

FOCUS

South Africa



The Final Year of Mbeki's Government

Onward as usual, or "business unusual?"

This year's State of the Nation Address by South African President, Thabo Mbeki, was presented under the title "Business as unusual." The head of state announced his intentions to follow new avenues in order to bring the project of his government to its conclusion in the last year of his term of office. On the agenda President Mbeki noted the fight against poverty and crime, the alleviation of unemployment and social inequality as well as the acute energy crisis. For this purpose, even unusual or unconventional methods have to be considered in what the President refers to as "Business as unusual" in the probably most important speech of the year. The fact that the South African government will not change its programme completely, but attach it to the existing politics of stability, was demonstrated in the speech delivered by the Minister of Finance, Trevor Manuel, who recently submitted the new national budget. The budget indicates an increase in social expenditures and stronger subsidy of the national energy company, Eskom, in light of the current energy crisis in South Africa. It will also remain, however, focused on financial and political austerity, the fight against inflation and the generation of a budget surplus. The Mbeki government began its last year, because presidential elections are scheduled for 2009, and because a new, more leftist National Executive Committee has established itself within the ruling party, the African National Congress (ANC), around the figure of Jacob Zuma. In all probability, Jacob Zuma will assume the highest seat in public office next year.

Light out, headlights on.

While power failures plague several areas in South Africa and the national energy concern Eskom, had communicated to the population as well as to the business community the need to make do with only 90 per cent of the past power consumption, President Mbeki and his Minister of Finance, Trevor Manuel, showed demonstrative calmness in announcing the most significant adaptations to the policy of their government for 2008. Their speeches reflected the state of the nation, the financial budget as well as the acute energy crisis plaguing the developing country. After more than ten years of continuous economic growth and a more comprehensive supply of electricity to extensive regions in the country since the end of the Apartheid era, Eskom is no longer able to provide sufficient power. Though the capacity-related problems have been obvious for a while, they have only been acted on now. The crisis is therefore in full swing. Entire sectors of the metropolises must be removed from the network and extensive areas of Johannesburg are left in the dark. Lamps, electrical garage gates, alarm installations and televisions of the private households remain switched off, as do machines, elevators and telephones of enterprises.

Even worse: South African mines had to stop production completely for one week at the end of January 2008 because of the energy crisis, and have since then not been able to continue production in their entirety. By extension then, the energy crisis poses a damage threat of between one and three per cent of the gross domestic product (GDP). It is clear that more power stations and a modernised supply of electricity are missing. „The era, in which we had an abundance of affordable energy is in the past,” said the President. Due to the “load shedding” the entire system has become susceptible to disturbances. Only by immediately curbing the demand can we prevent further unexpected losses, according to Mbeki, who promised and stressed the importance of more energy efficiency, new subsidies for the power supplier Eskom, the search for alternative energy sources and new partnerships. He called on the population to save power: “We are all encouraged to unite our energies, and negotiate together, in order to bring our country back on track.”

Minister of Finance, Trevor Manuel became substantially more concrete with regard to this topic. He plans to support the national electricity enterprise Eskom with an additional R60 billion (ZAR) within the next five years, in what he refers to as a long-term investment. The first R20 million are to be made available from government reserves by April.

Additionally, consumers can expect a new electricity tax. This will see an increase of two cent per kilowatt-hour on non-renewable energy and 11 cent on each liter of gasoline and diesel starting in April. South Africans should compensate the resulting costs by reducing consumption by ten per cent, according to the plans of the up to now popular Minister of Finance. Manuel urged the population for its understanding: „We are aware that the introduction of a new tax is not popular at the moment. We took this measure, however, because we had hoped that the population would be able to work around the tax, so to speak. Households and enterprises which reduce their consumption by 10 per cent or more will not be affected by this tax increase.” Manuel even reacted on concrete suggestions from the population, including the promotion of solar cookers and energy-saving light bulbs, as well as switching the lights in government buildings off when they are not in use. „In ten years our economic growth will be built on other principles and technologies on other energy systems and modes of transport compared to those with which we are accustomed to today,” according to the Minister of Finance. All in all, Mbeki and Manuel underlined they had brought “the Ship of South Africa on course” and to stay firmly on course.

