 percent of the South African youth polled electronically chose the firebrand EFF head, Julius Malema, as their preferred national leader.

### Victory assured, but at a price

The expenditure of some US\$24 million of public money on President Jacob Zuma’s homestead at Nkandla in KwaZulu-Natal is for some in the party, the final straw in a leadership odyssey dogged by controversy. This excess has been thoroughly investigated, and the President criticised, in a weighty report produced by the country’s constitutionally mandated Public Protector and is now the subject of an ad-hoc Parliamentary Committee of Inquiry. The excesses of state expenditure on the President’s homestead on the pretext of

legitimate security upgrades has prompted unprecedented criticism from ANC party stalwarts, such as former Finance Minister Trevor Manuel, Intelligence Minister Ronnie Kasrils, former Minister Dr Pallo Jordan and ANC elder Mavuso Msimang.

An indicator of the fissures, if not fractures, within the ruling party is the launch of a ‘Vote No’ campaign led by Mr Kasrils and the former Deputy Minister of Health Nozizwe Madlala-Routledge. The campaign urges voters dissatisfied with the current offerings of the parties, including the ANC, to spoil their ballot paper in protest. The public protest of these former leaders speaks to a deeper dissatisfaction with party politics in South Africa and a perceived absence of choice between the ANC of Jacob Zuma, the largely white Democratic Alliance and the traditionally marginal and new political parties.

If the African National Congress is grappling with internal challenges, its main alliance partner, the Congress of South African Trade Unions (COSATU), is riven to the point of existential crisis. Historically critical of the more pragmatic centrist policies of the ruling party, COSATU was a key driver in the ousting of former President Thabo Mbeki and installation of President Zuma as party and State President. COSATU Secretary General Zwelinzima Vavi, who in 2008 pledged to “shoot and kill” for President Zuma, now finds himself suspended from the federation and alienated from the senior structures of the ANC. Mr Vavi has become one of Zuma’s leading critics, along with the former leader of ANC Youth League, and now head of the EFF, Mr Malema who, while formerly also pledging his life to President Zuma, was expelled from the ANC and launched his own political party, contesting the elections essentially on an anti-Zuma, anti-ANC and radical protest platform. Mr Malema’s party seeks to nationalise the mines, transfer land ownership without compensation, provide full employment, free education and a comprehensive social welfare net provided by the state.

Mr Malema and his characteristic red beret brigade have morphed from enfant terrible of the ANC to articulator of the most trenchant critiques of ANC policy failure and corruption. Paradoxically, Mr Malema has faced corruption and money laundering charges and was recently sequestered for failure to pay taxes. Unless rehabilitated before the election he will be prohibited from serving in Parliament. In the absence of Mr Malema, it is likely that the EFF will be led by high-profile black lawyer, Dali Mpofu.

Mr Mpofu is currently the legal representative of the families of miners shot in the Marikana mine massacre. No stranger to controversy, Mr Mpofu is the former beau of Winnie Mandela

and was dismissed as the CEO of the national broadcaster, the South African Broadcasting Corporation.

### **Opposition parties**

The official opposition Democratic Alliance (DA) is expected to improve on its 2009 electoral showing of 16.7 percent and will likely breach 20 percent. This will be the first time an opposition party has achieved such a high share of the vote since the questionable 20 percent achieved by the National Party in 1994. The party will consolidate its position as the ruling party in the important Western Cape Province and will significantly improve its position in the country's economic powerhouse Gauteng. While the ANC will achieve an outright majority in Gauteng, the combined opposition vote will place further pressure on the ruling party to perform. Notably too, Gauteng is the province in which President Zuma has been openly booed by sections of the black voting population, as witnessed during the memorial service for late President Nelson Mandela in December 2013 and twice since at public events in the province. Notably, Gauteng is the country's economic and government hub; it is the home to the country's black economic elite, its upwardly mobile professionals and did not nominate President Zuma as its presidential candidate.

