

Is South Africa at Risk?

A Political Economy Analysis



Nicolas PONS-VIGNON

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Abstract

The President, Jacob Zuma, replaced his respected Minister of Finance, Pravin Gordhan, on the 30th March 2017. It was the second attempt in two years (this time successful) to put an official in this key position who is "acquiescent" to the president's projects. The immediate consequence of this cabinet reshuffle was the lowering of the South African debt rating to the "junk" status by Standard & Poor's and Fitch. Despite many calls to resign, President Zuma managed to stay in office, partly due to the mobilisation of disparate supporters. Nevertheless, South Africa is in a very difficult situation, both from an economic and social point of view.

In order to shed some light on the current crisis, it is necessary to revisit the marked deterioration in social relations since 1994, with an increase in "bottom up" protests, which culminated with the expulsion of the main trade union, the National Union of Metal Workers of South Africa (NUMSA), from the Congress of South African Trade Unions (COSATU) in 2015. We will demonstrate that the South African stalemate is the result of adopting neoliberal policies masked by a rhetoric claiming that growth and poverty reduction are at the heart of the government's project. However, the Republic of South Africa (RSA) cannot in any case be considered as a developmental state in the sense of the East Asian "tigers", and has experienced growth-reducing structural change (characterized by an early de-industrialization process). We will also discuss the growing inequalities since the 1990s, invalidating the idea, dear to the ANC that the country is seeking to emulate the northern European welfare state model. In a context of extremely high structural unemployment, the main source of mutual aid is private and is made up of transfers between households. The adoption of a national minimum wage of R 3,500 per month (around € 250), due to come into effect in 2018, is a positive step, albeit too late. Indeed, the consequences of weak growth and the build-up of frustration since 1994 could well plunge the country into a serious political and economic crisis.

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Introduction

The South African President, Jacob Zuma, replaced his respected Minister of Finance, Pravin Gordhan, on the 30th March 2017 without giving any real explanation. It was the second attempt in two years¹ (this time successful) to put an official in this key position who is "acquiescent" to the president's projects. Behind Malusi Gigaba's appointment to the position of Minister of Finance, the risk of "state capture", a term used by Thuli Madonsela, the former *Public Protector*, in a report which severely incriminated President Zuma and the Gupta family,² accusing the latter of appropriating the majority of government contracts,³ is in fact emerging. More specifically, the main fear was that the South African government was on the verge of purchasing (for an estimated amount of € 80 billion) nuclear power plants from the Russian group Rosatom with the greatest lack of transparency. Such a purchase has been made, in the meantime, more difficult by a decision made by the Western Cape High Court of Justice, which ruled that, an existing nuclear co-operation agreement between South Africa and Russia was illegal because it was not been submitted to parliament.

Malusi Gigaba's appointment is perceived as being intended to facilitate, among other things, this transaction whose economic consequences could be disastrous, particularly in terms of debt. While 783 corruption charges are pending against Jacob Zuma, who failed to convince the justice system to drop them,⁴ the fear of a headlong rush into state capture doubtlessly played a crucial role in the narrow defeat of his ex-wife, Nkosazana Dlamini-Zuma, against the Vice President Cyril Ramaphosa during the African National Congress' (ANC) political conference, held in Johannesburg in December 2017.

1. In 2015, the president tried to replace the highly respected Minister Nene with David Van Rooyen, a relatively unknown mayor of a small town. Faced with the outcry that this caused, including within the ANC, Van Rooyen was replaced within three days (!) by Pravin Gordhan, Nene's predecessor. South Africa's credibility has been badly affected, as well as the value of the rand, the South African national currency.

2. A family of Indian entrepreneurs, who are very close to the president, to the point that many observers are worried about their influence on the latter's decisions. The charismatic leader of the *Economic Freedom Fighters* (EFF) party, Julius Malema hence chanted "Zupta [Zuma & Gupta] must fall" during the 2016 State of the Nation Address in Parliament.

3. Public Protector South Africa (2016) *State of capture*, Report No. 6, 14 October 2016, 355 pages.

4. B. Bateman, "High Court Dismisses Zuma's Spy Tapes Appeal", *EWN*, 24 June 2016, available at: ewn.co.za.

The immediate consequence of this cabinet reshuffle was the lowering of the South African debt rating to the "junk" status by Standard & Poor's and Fitch. Despite many calls to resign, President Zuma has however managed to stay in office, partly due to the mobilization of disparate supporters, such as the u'Mkhonto we Sizwe (MK) veterans, the ANC's paramilitary branch during the anti-apartheid struggle, who have openly threatened demonstrators opposed to him.⁵

In order to shed some light on the current crisis, it is necessary to revisit the marked deterioration in social relations since 1994, with an increase in "bottom-up" protests, which culminated with the expulsion of the main trade union, the National Union of Metal Workers of South Africa (NUMSA), from the Congress of South African Trade Unions (COSATU) in 2015. The second part develops the argument that the South African stalemate is the result of adopting neoliberal policies masked by a rhetoric claiming that growth and poverty reduction are at the heart of the government's project. However, the Republic of South Africa (RSA) cannot, in any case, be considered as a developmental state, in the sense of the East Asian "tigers",⁶ and has undergone growth-reducing structural change, characterized by an early de-industrialization process. The third part discusses the growing inequalities since the 1990s, invalidating the idea dear to the ANC that the country is seeking to emulate the northern European welfare state model. In a context of extremely high structural unemployment, the main source of mutual aid is private and is made up of transfers between households. The adoption of a national minimum wage of R 3,500 per month (around € 250), due to come into effect in 2018, is a positive step albeit too late. Indeed, the consequences of weak growth and the build-up of frustration since 1994 could well plunge the country into a severe political and economic crisis.

5. The surest sign of the president's tactical victory is the change in opinion of two key members of the ANC's National Executive Committee (NEC), Gwede Mantashe and Cyril Ramaphosa. After criticising Gordhan's removal, they said they accepted it, after Jacob Zuma had explained to them that he and the ex-Minister had "irreconcilable differences of character."

6. For the developmental states in Asia, see for example A. Amsden, *Asia's Next Giant: South Korea and Late industrialization*, Oxford, Oxford University Press, 1989.

Growing political and social protest: South Africa as a "violent democracy"

South Africa is, according to Karl Von Holdt,⁷ a violent democracy. This concept sheds light on the continuing violence in democracies which have experienced violent colonial exploitation (and often anti-colonial struggles), while northern democratic theories assume that democracy institutionalizes the collective negotiation process. In South Africa, as in India or Mexico, the link between democracy, clientelist relationships and violence is a constitutive part of political life. This violence involves both subalterns (domestic violence and criminality are very prolific), relationships between subalterns and the establishment (violent strikes, police repression, etc.), as well as relations between elites, including many assassinations related to the awarding of public procurement contracts in some provinces like Mpumalanga and KwaZulu Natal. As Von Holdt points out:

When the prevailing political form – in this case, democracy – lacks sufficient capacity to maintain or regulate the existing social order, violence comes into play. When the structure and distribution of economic power are grossly unequal, democracy inevitably becomes indifferent to the plight of the poor and cannot maintain order without violence, while the clash between inclusion and exclusion generates violence among the poor. *When democracy is in conflict with the power system through which clientelist relationships are organised, violence comes into play.* [p. 148, italics added]⁸

7. K. Von Holdt, "South Africa: The Transition to Violente [*sic*: Violent] Democracy", *Review of African Political Economy*, Vol. 40, No. 138, 2013, pp. 589-604.