The Goals for the Government's Final Year

Mbeki stressed the brisk, efficient and effective implementation of the projects of his government in his last year in office (therefore before the fourth democratic elections in South Africa 2009). Among his priorities he ranked the fight against poverty, the solution of the problem of crime and administrative reforms. Under the title „Apex Priorities,” Mbeki announced 24 measures on national, provincial and local levels in order to visibly improve the lives of all South Africans. Firstly, he cited the acceleration of economic growth and development, secondly the development of the infrastructure,

thirdly, improvements in the informal economy and in the fight against poverty, fourthly, more efforts in the education and health sectors, fifthly, the transformation of the justice system, the improvement of administrative capacities and, finally, the stabilisation and ultimate strengthening of co-operations within Africa, as well as South-South co-operation. Mbeki did not deny the fact that since his re-election in 2004, there still remained work to be completed, and he also addressed the concerns of the population. The President addressed the rise in food and gasoline prices, and general interest rates. „I am aware of the fears of many members of our society,” said Mbeki, “but the new challenges should also be regarded as a chance!” In addition, he mentioned South Africa's function as role model for the entire African continent and also how closely the development of South Africa was monitored abroad.

Trevor Manuel's Ministry calculated that the cost of food increased in the past year by ten per cent. The price of a 12,5kg-package of maize meal, one of South Africa's staple foods, increased from R37 to R49. Due to increased demands both locally and abroad, as well as weather fluctuations, the prices for corn, wheat, soy beans and rice have increased extensively, and increased prices of building materials such as cement, and fuel such as gasoline have heightened inflationary pressures. In December last year the inflation rate reached 8.6 per cent, with an annual average of 6.5 per cent – and therefore over the desired range of between 3 to 6 per cent. “The poor population is above all, the hardest hit,” said the Minister of Finance. However, until the end of the year he expects a decrease to the target of 5 per cent, with an expected drop to 4.9 per cent by 2009. “A higher inflation rate contradicts our government, whose goal is to fight poverty,” said Manuel.

Mbeki and Manuel stressed that the macro-economic position of South Africa is stable, and that economic remains intact. President Mbeki announced the implementation of the long-awaited industrial and political plan of action, for which R2.3 billion is intended, and which is expected to generate tax incentives in the region of R5 billion for new initiatives within the next three years. For the mining sector, the retail industry and small businesses, the President announced similar plans of action. “On a macro-economic level we

will continue on the financial and political course, promoting economic growth and development, in order to reduce our external vulnerability,” said Mbeki.

The President and Minister of Finance both emphasised that the world economic climate had become delicate due to the crisis in the United States of America and that, while the high cost of raw materials benefits South Africa's export industry, the cost of living of the population has increased. The current account still features a deficit of R143 billion. A deficit of roughly R3 billion per week must be financed by South Africa through foreign credits. “Long-term growth therefore requires the expansion of exports and an increase in the savings rate,” said the Minister of Finance, „the hurdles on the way to increased growth in the export industry are the scarceness of well trained specialists, restrictions regarding transportation, high telecommunications costs and high tariffs on imported goods of finished products and capital.” Despite increased expenditure indicated in the new budget, a surplus is intended in the next three years to prepare the country for difficult times ahead. Manuel rejected a deficit despite numerous demands, but expenditures were increased by R115.6 billion. In this manner the Minister of Finance did not sway from his principle of financial and political discipline, or from the fight against inflation – despite the pressures exerted by the ANC alliance partners, the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP).

The fight against poverty

A third of the population of South Africa lives in poverty, and the fight against poverty played a central theme in the speeches made by both Mbeki and Manuel. President Mbeki referred to his strategy as “Businesses Unusual”, in order to express his intentions of acting on his promises in a brief, efficient and effective manner. The fact that there has been little success thus far in the fight against poverty indicates that “business as usual” is certainly not the way to continue. According to Mbeki, “This year the government intends to intensify its efforts to identify households and individuals in need, in order to markedly relieve their suffering.” The President demanded that all government institutions work together in “the war against the poverty “and

mentioned their priorities: first of all the, acceleration of the land reform. The acquisition of agriculturally usable surfaces, small loans and other avenues of support are to be improved. Secondly, the social security systems are to be expanded, providing better support for children and the elderly. Thirdly, an improvement in the promotion of small businesses and the fight against unemployment of the youth. Fourth, the government remains focused on their goal of supplying all South Africans with running water, proper sanitation and power by 2014. Fifth, the implementation of the National Plan for the Fight Against HIV/AIDS is to be accelerated and sixth, the fight against crime is to be intensified.