Yet it is not all good news or plain sailing for the DA. Its dalliance with the newly-formed Agang South Africa party, led by another stalwart of the liberation struggle, Dr Mamphela Ramphele, collapsed into a political farce and public relations nightmare as Dr Ramphele's nomination as the DA's presidential candidate was hastily withdrawn within a week of its announcement. Moreover, the DA's leader in the Cape Town City government recently announced his defection to the ANC. Despite earlier predictions of breaching 30 percent of the popular vote, the DA has recently tempered its and the electorate's expectations to a more sober and realistic 20-25 percent.

Tempering its earlier optimism for the 2014 election, the stated objective of the DA is to form part of a ruling coalition after the 2019 general elections, or to be the core of a newly-formed ruling political alliance.

A higher voter turn-out will favour the ANC and could see it achieve some 65 percent of the vote. A very high voter turn-out could even see the DA fail to achieve its minimum benchmark of 20 percent. Of the balance, the wild card is the EFF and whether it can achieve anything like the 5 percent it is forecast to receive. The Congress of the People (COPE) has been in a state of political fratricide since its formation and its share of the vote will plummet. The balance will be made up of the rump of the once powerful Inkatha Freedom Party, which is running out of steam and reason to exist. The balance will be captured by issue, principle and ethnic based voting.

### **Future leadership**

In a country that has produced four Nobel Peace Prize laureates, leadership matters. 2014 will be President Zuma's last as leader of the ANC and State President. Given that a majority of ANC voters in some polls believe President Zuma should not be party leader, the race for his successor has already begun and will intensify from May 8th. Who are the

contenders? In pole position is ANC Deputy President Cyril Ramaphosa. Once elected Deputy President and leader of government business in Parliament, Mr Ramaphosa will become de facto Prime Minister of South Africa. While Mr Ramaphosa enjoys the support and confidence of a majority of South Africans, his succession to the Presidency is not pre-ordained. A minority ethnic Venda, Mr Ramaphosa will be opposed by hard-line Zuma supporters, and will have to win over sceptics in the electorally significant KwaZulu-Natal province. Bridges will need to be rebuilt with the ANC's COSATU alliance partners and the business billionaire will need his considerable political skills to walk a tightrope between the pragmatic and populist factions of the ruling party.

Three other contenders may emerge, depending on what sort of exit deal President Zuma strikes. His legal challenges are not yet over and he can expect his opponents to use all means, fair and foul, to ensure his ouster and possible prosecution. President Zuma's two safe option successors are former KZN Premier and ANC Treasurer General, Dr Zweli Mkhize. Dr Mkhize is highly regarded by the ANC in Zuma's home province of KZN and is a safe ally for the President to promote. An even safer option is to manoeuvre the President's former wife and current African Union Commissioner, Dr Nkosazana Dlamini-Zuma, into a position of party leadership once her AU Commission term ends in 2016. The wild card in the mix is Minister of Public Enterprises, former ANC Youth League leader and KwaZulu-Natal insider, Malusi Gigaba, regarded by some as the heir apparent on merit. Yet Mr Gigaba's relative youth and inexperience will count against him.

### **Investor concerns**

The months preceding the election have been characterised by the publication and passage of a raft of policies, bills and legislation signalling a populist and dirigiste direction that, whilst it may solidify support from the ruling party's core support base, has left the business, investor and diplomatic community uncertain.

South Africa is not alone in reviewing its Bilateral Investment Treaties (BITs). The United States, India, Australia and Brazil either have, or are, in the process of reviewing a number of their BITs. Although the provisions of South Africa's existing BITs will persist for twenty years, henceforth new investors will not receive these benefits and security. The cancellation of existing BITs has been criticised both from a timing perspective and, in particular, against the backdrop of adequate compensatory domestic legislation.

One consequence is that South Africa's traditional trade and diplomatic partners, the countries of the European Union and the United States are concerned that their status is being challenged by new and emerging partners, most notably China and the other BRIC (Brazil, Russia, India) emerging economies.