8. K. Von Holdt, "On Violent Democracy", *The Sociological Review*, Vol. 62, No. S2, 2014, pp. 129-151.

It is undoubtedly this last point which best explains the current crisis in South Africa. President Zuma's supporters are primarily made up of clientelist networks, which are ready for violent mobilization against the protests of state capture by various sectors of South African society. In addition, it should be recalled that the intensity and frequency of violent episodes in South Africa have increased significantly since the start of the 2000s,⁹ after the period of euphoria that followed the first democratic elections in 1994 and its promises of political, social and economic inclusion which accompanied the coming to power of the ANC. The current crisis could also derail South Africa's democratic project and the relationships between the different groups which make it up.

The honeymoon period between the ANC and the South African people was short-lived, as shown by the party's steadily declining results in elections (after losing the Cape several years ago, the ANC had to relinquish the town halls in Johannesburg and Pretoria to the Democratic Alliance [DA] in 2016) and the "rebellion of the poor."¹⁰ This term refers to the thousands of *service delivery protests* which stir up the *townships* and *informal settlements* each year.¹¹ This rebellion is a permanent reminder of South African people's frustrated aspirations concerning access to public services of quality. Despite the undeniable advances made regarding housing; the shape that this has taken (small individual houses commonly known as "RDP houses")¹² has made it more difficult to supply quality water and electricity, as each house has to be connected. The privatization of many services also shocked the public who did not pay for them under apartheid; and above all the very low quality of public health and education,¹³ which reinforces the impression of on-going economic apartheid.

9. K. Von Holdt, "South Africa: The Transition to Violente [sic: Violent] Democracy", *op. cit.*

10. P. Alexander, "Rebellion of the Poor: South Africa's Service Delivery Protests – A Preliminary Analysis", *Review of African Political Economy*, Vol. 37, No. 123, 2010, pp. 25-40.

11. See also J. Tournadre, *Après l'apartheid. La protestation sociale en Afrique du Sud*, Rennes, Presses universitaires de Rennes, 2014.

12. These houses, so-called in reference to the *Reconstruction and Development Programme* (RDP), whose construction takes less than a day, are given to the recipients and located in townships whose borders are extended with the completion of the housing programme.

13. See in particular S. Gelb, "Macroeconomic Policy and Development: From Crisis to Crisis", in B. Freund and H. Witt (eds.), *Development Dilemmas in Post-Apartheid South Africa*, Scottsville, UKZN Press, 2010.

These *service delivery protests* often revolve around micro-conflicts opposing ANC factions locally, with the issue of local elections which provide access to the control of public procurement contracts, whose award is used to allocate income to such or such group.¹⁴ However, the reality of popular frustration should not be under-estimated. Outbreaks of violence in places of residence of the black majority, often characterized by unemployment rates above 50%, are increasingly turned towards foreigners. The years 2008 and 2017 were marked by the outbreak of so-called "xenophobic"¹⁵ violence that resulted in thousands of African migrants returning to their countries after many murders, assaults and damage to property.

The origins of the dispersed *service delivery protests* which have been troubling South Africa from the 2000s stem from the more structured social movements of the 1990s, such as the *Anti-Privatization Forum* – APF. The APF failed to turn its demands into a broader political movement, partly because of hostility in the trade union movement that was firmly allied with the government.¹⁶

However, the strongest sign of a breakdown in the South African social order is in the rise in and deterioration of labor disputes, which are increasingly long and often violent, and in recent years have scarcely or never involved the established trade unions.¹⁷ In RSA, trade unions are militant but only account for less than 30% of employees in the formal sector. They only represent a majority amongst employees in a few industries such as mining,¹⁸ and their relationships with employers are appalling. Labor law has left most of the regulation of working conditions to collective bargaining, which helps to improve the situation of workers belonging to strong trade unions. The others, representing the majority of the workforce, have in the meantime been left to their fate, as it is not possible to limit growing job instability, largely due to the use of outsourcing.¹⁹

14. K. Von Holdt, "South Africa: The Transition to Violente [*sic*: Violent] Democracy", *op. cit.*

15. The term xenophobic was explicitly used so as not to talk about racist violence against African and South Asian foreigners. However, the fact that the violence has also affected South Africans in the north of the country (particularly Venda) and the frequent practice of *profiling* according to appearance (including complexion) suggests that it may also cover racism.

16. D. McKinley, *South Africa's Corporatised Liberation*, Johannesburg, Jacana, 2017.

17. See below and, for more details, see S. Hayter and N. Pons-Vignon, "Industrial Relations and Inclusive Development in South Africa: A Dream Deferred" in S. Hayter (ed.), *Industrial Relations in Emerging Economies*, London/Geneva, Edward Elgar/OIT, 2017.

18. R. Botiveau, "The Politics of Marikana and South Africa's Changing Labour Relations", *African Affairs*, Vol. 113, No. 450, 2014, pp. 128-137.

19. M. Di Paola and N. Pons-Vignon, "Labour Market Restructuring in South Africa: Low Wages, High Insecurity", *Review of African Political Economy*, Vol. 40, No. 138, 2013, pp. 628-638.

Prolonged and violent labor disputes are often the expression of protest against the abusive use of out-sourcing (seen as bargaining, rightly so in many cases, for example, forestry)²⁰ and job instability. Despite the impression of relative influence that South African Trade unions give to international observers and think tanks linked to the business world, they have been unable or unwilling to respond to the precarious employment trend, which has characterized the South African labor market since the mid-1980s. As such, many of the most important workers' mobilizations in recent years have been conducted without the support of prominent trade unions, or even in many cases, in direct opposition to them. Two cases are particularly significant. On one hand, the strikes in the mines (platinum, but also coal and gold) in 2011-2012 saw the emergence of a new trade union, the Association of Mineworkers and Construction Union (AMCU), that successfully competed with the National Union of Mineworkers (NUM), the original mining trade union (in which many governmental and Black Economic Empowerment [BEE]²¹ officials come from, including the new ANC President Cyril Ramaphosa), which was rejected by many workers because of the growing corruption affecting it and its close associations with the large mining companies.²² On the other hand, the protracted dispute which has been troubling the South African Post Office (SAPO) since 2009 was mainly led by precarious "contracted" employees, known as "Mabarete" and not organized by the postal workers' union. To get their demands recognized, the "Mabarete" disrupted mail deliveries, significantly undermining their credibility with SAPO.²³

The divorce between the trade unions and an increasing share of the South African working class is a "paradox of victory."²⁴ This paradox is characterized by the growing influence of trade union organizations in institutional governance, particularly their involvement in formulating public policies as part of the National Economic Development and Labor Council (NEDLAC), and in business (especially through pension funds) in the country, while their power in the workplace and relations between

20. N. Pons-Vignon, "Caught in the Grip of the Market: Agricultural and Forestry Workers in Post-apartheid South Africa", in C. Oya and N. Pontara (eds.), *Rural Wage Employment in Developing Countries: Theory, Evidence and Policy*, London, Routledge, 2015.