Minister of Finance Trevor Manuel praised the government politics: "The continuous growth of the economy since 1999 has made it possible for us to expand our public expenditures on all fields. We have increased investments into the building of houses, the supply of water, the supply of infrastructure, education, health, welfare and social security, in the police force and courts.

The government machinery has itself been strengthened, and South Africa plays an even larger role in the maintenance of peace and stability on the African continent." Manuel supplemented the government projects mentioned by Mbeki in his budget speech with concrete numbers. Taxpayers can expect a relief of up to R7 billion particularly in the lower and middle income classes. The business sector, in particular small businesses, can expect a simplification of the tax control system and have been promised a decrease in enterprise tax of one percent. At present, the Treasury examines the introduction of wage subsidies to job creation according to the British model and plans an expansion of long-term internship possibilities. In addition, President Mbeki announced his intention to conclude the examination of the National Human Resource Development Strategy this year, and to establish a team comprised of representatives from government, science, business and trade unions to intensify the efforts of the Initiative on Priority Skills Acquisition (JIPSA). Social security systems are to be expanded in the coming year. In April the social welfare assistance for the elderly will be increased, as well as for the disabled and for children. Effectively, more than 12.4 million people will then be supported by the state with a resultant increase in expenditure to R75.3 billion. The retirement

age of male employees is set to be lowered to 63 years, until 2010, at which point both male and female employees will retire at the age of 60. An official definition of poverty in the country is expected to be published by the South African statistical office (StatisticsSA) within the next few weeks.

The child grant is set to be extended by one year to 15 years, but for the first time conditionalities will be introduced like regular school attendance and continual health control. South African schools can count on more than R18 billion for the renewal of their equipment in the next three years. The supply of the pupils with meals is to be increased by 30 per cent. "In our fight against poverty and for equality, education is the best weapon," said the Minister of Finance, "the building of schools, earlier admission to schools, equipping schools with books and a decent remuneration of our teachers enjoy the highest priority. "Furthermore, the Adult Education Program is set to commence this year, with the intention of helping 300.000 South Africans become literate.

Within the health sector, the number of employees increased in the last four years by around nearly 40,000, and a further 25, 000 posts are expected to be created by 2010. Minister of Finance Manuel announced the plan to equip the National Strategy for the Fight Against HIV/AIDS and Tuberculosis with additional means. President Mbeki reported on the controversial session of parliament last year, regarding the high level of crime and the unbearable level of violence in the country: "All of us are deeply concerned, not only because crime is so rampant, but also because it appears that the situation is becoming worse, especially with regard to murder." He announced the establishment of a new, modern justice system. New co-ordination and management structures are intended to finally solve the problem. Minister of Finance Manuel promised the implementation of modern technologies in more than 466 Courts of Justice. Cumulatively this amounts to a cost of more than R10 billion, part of which will be used to increase the number of the members of the police force to around 200.000 by 2010/2011. In addition, there will be an increase in the number of lawyers, judges and municipal authorities, while 40 new police stations will be created and more than 18,000 additional prison places.

South Africa in the world

With regards to foreign policy, Minister of Finance Trevor Manuel stressed that South Africa has developed to a donor country. While President Mbeki mainly emphasised the importance of the Democratic Republic of Congo (DRC) for the development of the continent, Manuel indicated that South Africa makes means available for various development and financial institutions, among them R1.3 billion for the African Renaissance Fund, R272 million the African Development Fund of the World Bank and for the International Development Association and R7 billion for the Development Bank of Southern Africa. Beyond that, both Manuel and Mbeki stressed that South Africa is actively engaged in peace processes. "In Kenya, Chad, Burundi, Sudanese Darfur, Western Sahara, Ivory Coast, Somalia, in the Comores and in the Central African Republic, South Africa remains engaged in the efforts to establish peace and stability," said President Mbeki, "and in the security council of the United Nations we will also fulfill our obligations." With regards to Zimbabwe, Mbeki promised nothing more than to mediate between government and opposition, and wished the country luck for the upcoming elections on 29 March.