The Promotion and Protection of Investment Bill (published in November 2013 for three months' comment) ostensibly seeks to provide a stable and predictable investment environment, (and one that would plug the gap left by the cancellation of the

BITs), but one that does not favour international over local investors. The rushing through Parliament of the Minerals and Petroleum Resources Development Amendment Bill, particularly with its provision for a 20 percent free carried interest for the state in new oil and gas projects, has hardened concern from international and local energy companies. A third example is the passage of the Private Security Industry Regulation Amendment Bill, which, while progressive in many of its provisions, allows for the Minister of Police to transfer 51 percent of the equity in foreign-owned security companies to South African investors. Finally, the current draft Employment Equity Regulations seek to set companies the target of employing on the basis of national demographic profiles, irrespective of the regional profile in which the company is operating.

### **The prize of victory**

The ANC is campaigning on the basis of a 'good story to tell'. Only the most mendacious will deny South Africa has made immense strides in social development, economic growth and political reconciliation over the past two decades under an ANC government, particularly against the backdrop of centuries of unjust and debilitating racial discrimination. There is indeed a very good story to tell about South Africa which is evident in its constitutionalism, its sustained economic growth over the past twenty years, improvements in housing, welfare, electrification and not least the success of South African companies in Africa and globally. Yet a raft of weighty economic and social challenges awaits President Zuma and his new cabinet. While the official unemployment figure is some 25%, the expanded definition that includes those who are no longer registered as work-seekers, is in excess of 40 percent. In rural areas, this figure is closer to 70-80% percent. The country's primary education and healthcare systems are threadbare in many areas and infrastructure is under considerable stress, including urban roads, water provision and sanitation. Moreover, the economy is hamstrung by acute constraints in energy supply with new power stations falling behind their build programme and hopelessly over budget.

The IMF has slashed the country's economic growth forecast from 2.8 percent to 2.3 percent for 2014 and from 3.2 percent to 2.7 percent for 2015. This contrasts with an expected growth rate in excess of 5 percent for sub-Saharan Africa as a whole, and is less than half the 7 percent expected growth in the Nigerian economy. Nigeria's economic re-rating of its economy has propelled it above South Africa to become the new African behemoth at some US\$510 billion.

South Africa's national debt has ballooned under the Zuma administration and will peak at some 47 percent of GDP in 2015-16. The South African currency has performed the weakest among emerging market peers in 2015, prompting an interest rate hike from the Reserve Bank.

Another base lending rate increase can be expected in 2014. The positive aspect of Rand weakness is the export opportunities it generates with the trade deficit likely to ease. Mining in South Africa is reeling from a series of unrelenting strikes, particularly in the platinum sector. The impasse between the wage demands of the Association of Mineworkers

and Construction Union (AMCU) and mining houses to reach a settlement has placed a number of mines on care and maintenance and, more worryingly, has led mining houses such as Anglo-American to seek buyers for certain of their deep mining operations.

The knock-on effect of the protracted dispute in the platinum sector is being felt beyond the mines and feeds into a burgeoning lack of confidence in the economy that will require focussed and sustained attention if it is to be reversed in the post-election period. In addition to the mining sector, the energy, construction, private healthcare, private security and telecommunications sectors have all come under close government scrutiny in recent months and are facing an uncertain, if not challenging, regulatory environment.

In this regard, the role of Deputy President Cyril Ramaphosa will be critical, as will the composition of President Zuma's cabinet in the key portfolios of Finance, Trade and Industry and Economic Development. The Secretary-General of the ANC, Mr Gwede Mantashe, announced in April the establishment of a Ministry of Small, Medium and Micro Enterprises in the post-election Zuma government. This is a notable development, as is the fact that it was announced by the ruling party's secretary-general before the election, rather than the State President.

For South Africa, the future isn't what it used to be.

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