21. The BEE is a positive discrimination policy in economic affairs. Initiated by large companies in the 1980s, it was formalized in the early 2000s. The companies receive licenses depending on the percentage of their equity held by black South Africans and/or the number of black executives.

22. G. Capps, "Labour in the Time of Platinum", *Review of African Political Economy*, Vol. 42, No. 146, 2015, pp. 497-507.

23. D. Dickinson, "Contracting out of the Constitution: Labour Brokers, Post Office Casual Workers and the Failure of South Africa's Industrial Relations Framework", *Journal of Southern African Studies*, Vol. 43, No. 4, 2017, pp. 789-803.

24. S. Buhlungu, *A Paradox of Victory: COSATU and the Democratic Transformation in South Africa*, Durban, University of Kwazulu-Natal Press, 2010.

employees and employers has generally declined. So, it is only in very rare cases (like NUMSA for the automotive industry) that the unions have succeeded in countering employers' out-sourcing strategies. Even in the mining industry, still a bastion of union activism in the 1980s and 1990s, more than a third of miners work for labor brokers.

Even though such changes occurred in the workplace, it is also because of the economic policy choices made by the ANC since 1994. Fairly obvious neoliberal policies (despite speeches to address them otherwise which we will discuss below) were conducted as part of a government alliance between the ANC, the Communist Party (SACP) and COSATU. The question of the latter's support for the government has been increasingly raised in the recent years as a pressing issue, after it became clear that the "Left's" support for Jacob Zuma's alliance did not result in any substantial change in policy.

The expulsion of NUMSA, the largest trade union in Africa (more than 330,000 members) from COSATU in 2015, represents the culmination of the political tensions at work in the South African trade union movement. Since the adoption of the *Growth, Employment and Redistribution* (GEAR) program in 1996,²⁵ some unions have repeatedly realized their inability to exert any real influence on important choices made by the government despite the ANC-SACP-COSATU political alliance, and have decided to offer a political alternative representing the interests of the working class. NUMSA and other trade unions founded a new federation in April 2017, the South African Federation of Trade Unions (SAFTU), led by Zwelinzima Vavi, the charismatic Secretary General of COSATU in the 2000s, who was also excluded because of his critical views towards the ANC and the government.²⁶ The loss of support from such a significant share of the labor movement and the recent electoral setbacks are of great concern for the ANC. In a context where the latter's power is increasingly reliant upon local clientelist networks,²⁷ which depend on the access to state resources (and therefore electoral victories), leads some to fear a headlong rush into state "capture".

Besides the tensions within the government alliance, the student movement #Feesmustfall began in Cape Town in 2015 with the slogan #Rhodesmustfall, a reference to the toppled statue of the private colonizer

25. This austerity programme, replacing the RDP which had been the ANC's electoral platform in 1994, marked a significant break insofar as it embodied the ANC's neoliberal about-turn. Among the many analyses of this turn-around, we can cite: M. Gevisser, *Thabo Mbeki: The Dream Deferred*, Johannesburg, Jonathan Ball, 2007; and H. Marais, *South Africa Pushed to the Limit: The Political Economy of Change*, London, Zed Books, 2011.

26. The official rhetoric is slightly different, blaming NUMSA's exclusion on its willingness to recruit workers outside its allocated industry and that of Vavi on various breaches of conduct.

27. K. Von Holdt, "South Africa: The Transition to Violente [*sic*: Violent] Democracy", *op. cit.*

of southern Africa, and which has since been buffeting the country, contributes to the impression that protests are happening on all sides of the South African²⁸ social order. The movement's most significant victory is to have forced many universities (including Wits and UCT) to re-use—"insourcing" – employees (cleaners, gardeners, etc.) who had been outsourced in the 1990s. Although the government and universities have not, for the time being, given into the main demand for the abolition of tuition fees, the student movement has, nevertheless, changed the political approaches, by mainly imposing a racial rhetoric, embarrassing the ANC for historical reasons.²⁹ This rhetoric has reduced South Africa's problems to the centuries-old replication of white privilege and black oppression. The movement found a radical sounding-board in Julius Malema's party, the Economic Freedom Fighters (EFF), whose electoral progress has been astonishing, becoming, after the 2016 local election, the third political force in the country after the DA.

Similarly, to the strikes discussed above, the South African student movement is characterized by a weak organizational structure and by frequent violence related as much to the anger which drives it, as to the repression (police and private) which has opposed it. The widespread, but very real, frustration it embodies makes negotiation impossible for the time being, and the proposals made by the government generally immediately rejected. It seems unlikely that the government will be able to meet the expectations of a better life for black South Africans, partly because of the South African economy's poor performance, but also because of the neoliberal *path dependency* which it has been keen to hide, but whose the reality is at the heart of current frustrations.

28. R Hodes, "Questioning 'Fees Must Fall'", *African Affairs*, Vol. 116, No. 462, 2016, pp. 140-150.

29. During the apartheid years, the clandestine resistance movement tore itself apart on the issue of "non-racialism", that is to say its openness to all racial groups (and therefore a "non-racial" vision of the South African nation). This approach was anathema to the Pan Africanist Congress (PAC), which considered that whites were not Africans but oppressors, while it was a key element in the alliance between the ANC and the South African Communist Party (SACP - whose support guaranteed the support of the USSR for the ANC and many of whose members were white). A part of the contemporary student movement also has a racial view of the South African nation, which excludes whites, and in some cases, Indians or even *Coloureds*.

South African neoliberalism...

The current South African stalemate is as much the result of frustrated expectations, as of economic choices which makes the country one case among many others that has adopted neoliberalism as the dominant framework for public policies, tailoring it to its context. Such approach to South African liberalism succeeded in giving the impression that attempts aimed at solving the country's socio-economic problems were made, while imposing a framework on public policies, particularly on the budgetary, too tight to achieve them.³⁰ This partly explains the importance of the rhetoric in South African political debates, whose force should not hide the frequent emptiness. As demonstrated by the Vice President's recent statements, the radical economic transformation demanded by a fringe of the population who is questioning the timid nature of the ANC's policies (see footnote 72 below), is nothing but an accelerated phase to implement the government's existing policies, while stating that the country "must respect the current budgetary framework."³¹

Compromises made at the end of the apartheid regime, such as the liberalization of capital flows and extensive guarantees of existing property rights (that is to say those of the whites)³² are often presented as the condition for the "South African miracle", which saw a transition that admittedly was not entirely peaceful, but that also was not accompanied by a civil war. A more cynical view, but one which appears increasingly relevant given the challenges that the country cannot overcome, is to compare the strategy of the South African elites with that of the Chilean elites in the 1990s, by repeating the economist, Gabriel Palma's analysis:

30. A. Segatti and N. Pons-Vignon, "Stuck in Stabilisation? South Africa's Post-Apartheid Macroeconomic Policy between Ideological Conversion and Technocratic Capture", *Review of African Political Economy*, Vol. 40, No. 138, 2013, pp. 537-555.