Domestic political context

The speeches by President Mbeki and the Minister of Finance, Manuel were also made within the context of the change of power in the ruling party, the African National Congress (ANC), in which the disputed Jacob Zuma and his camp could assume control in December 2007. Therefore, for the first time since the ANC assumed power in 1994, there exist two political centers of power in South Africa - in the government under Mbeki and in the ANC under the leadership of Jacob Zuma. Mbeki did not mention the new situation relating to domestic affairs, and did not indicate whether relations between the government and the party up to the elections will be confrontational or co-operative.

Nevertheless, the budget, with the focus on the fight against poverty, takes the new ANC National Executive Committee and the resolutions of the ANC National Conference in Polokwane in December 2007 into consideration. As opposed to Mbeki, who has to step

out of office in 2009, Trevor Manuel's political future remains uncertain. Jacob Zuma, former Vice-President of the country and new President of the ANC, sat as a guest in the spectator ranks of parliament. He praised Manuel's intentions, and sees the expansion of social expenditure, in particular the focus on education and health, on par with his own agenda. Zuma addressed the issue of possible and critical course changes to be made with the statement that government party policy is not made by one person alone. In August 2008, Zuma will again be placed on trial under charges of corruption, which could oppose his candidacy in the presidential elections in 2009.

Ultimately, the speeches made by Mbeki and Manuel merged well with the new leadership of the ANC, and praise also came from opposition parties as well as the business community. In the press it was agreed unanimously that Manuel presented the budget in "exactly the correct tones" (Cape Argus). Applause and praise came from the communist Youth League as well as the opposition party Democratic Alliance (DA). Criticism was delivered only from the trade union COSATU, who objected to the program presented by the government, saying that it was "not radical" enough, and not sufficiently focused on the fight against poverty, and the creation of jobs in the country.

Internationally, both speeches encountered mixed reactions. While Mbeki and Manuel were praised for their politics of stability and budgetary discipline, the South African currency fell to its lowest level against the US Dollar in 16 months shortly after publication of the budget. This could be due both to the concerns of investors in light of the energy crisis in South Africa, and to the announcement made by Minister of Finance Manuel regarding the abolition of exchange rate controls for institutional investors which made capital flow out of South Africa. Finally, the football community has yet to be convinced that South Africa is prepared for the world championship in 2010. Recent performances of the national football team clearly showed that "business as usual" will no longer be sufficient. After all, the results from test matches continue to place the team in a negative light. But perhaps President Mbeki also had this in mind when he spoke of "business unusual". ■

Editorial

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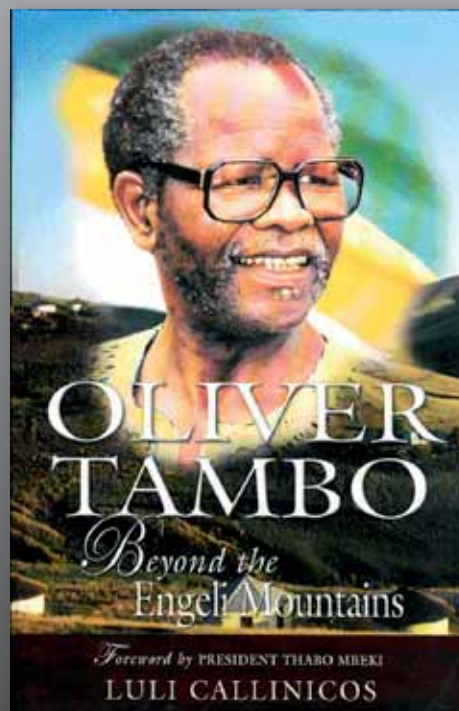
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