

## MBEKI

***This research report was prepared for BoE Securities in anticipation of mr Mbeki's election as president of the ANC, succeeding Nelson Mandela. It appeared exactly 3 years ago.***

1 December 1997

### THABO MBEKI AND THE FINANCIAL MARKETS

#### Conclusions

##### ***Positive***

- Clarity on economic policy – specifically GEAR – will be enhanced by Mbeki. Deficit reduction, privatisation and the restructuring of the public sector will be accelerated under his stewardship.
- Political stability in KwaZulu/Natal will benefit from his succession.
- He is a pragmatist who will probably adjust course if particular options do not render results.

##### ***Negative***

- The rift between Mbeki and (White) business is currently worsening. In the absence of an initiative to bridge such a rift, investment perceptions could deteriorate.

##### ***Uncertain***

- His views on transformation and development of Blacks are not fully understood in the White community. If not clarified through a process of consensus building, migration and capital flight will be exacerbated.

*Priorities will switch from reconciliation to transformation*

#### **Different priorities**

Pres. Mandela's stated priorities were reconciliation and stability. He used his enormous charisma and popular appeal to promote that. Mbeki's priorities will be different. Broadly speaking, we see two priorities: transformation of society (including development and service delivery to the poor) and economic growth (including job creation).

Everybody can relate to the goal of **economic growth**. His stance on **transformation**, however, is more controversial. It feeds negative perceptions about him, notably on Africanism and his relations with business.

#### **Economic growth**

Mbeki's commitment to GEAR and sound financial policies is certain. The certainty derives from both defensive and offensive considerations.

*A Mbeki government will not walk away from GEAR*

On the defensive side, Mbeki (and his colleagues) invested a lot of political capital in GEAR. Walking away from it would entail a loss of (political) credibility. Further, there are not many alternatives to GEAR. As Mbeki stated in a recent

	interview, government has to do “the right thing”.
<i>Mbeki’s commitment goes far back</i>	On the offensive side, GEAR represents an important step in the transformation of the ANC from a populist political movement to a successful government. Jettisoning GEAR will undermine that transition. The dream of an African renewal will also not be served by abandoning GEAR. We believe that Mbeki’s commitment to the goals underlying GEAR go back much further than a few lessons learnt from the Rand’s depreciation in 1996. These are deeply held views to which he is committed in a very fundamental way.
<i>We expect an acceleration of GEAR’s implementation</i>	These considerations lead us to conclude that GEAR will not be sacrificed on some altar of expediency. On the contrary, we expect the main thrust of GEAR – privatisation, a lower budget deficit and restructuring of the public sector – to be accelerated under Mbeki.
<i>He has the political skills to defend GEAR’s position</i>	Linked to this commitment is the fact that Mbeki is a deft and experienced political in-fighter. He outflanked his political opponents; piloted GEAR through the ANC body politic; and kept Cosatu in the alliance whilst rejecting virtually every Cosatu policy proposal. Mbeki brings with him an impressive political ability to protect and nurture GEAR in the ANC body politic. The rumblings from the SACP, Cosatu and other elements on GEAR do not, in our opinion, constitute a threat to those policies.
	<b>Stability in KwaZulu/Natal</b>
<i>Kwazulu/Natal should become more stable</i>	A Mbeki team will consolidate the current trend towards greater political stability in KwaZulu/Natal. The Buthe/Mbeki relationship is better than the Buthe/Mandela relationship. Mbeki has also spent considerable energy since assuming office in stabilising the province. It is not inconceivable that the IFP will join the ANC in a government of national unity after 1999. This could be regressive for competitive party politics, but will enhance stability in South Africa’s last area of political turmoil.
<i>The IFP may remain in government after 1999</i>	
	<b>Transformation</b>
<i>Transformation will dominate the agenda</i>	Transformation is a very high priority for Mbeki – and increasingly for the ANC. Unlike Mandela, he sees reconciliation as coming after transformation. Reconciliation cannot happen on its own. It needs to be accompanied by visible change for South African Blacks.
	What kind of transformation does he have in mind? From a variety of sources and published material we constructed the following guidelines.
<i>His Africanism is inclusive</i>	<ul style="list-style-type: none"> <li>• He is an African deeply committed to the advancement of the continent. In this version of Africanism he has unambiguously allowed room for non-Blacks who are also committed to the African continent and South Africa. We do not detect a racial bias in his view of Africanism.</li> </ul>

*The position of Blacks must improve tangibly to give meaning to transformation*

- Therefore we do not think that he is an Africanist in the sense that *only Blacks* should benefit and other citizens ignored. He does believe, however, that the position of Africans in South African society was severely prejudiced and their conditions must improve in a tangible way. (Some supporters of this view also hold that Blacks were more severely prejudiced than Indian or Coloureds and they therefore receive more reparation).

*Trickle down is not enough*

- Such improvement can be achieved through high growth policies. However, Mbeki does not accept that “trickle down” from such high growth is sufficient to improve the position of Blacks. The historical division of wealth and power necessitates more than “trickle down”. It necessitates active intervention.