31. C. Ramaphosa, "Unpacking Radical Economic Transformation", *Daily Maverick*, 20 June 2017.

32. This mainly concerns land ownership, as explained critically by Lungisile Ntsebeza in: "Land Redistribution in South Africa: The Property Clause Revisited", in L. Ntsebeza and R. Hall (eds.) *Land Redistribution in South Africa: The Challenge of Transformation and Redistribution*, Cape Town, HSRC Press, 2007, pp. 107-131. So, despite the appearance of "nationalisation" of mining rights, their reform has in fact served the interests of the large conglomerates, as Gavin Capps has shown in: "A Bourgeois Reform with Social Justice? The Contradictions of the Minerals Development Bill and Black Economic Empowerment in the South African Platinum Mining Industry", *Review of African Political Economy*, Vol. 39, No. 132, 2012, pp. 315-333.

The fundamental dilemma of any oligarchy which wants to maintain such levels of inequality (or even increase them) is to set a winning strategy that is sustainable in a democratic context – since the oligarchy represents such a tiny minority and the redistribution level that it is seeking is so grossly unequal...The "Strategy 3" was to try to stabilise the distribution of income at a level which allowed the elite to maintain most of the gains made during the dictatorship. Although it was a political minority, it succeeded... During this period, the capitalist elite managed to build a hegemonic consensus about the supposed benefits of "market" policies. The question is why a centre-left coalition, with an overwhelming majority support, has done so little in terms of redistribution. In other words, why was the "Strategy 3" so effective for an oligarchy within a democracy, even though it represented a political minority?³³

The ANC's official narrative on its vision for the country's future is as consistent as its implementation is often bewildering with contradictions. As Dave Kaplan³⁴ observed, the government has published three economic policy framework documents, an analysis and recommendations of which are contradictory: the *National Development Plan* (NDP, 2012), the *New Growth Path* (NGP, 2010) and the *Industrial Policy Action Plan* (IPAP, published every two years since 2007). This paradox can undoubtedly be explained by the wide disparity between the stated and the actual priorities. At the turn of the 1990s, the ANC's and SACP's approach to their exercise of power was inspired by the (Soviet) idea of "national democratic revolution" (NDR). The parties were first going to take power through elections, consolidate it as part of a liberal democracy, and then implement a socialist revolution which would help to achieve the black majority's socio-economic aspirations (particularly equality with whites).

It is the promise of this forthcoming "second phase" that forms the basis of the legitimization of compromises, which was made since the 1990s by the government with what is now called the *white monopoly capital*. Despite the bloody crackdown at Marikana in 2012 and the ranting of many "communists" in the government targeting the striking miners, the SACP continues to claim that it is preparing for the revolution³⁵. Although the other side of the government's rhetoric is more consensual, it is hardly more

33. G. Palma, "Homogeneous Middles vs. Heterogeneous Tails, and the End of the 'Inverted-U': It's All about the Share of the Rich", *Development and Change*, Vol. 42, No. 1, 2011, pp. 87-153. Cited by N. Pons-Vignon and A. Segatti, "The Art of Neoliberalism': Accumulation, Institutional Change and Social Order since the End of Apartheid", *Review of African Political Economy*, Vol. 40, No. 138, 2013, pp. 507-518.

34. D. Kaplan, *Policy Gridlock? Comparing the Proposals Made in Three Economic Policy Documents*, CDE Focus, Johannesburg, Centre for Development and Enterprise, 2013.

35. SACP Central Committee, "Taking Responsibility for the Revolution", *African Communist*, No. 190, 2015, pp. 33-46.

credible: it is the constantly repeated assertion, particularly in the evocatively titled book (*Season of Hope*) by Alan Hirsch,³⁶ a former advisor to Presidents Nelson Mandela and Thabo Mbeki, that the ANC bases its policy on three pillars:

- ▀ A developmental state inspired by eastern Asia;
- ▀ A welfare state inspired by northern Europe;
- ▀ Everything implemented in the context of orthodox macroeconomic parameters.

Segatti and Pons-Vignon³⁷ have demonstrated that in governmental practice only the third pillar was implemented and that South African macroeconomic policies have experienced a marked shift towards orthodoxy since the late 1970s. There is a troubling, but real continuity, between the pre-and post-1994 economic policies, despite the quickly closed interlude (1994 to 1996) of the Keynesian *Reconstruction and Development Programme* (RDP). The most substantial proof of this continuity is that the macroeconomic model used to formulate the ANC's most explicit neoliberal policy, the 1996 *Growth, Employment and Redistribution* (GEAR) program, is the same as the one developed by economists at the Afrikaner Stellenbosch University in the early 1990s, which represented the apartheid government's transition proposals, the *Normative Economic Model* (NEM).³⁸

Although debates about what constitutes neoliberalism go beyond the scope of this paper, South Africa brings together several essential characteristics of neoliberal regimes:³⁹ an extreme financialization of the economy; an increase in equality and particularly the share of total income of the richest 1% (see Graph No. 1 below) and a steady decline (and counter-intuitive, given the political role of the trade union federation- COSATU,) in the share of wages in the added value;⁴⁰ and of course a trend towards liberalization and privatization or at least the commercialization⁴¹ of state-owned enterprises. The finance industry's share has also steadily increased since the start of the financialisation of the large conglomerates in the

36. A. Hirsch, *Season of Hope: Economic Reform under Mandela and Mbeki*, Scottsville, UKZN Press, 2005.

37. N. Pons-Vignon and A. Segatti, "The Art of Neoliberalism: Accumulation, Institutional Change and Social Order since the End of Apartheid", *op.cit.*

38. B. Turok, *From the Freedom Charter to Polokwane: The Evolution of ANC Economic Policy*, Cape Town, New Agenda, 2008.

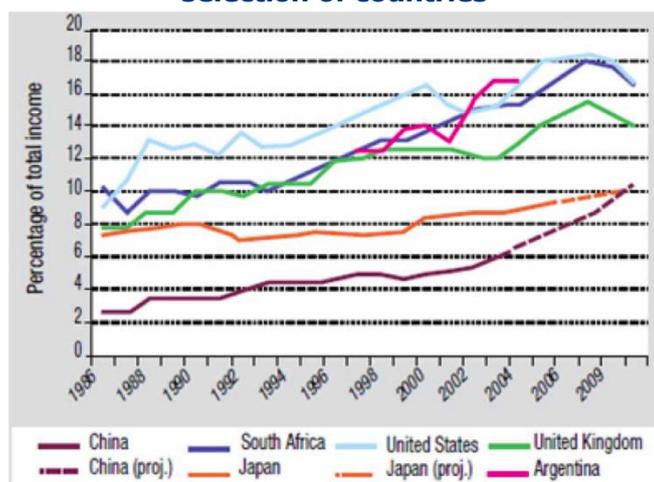
39. D. Harvey, *A Brief History of Neoliberalism*, Oxford, Oxford University Press, 2005; A. Saad-Filho, "Crisis in Neoliberalism or Crisis of Neoliberalism?", *Socialist Register*, No. 47, 2011, pp. 242-259.