*Active steps should be taken ...*

- Active intervention implies that **business** should take steps to supplement “trickle down”. Such steps include affirmative action, black economic empowerment, development of entrepreneurs and skills transfer from Whites to Blacks. In the **public sector** those measures will include affirmative action and pro-Black procurement policies.

*... to change power relations*

- These measures are aimed at changing underlying power relations substantially. Blacks should become controlling shareholders and Black managers have real decision making power.

*Government should be small, but still help the poor*

- He favours small government and is committed to a declining budget deficit, but basic services and support for the poor must exist and be provided by the state. (However, this must be done within the parameters of affordability, as the changes to the child welfare grant illustrate quite convincingly).

*It is an enigmatic picture of contradictions*

It is an enigmatic picture reflecting several contradictions. The contradictions are, inter alia, an inclusive definition of Africanism vs a bias towards advancing Black Africans; efficiency vs preference and subsidy; smaller government vs a bigger role for government. Given South Africa's complex social and economic realities, these contradictions are not surprising. The question is how one deals with them.

*Wrong choices will be made*

The checks and balances inherent in the very complex social and economic realities will force compromises. They will be made where possible and priority choices exercised where not. In this process, Mbeki will sometimes get it wrong. That is only human.

Will he then stick to social engineering, or is there enough pragmatism to stay on a moderate course?

*He is a pragmatist*

There is substantial evidence that he is enough of a pragmatist to change course when things do not work. The appointment of Meyer Kahn as CEO of the police force and the formulation of GEAR in response to the 1996 currency crisis, is proof of that. The change from South Africa's active role in the Mobuto/Kabalo transition to its more passive role in

subsequent African crises, also suggests he is pragmatic enough to change track when a particular course does not work.

*Mbeki has an Africanist label*

### **Is he an Africanist?**

Rightly or wrongly, Mbeki currently has the label of being an "Africanist", i.e. he is perceived to be anti-White or at the very least, pro-Blacks-only.

*It hides the deeper issue of how to eradicate poverty and inequality*

This label hides the more important debate: how Blacks and Whites face up to the issue of eradicating poverty and inequality. Crudely put, Whites have the money and Blacks the needs. How do the two meet amicably?

*Blacks are impatient*

Within the ANC the insistence on transformation is high and rising. So is the level of impatience that Whites are not committed to transformation. As Cheryl Carolus puts it: we must take our gloves off and challenge the Whites.

*.... and Whites are fearful*

Whites are fearful of what that means. Simply put, will Blacks do to them what they did to Blacks? Could the Zimbabwe land grab be repeated here?

*Managing the contradictions is crucial to financial stability*

Mbeki is in the cross-fire between this rising impatience and White fears. How it is handled will be critical for relations with business and non-Black South Africa and thus for investment perceptions.

*Business is under suspicion..*

### **Relationships with Business and Whites**

From various remarks it is clear that Mbeki does not think business has transformed itself sufficiently. One almost gets the impressions he suspects the private sector of thinking it can be "business as usual". For Mbeki it cannot be business as usual. Transformation is too important.

*.. and business suspects Mbeki*

Conversely, given his pro-private sector sentiments and the official manifestation thereof in GEAR, Mbeki should be the darling of South African business. He is not. Business suspects him.

The rift between Mbeki and (White) business represents a strange dichotomy. The man who supports free markets and an expanding role for the private sector and who piloted pro-business policies through the ANC body politic, also appears to have a very dim view of SA (White) business. Almost a case of "I like your God, but not your Christians).

*So does the wider White community*

This alienation goes further than the business community. The larger White community believes Mbeki wants them to pay for the upliftment of Blacks. Again Mbeki's intentions are not trusted.

*This mistrust is negative for the business climate*

So there is a lot of suspicion and mistrust on both sides. Such mistrust and suspicion is bad for the investment climate. If it persists the only beneficiaries will be migration and capital flight.

*The gap can be bridged*

### **Can it change?**

Objectively seen, the gap between the two sides is not that big. Transformation which favours Black advancement is in the longer term interests of all. A national consensus around this and GEAR can be found.

*Business is already doing a lot to effect transformation and social development*

Business is already transforming voluntarily on some issues as various empowerment transactions confirm. Empower transactions have acquired quite a momentum and are set to grow more. Voluntarism is achieving here what had to be enforced through statute in Malaysia.

Business also does a lot of social development. These included establishment and ongoing support of NGO's like the HLGC, Newhco and NBI. A fortune is being spent on training, development, literacy and education. The R500 mio JET (Joint Education Trust) is but one example. Others are Project Literacy and various adult basic education programmes, not to mention in-house training and development.

*Socio-economic transformation must also be stressed in addition to economic growth.*

Reaching the consensus requires an effective dialogue between business/White South Africans and Mbeki. A mere beating of the drum of economic growth along free market lines by business will not be sufficient. Mbeki and the ANC, on the other hand, will have to take more trouble to articulate their transformation goals in terms reconcilable with GEAR.

*An effective dialogue will have to be established and probably will be*

Tentative moves to conduct discussions between the two sides have been initiated. So far, however, no effective forum or process to bridge the gap has been established. We are confident it will happen. South African business has a long history of positioning itself vis-à-vis government and mediating conflicting positions with government.

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