40. P. Burger, "Wages, Productivity and Labour's Declining Income Share in Post-Apartheid South Africa", *South African Journal of Economics*, Vol. 83, No. 2, 2015, pp. 159-173.

41. This term is used in South Africa to designate management "for profit" of state-owned enterprises like Eskom (electricity).

1980s,⁴² amounting to 23 % of GDP. The role of finance has also become essential for many industries, such as agriculture, whose product prices are set by the financial markets, but also for housing and water, with significant consequences for access to the majority to these essential goods.⁴³

Graph 1 – Share of total income of the richest 1%, selection of countries



Source: "Breaking the Cycle of Exclusion and Crisis", Policy Brief No. 5, UNCTAD, 2012".

As in all other countries that have liberalized the movement of capital flows, the justification of this measure was that such policies would facilitate the massive inflow of foreign direct investments, by sending positive signals to the markets, which would drive growth. The challenge for South Africa was also to politically break the growing (but never complete) isolation of the apartheid regime vis-à-vis the international community since the 1960s. Unfortunately, South Africa has not experienced a boom in foreign investment; it has, on the contrary, experienced capital outflow, the conditions of which were gradually legalized, and whose amount was estimated at 21% of GDP in 2007 alone.⁴⁴ The net result of these trends is a chronic current account deficit, which amounted to R 176 billion in late 2016 – one might add a strange macroeconomic stabilization.

42. N. Chabane, A. Goldstein and S. Roberts, "The Changing Face and Strategies of Big Business in South Africa: More than a Decade of Political Democracy", *Industrial and Corporate Change*, Vol. 15, No. 3, 2006, pp. 549-577.

43. G. Isaacs and K. Bayliss, "A Series of Case Study Reports with and Analysis of the Systems of Provision (SOP): South African Housing and Water", *FESSUD Working paper*, Johannesburg, CSID, 2015.

44. S. Ashman, B. Fine and S. Newman, "Amnesty International? The Nature, Scale and Impact of Capital Flight from South Africa", *Journal of Southern African Studies*, Vol. 37, No. 1, 2011, pp. 7-25.

The adoption of neoliberal policies in the context of the 1990s has been extensively discussed;⁴⁵ but the continuation of such policies beyond the stabilization of deficits in the early 2000s and despite their disappointing results in terms of employment, growth and redistribution is even more surprising. Yet, South African neoliberalism was, indeed, consolidated and reinforced in the years following the transition from the apartheid regime.⁴⁶ While the entire state apparatus was affected by the replacement of white civil servants, often Afrikaners, with black South Africans, the restructuring of the state's way of working followed New Public Management (NPM) principles, notably implemented by Margaret Thatcher as part of the reform of the British National Health Service (NHS) in the 1980s.

The attractiveness of NPM was due to several factors. Firstly, its English origin and its aura of "modernization" appealed to South Africans, eager to break with the old Afrikaner apartheid bureaucracy. But more than that, by promising to replace administrative procedures that are lengthy to set up and are perceived as ineffective, regarding performance management based on individual objectives, NPM has helped to hide the trade-offs that occurred during the (politically necessary) replacement of many white civil servants by black civil servants as most of them had no experience in administration since public sector employment was forbidden to them beforehand. By emphasizing the need to look for expertise where it was, i.e. in the private sector, NPM also helped to justify the dismissal of white engineers working for the Ministry of Public Works, many of whom continued to work for the government via consultancy contracts at a much higher cost – a widespread phenomenon in South Africa.⁴⁷ All of the archiving roles were either neglected or completely abandoned leading to dramatic consequences for the (non-)continuity of government action.⁴⁸

While the state's capacity was reduced in most government ministries and agencies by these reforms, a sort of super-Ministry of Finances (National Treasury) was formed that was largely protected from the negative consequences of this restructuring. In fact, this new ministry would become an instrument of micro-control for public policies, mainly through budgetary control of its peers. In the absence of a prime minister, the coordination of public policies in South Africa falls *de facto* under the

45. See for example B. Freund, "Swimming against the Tide: The Macro-Economic Research Group in the South African Transition 1991–1994", *Review of African Political Economy*, Vol. 40, No. 138, 2013, pp. 519–536.

46. D. McKinley, *South Africa's Corporatised Liberation*, *op. cit.*

47. R. Brunette, *The Contract State: Outsourcing and Decentralisation in Contemporary South Africa*, Johannesburg, Public Affairs Research Institute (PARI), 2014.

48. I. Chipkin and B. Lipietz, *Transforming South Africa's Racial Bureaucracy: New Public Management and Public Sector Reform in Contemporary South Africa*, Long Essays No. 1, Johannesburg, Public Affairs Research Institute (PARI), 2012.

National Treasury.⁴⁹ Therefore, despite the macroeconomic stabilization in the early 2000s, this ministry continued to advocate (and force others to follow) a budgetary "discipline" which has prevented any meaningful attempt at creating a South African developmental or welfare state.

49. It is therefore significant that one of the measures which accompanied the adoption of GEAR in 1996 was the abolition of the RDP implementation office, which was then led by the respected ex-trade unionist, Jay Naidoo.

...And its approach: neither a developmental state, nor a welfare state

In order to understand the success of neoliberalism in South Africa, one would be futile to look for extraordinary or even satisfactory, economic or social results. The South African state cannot, in any case, be considered as either a developmental state or a welfare state. However, the digressive efforts used to support this political communication are not specifically South African. They highlight what Palma⁵⁰ calls "the approach" of neoliberalism, or Fine⁵¹ a "second phase". "The approach" has been characterized by reforms carried out in a messianic tone (the "good" policies helping countries adopting them to get back onto the path of growth). Since the 1990s, these reforms have been subject to much criticism and fierce resistance, particularly in former Soviet and Latin American countries that are typically weakened by these reforms. (Civil servants, trade unions, national entrepreneurs who are victims of liberalization, etc.).⁵² Strategies implemented by neoliberalism were then made more presentable based on the dogma of efficiency, in order to promote a better and more equal society, while the share of total income of the wealthiest 1% continued to increase (see Graph 1 *above*). This second phase, in Fine's sense, was characterized by the adoption of the macroeconomic dogmas which are considered as the heart of neoliberalism by traditionally left-wing parties, whether it is Labor in the United Kingdom, the Social Democrat Party (SPD) in Germany, or the ANC in South Africa.

To our knowledge, there is only one researcher⁵³ who has described South Africa as a developmental state "under construction"; however the government has extensively used this term since the early 2000s.

50. G. Palma, "Homogeneous Middles vs. Heterogeneous Tails, and the End of the 'Inverted-U': It's All about the Share of the Rich", *op. cit.*

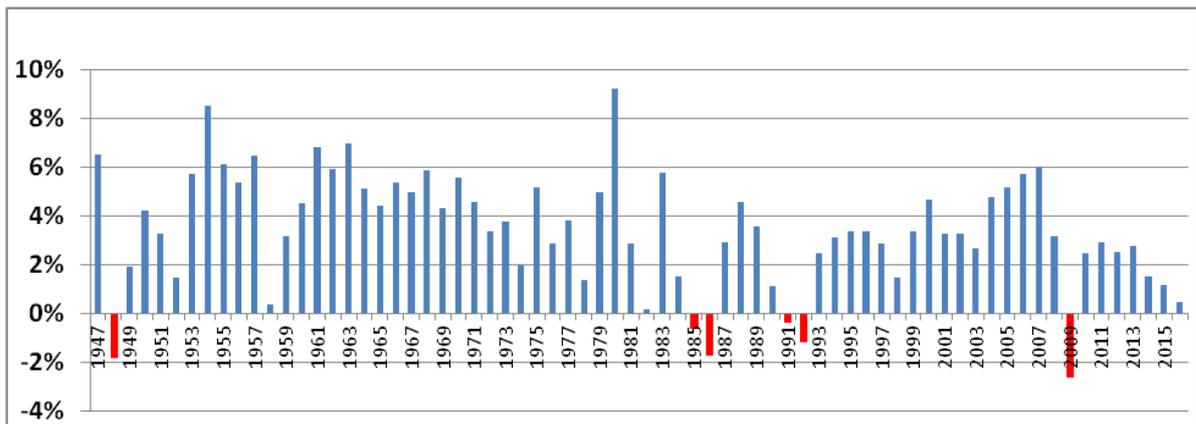
51. B. Fine, "Neo-Liberalism in Retrospect? It's Financialisation, Stupid" in S. Chang, B. Fine and L. Weiss (eds.), *Developmental Politics in Transition: The Neoliberal Era and Beyond*, London, Palgrave MacMillan, 2012, pp. 51-69.

52. I. Grabel, "The Political Economy of 'Policy Credibility': The New Classical Macroeconomics and the Remaking of Emerging Economies", *Cambridge Journal of Economics*, No. 24, 2000, pp. 1-19.

53. V. Gumede, "Public Policy Making in a Post-Apartheid South Africa: A Preliminary Perspective", *Africanus*, Vol. 38, No. 2, 2008, pp. 7-23.

Nonetheless, for four main reasons discussed below, such a characterization cannot be applied to the country.

**Graph 2 – GDP growth rate (%), 1947-2016,
constant prices [2010]**

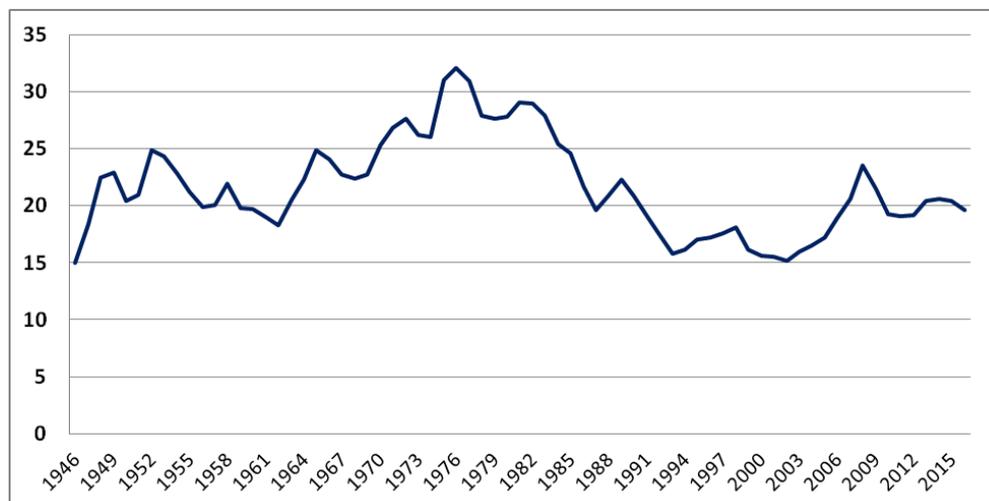


Source: South African Reserve Bank [SARB].

- As shown in Graph 2,⁵⁴ the South African *growth rate* has been low since the late 1960s. There was certainly a period in the early 2000s, during which growth fluctuated between 4 and 5%, but it was short-lived and mainly reflected the increase in credit consumption by the middle classes.⁵⁵

54. Bill Freund further develops the provocative, but empirically convincing hypothesis, that South Africa came closest to the model of a developmental state in the 1940s-1960s. In so doing, it does not of course fall into the error of seeing a vector of social and political modernisation in the developmental state. See B. Freund, "A Ghost from the Past: The South African Developmental State of the 1940s", *Transformation*, No. 81/82, 2013, pp. 86-114.

55. S. Mohamed, "The State of the South African Economy" in J. Daniel, P. Naidoo, D. Pillay and R. Southall (eds.), *New South African Review 1, Development or Decline?*, Johannesburg, Wits University Press, 2010, pp. 39-64.

Graph 3 – Gross fixed capital formation/GDP (%), 1946-2015

- Despite the promises of foreign direct investment (FDI) inflows following the country's liberalization, their amount has been insignificant since 1994. Worse, the most significant macroeconomic data for growth, *the investment rate to GDP*, has remained low, fluctuating between 15 and 20% since 1994 with a peak at 23% in 2009, the year of the post-crisis recovery plan. Such a level of investment is barely sufficient to sustain the long-term growth rate, and certainly not enough to meet the country's domestic catch-up challenges. It is also below the investment levels of other medium-income countries.
- The industrial policy*, which is the cornerstone of developmental states, is very weak in South Africa. Except for the automotive industry, there was no industrial policy framework before 2007. However, whether it is in this industry or others, it seems that the implementation of policies is extremely lacking, particularly regarding the condition for success of industrial policies: reciprocity.⁵⁶ In other words, companies receiving support from the South African state do not generally fulfill the promises (local purchase, investment in new technologies, job creation, etc.) that have helped them obtain these subsidies.
- Therefore, it is not surprising that since the 1980s, South Africa has been experiencing a marked process of *early de-industrialization*.⁵⁷ Put another way; the country has undergone growth-reducing structural change, with a significant increase in the share of very low-cost services

56. See in particular A. Amsden, *The Rise of the Rest: Challenges to the West from Late-Industrializing Countries*, Oxford, Oxford University Press, 2001.

57. F. Tregenna, "Manufacturing Productivity, Deindustrialization, and Reindustrialization", *Working Paper*, No. 57, Helsinki, UNU-WIDER, 2011.

(personal services, private security, etc.) like many Latin American countries in the 1980s-1990s.⁵⁸

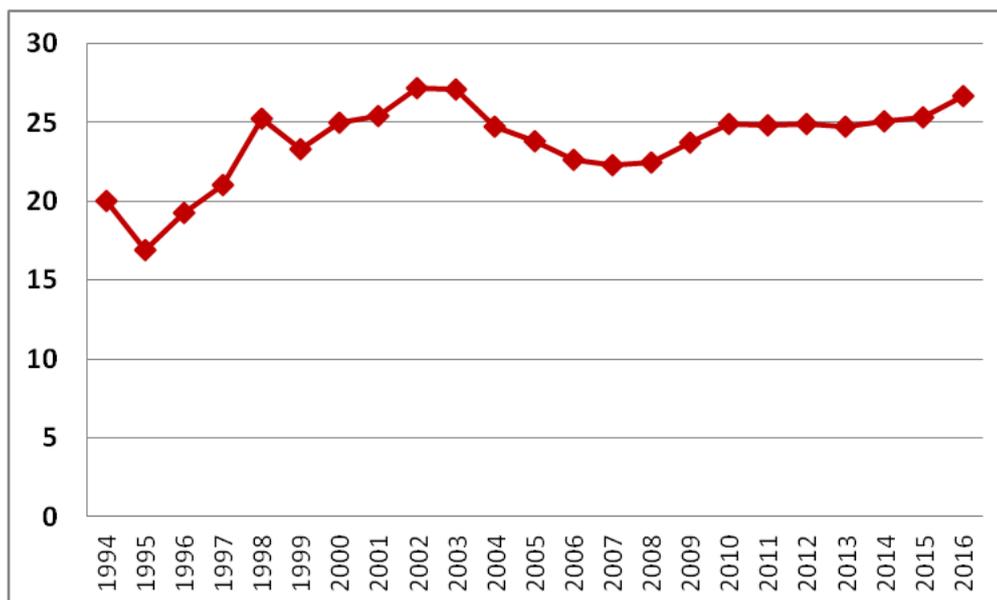
But how, under such conditions can the government claim to be inspired by the East Asian Tigers? To begin with, the government has distorted the concept of the developmental state, particularly by drawing on the World Bank's attempts to present the 1990s Asian miracle, as the reflection of an economic policy that strictly mirrored the comparative advantages of the countries in question and the market incentives.⁵⁹ So, the ANC presented its trade liberalization policies (particularly in the automotive industry) as "Korean-style" export support policies. Fairly ironically *with hindsight*, the argument which justified this approach was to limit the power of the large (white) conglomerates by imposing increased and supposedly healthy competition on them. In reality, it was these conglomerates (and the German car manufacturers) that benefited the most from liberalization, and were, thus, able to internationalize their assets.

Perhaps, even more, striking, the rise in inequality since the 1990s invalidates the idea that South Africa has emulated the northern European welfare state model. Again, four main reasons make it possible to contradict such *wishful thinking*:

- In terms of *inequality*, South Africa has both the highest Gini coefficient in the world (inequality measured by income) and an impressive level of inequality measured by assets; the richest 10 % own 90 % of these.

58. G. Palma, "Four Sources of 'De-Industrialisation and a New Concept of the 'Dutch Disease'", in J. A. Ocampo (dir.), *Beyond Reforms: Structural Dynamics and Macroeconomic Vulnerability*, Redwood City, Stanford University Press, 2005, pp. 71-116.

59. *The East Asian Miracle: Economic Growth and Public Policy*, A World Bank Policy Research Report, Oxford, Oxford University Press, 1993.

Graph 4 – Official unemployment rate (%), 1994-2016

Source: SARB.

- The official South African unemployment rate has been around 25% since the late 1990s, while the labor force participation rate is very low (56.8% in 2014). Adding to this table is the fact that the "true" unemployment rate is the one (around 10 points higher) that includes unemployed people who are not actively seeking work, as the cost of this search is often prohibitive.⁶⁰ Furthermore, income opportunities related to the informal economy are very limited for historical reasons. While farming has disappeared, even in the most deprived areas of the country, small-scale agriculture only accounts for a tiny fraction of household income.⁶¹

60. D. Posel, D. Casale and C. Vermaak, "The Unemployed in South Africa: Why Are so Many not Counted?", Econ3x3.org, 2013, available at: www.econ3x3.org [accessed on 20 July 2017].

61. K. Palmer and J. Sender, "Prospects for On-Farm Self-Employment and Poverty Reduction: An Analysis of the South African Income and Expenditure Survey 2000", *Journal of Contemporary African Studies*, Vol. 24, No. 3, 2006, pp. 347-376.

Table 1– In 2015, the proportion of employees earning above and below the "working poverty"⁶² line in different industries (in %)

Industry	> line	< line	
Agriculture	10.40	89.60	100
Mining	77.06	22.94	100
Manufacturing	50.75	49.25	100
Services (water, etc.)	68.87	31.13	100
Construction	36.86	63.14	100
Trade	39.77	60.23	100
Transport	52.46	47.54	100
Finance	52.65	47.35	100
Services	61.19	38.81	100
Household services	4.82	95.18	100

Source: Finn 2015⁶³.

62. Estimated at R 4,125/month for 2015 by Finn, which is based on the poverty line calculated by Josh Budlender in: J. Budlender, M. Leibbrandt and I. Woolard, "South African Poverty Lines: A Review and Two New Money-Metric Thresholds", *Unit Working Paper Series*, No. 151, Southern Africa Labour and Development Research (SALDRU), Cape Town, University of Cape Town, 2015. The purpose of the *working poor line* is to answer this question: "What level of salary would be needed on average to bring a household living below the poverty line and containing at least one employee, up to the level of the poverty line?"

63. A. Finn, "A National Minimum Wage in the Context of the South African Labour Market", *Working Paper*, No. 1, National Minimum Wage Research Initiative, Johannesburg, University of the Witwatersrand, 2015.

- Such a low employment rate is, of course, in favor of employers. Since the late 1980s, job instability has significantly impacted South African workers, replicating (to the great disappointment of many) the poor workers' phenomenon, which was a characteristic of the apartheid regime. As Table 1 shows, in 2015, 57% of employees were earning below the *working poverty* line calculated by Finn. In other words, they did not earn enough to lift their family above the poverty line.⁶⁴
- The public services which most South Africans (overwhelmingly black) have access to are of (very) poor quality, not only regarding the health and education services, but also the housing and transport. The market model being paramount, it is always possible to have access to decent services, but this has a cost. The country's mass unemployment climate has encouraged the emergence of a rapacious pawn-broking and "micro-credit" industry.⁶⁵ The most striking example of the poor social performance of post-apartheid South Africa is that the maternal mortality rate increased between 1990 and 2008 – an almost unique phenomenon worldwide, which is partly reflected by the excess mortality of mothers with HIV-Aids.⁶⁶

To justify the reference to northern Europe, the measures most often quoted are the construction of government "RDP" houses and especially the gradual – and accelerated extension from 2002 – of the social cash transfer programs like child, disability or old-age benefits (means-tested). Although these programs (whose establishment dates back to the end of the apartheid period) have undoubtedly helped many very vulnerable people and reduced the incidence of absolute poverty,⁶⁷ they have no "transformative" impact, i.e. they mainly play a palliative role. In that respect, and through their limited extent (since these benefits are not accessible to adults in good health and without children, many of whom still do not have their own income), these programs are contradictory to the principles of the northern European welfare state. They are more consistent with the new wave of social policies promoted by the World Bank, whose concern is to focus on the poorest.⁶⁸

64. For the critical importance of family transfers (mainly coming from employed members) in the survival of many South Africans, see B. Scully, *Development in the Age of Wagelessness: Labor, Livelihoods, and the Decline of Work in South Africa*, doctoral thesis, Baltimore, Johns Hopkins University, 2014.

65. See in particular D. James, *Money from Nothing: Indebtedness and Aspiration in South Africa*, Johannesburg, Wits University Press, 2014.

66. *The Millennium Development Goals Report*, New York, United Nations, 2011.

67. S. van der Berg, K. Siebrits and B. Lekezwa, "Efficiency and Equity Effects of Social Grants in South Africa", *Working Papers*, No. 15, Stellenbosch, Stellenbosch University, 2010.

68. L. Lavinias, "21st Century Welfare", *New Left Review*, No. 84, 2013, pp. 5-40; T. Mkandawire, "How the New Poverty Agenda Neglected Social and Employment Policies in Africa", *Journal of Human Development and Capabilities*, Vol. 11, No. 1, 2010.

In this context, the recent adoption of a national minimum wage of R 3,500 per month (around € 250), due to come into effect in 2018 is a positive step, albeit perhaps too late. Indeed, the consequences of low growth and the build-up of frustration since 1994 could well threaten South African political stability.

Conclusion: Is an implosion possible?

While South Africa has been praised by (almost)⁶⁹ all the observers for its successful transition and its liberal and non-racial democracy, a radicalization of racial tensions (which have never disappeared) is becoming a real possibility. This, in fact, is the rhetoric. A mixture of Marxism and African nationalism (that is to say excluding whites from the vision of the nation), held by Chris Malikané, Advisor to the new Minister of Finance and champion of the radical economic transformation, asserts that the transformation will be painful and will involve the marginalization of whites in the economy,⁷⁰ which implies that they will have to leave if they do not agree. Many have already done so of course;⁷¹ but until now the consensus was that their departure was a loss of skills for the health and engineering industries, for example. Furthermore, this approach would leave the nation to the Africans, excluding, in the medium term, the whites, the Indians and the people of mixed racial descent. As such, this would also be in direct contradiction with the ANC's vision dating back to the 1980s-1990s and embodied by Mandela, which puts "non-racialism" at the heart of the South African national project. It was to impose this approach that the ANC marginalized several trends of the anti-apartheid struggle, notably the *black consciousness* movement, which is now returning in the student movement's rhetoric, and therefore within the ANC.

Although there is no doubt that the ANC will grasp any rhetoric that allows it to stay in power – and the emerging one could prove to be decisive from the point of view of keeping the black middle-class vote –, it is unlikely that we will witness a massive exodus of whites who live in the country, such as for Algeria in 1962. However, the fact that this possibility is being openly discussed is significant and reflects, no doubt, the difficulty a part of the white population has in recognizing that they enjoy a privileged position

69. For a critical – and very relevant perspective in light of current events – of the Truth and Reconciliation Commission, see M. Mamdani, "Beyond Nuremberg: The Historical Significance of the Post-Apartheid Transition in South Africa", MISTRA Annual Lecture, Johannesburg, 18 March 2013, available at: www.mistra.org.za.

70. C. Malikané, "Concerning the Current Situation", 7 April 2017, available at: blackopinion.co.za.

71. Hundreds of thousands of white South Africans have emigrated to the United Kingdom, North America, Australia and New Zealand since the late 1980s.

because of the past racist policies.⁷² The obstacles to reasoned racial transformation, such as non-compliance with or circumvention of positive discrimination policies,⁷³ and especially the failure of the ANC's neoliberal policies, which have not significantly reduced inequality, have created a fertile ground for more radical solutions.

The question for the future is what balance will be found between the kleptocratic tendencies of President Zuma's allies, Ramaphosa's and the ANC⁷⁴ neoliberals' aspirations for a slightly more "transformed" (in the racial sense) market democracy than it is now, and the South African youth's increasingly pressing claims for a better life "here and now". It seems evident that the degree of compromise which characterized the transition of the 1990s will not be found again. However, although everybody acknowledges the need for more substantial concessions, it remains to be seen what could be offered. The predation of state-owned enterprises criticized by the *Public Protector* and the low growth leaves few options to finance redistributive policies.

Furthermore, although the South African oligarchic alliance between big white business and black political power has allowed shareholding agreements to be concluded, it has particularly facilitated a massive capital outflow (mainly owned by whites) from the country since the early 1990s.⁷⁵ In other words, while some slices of the cake are still to be taken, it seems that a large section is no longer under South African control. For example, almost half of the companies' capital on the Johannesburg Stock Exchange is under foreign control.⁷⁶ More importantly, the capital outflows, which continue mainly in the form of dividends paid to non-residents that help widen the current account deficit, show that South Africa is experiencing a real draining of capital while investment remains at a persistently low level. This is the irony of the peaceful transition of 1994: the conditions which

72. These "difficulties" were already regretted in the first pages of the historical reference work by S. Terreblanche, *A History of Inequality in South Africa 1652-2002*, Scottsville/Sandton, University of Natal Press/KMM Review, 2002.

73. We can quote, as an example, the conversion of much agricultural land into so-called "conservation" land, most often for animal safaris; researchers have shown that reducing the number of black employees, but also limiting their right of access to the land, were important reasons for these conversions. See N. Andrew, "'Wildlife-Based Tourism and Land Concentration: What Social 'Cost' for Farm Dwellers of Large, Upscale Private Game Reserves in the Eastern Cape?'" , article presented at the conference on "Old Land New Practices: The Changing Face of Land and Conservation in Postcolonial Africa", Grahamstown, Rhodes University, 2012.

74. Cyril Ramaphosa and neoliberals in the ANC want to maintain the *status quo* by making concessions like the minimum wage, and above all by accelerating the Africanisation of the ownership structures of South African business, thus responding to demands to make change "visible".

75. S. Ashman, B. Fine and S. Newman, "Amnesty International? The Nature, Scale and Impact of Capital Flight from South Africa", *op. cit.*

76. Alec Hogg (2015), "Foreign shareholders now control almost half the JSE's Top 40 companies", *fin24*, 3 December, www.fin24.com

made it possible – particularly, the adoption of neoliberal policies protecting the interests of the white economic oligarchy (guarantee of property rights, freedom of movement of capital) – have made it more challenging to reduce inequality and stimulate growth, conditions which are, however, necessary to establish lasting peace.



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