

THE RISE OF THE NEW RIGHT

South Africa's Road to 2024





South African Institute of Race Relations

The power of ideas

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THE RISE OF THE NEW RIGHT: SOUTH AFRICA'S ROAD TO 2024

The topic of this analysis is the long term future of South Africa's politics and the prospects for its economy. Two scenarios are sketched – one of which will be firmly in evidence within the next 12–24 months.

It is useful to understand some context.

Real Gross Domestic Product (GDP) per head peaked in South Africa in 1981 at just over R50, 000 per capita – a function of the high growth rates the country had sustained throughout the 1950s and 1960s and into the increasingly politically volatile 1970s. By the 1980s, however, despite a record high gold price at a time when South Africa was the world's biggest gold producer, the contradictions upon which the apartheid system rested – a growing economy and rising living standards matched with the political exclusion of a majority of the population – began to unravel. The political consequences were best measured in the economy.

The GDP growth pattern of the 1980s was highly unstable. Positive growth of approximately 5% of GDP in 1981 was followed by negative growth in 1982 and 1983, only to be followed by positive growth of between 4% and 5% of GDP in 1984. South Africa spent 40% of the 1980s in an environment where growth rates were on or below 0% of GDP.

In real terms, South Africans spent the 1980s becoming poorer. This pattern continued into the 1990s, with the years 1991, 1992 and 1993 all recording negative economic growth rates. The rate of gross domestic savings to GDP hit all-time lows. Interest rates maintained levels of around 20%. The level of public debt to GDP hit record highs. This period of economic weakness was central in forcing the transition to democracy.

Far from being a peaceful political transition, as much of the 'rainbow nation' mythology about South Africa suggests, more than 20 000 people lost their lives in political faction fighting between mainly black political rivals during the last decade of apartheid rule. The IRR's Head of Policy, Dr Anthea Jeffery, notes that some 5 500 of these deaths occurred between 1984 and 1989. Three times as many deaths took place during the years of negotiation from 1990 to 1994 when, as she explains, "The door to democracy had already been thrown open and there was no need to batter it down".

South Africa's transition to democracy was a brutal and violent era characterised by extraordinary political ruthlessness. This propensity for ruthlessness, which we believe still resides within South Africa's politics, is the first of two insights around which this analysis will suggest where South Africa may now be headed.

The democratic elections of 1994 proceeded fairly peacefully, if chaotically, and the result gave the African National Congress (ANC), the party of Nelson Mandela, a national majority of close to 63%. Its black political rivals in the Black Consciousness Movement and the Inkatha Freedom Party never recovered from the violence of the 1980s and early 1990s and either threw in their lot with the ANC or drifted into irrelevance. The white liberals, of the Progressive Federal Party and later Democratic Party (the nucleus of today's Democratic Alliance), which had staunchly opposed apartheid, had not been exposed to the same violence as was directed at the

ANC's black political rivals as it was feared this might turn European and American opinion against the ANC. In any event, popular support levels for the white liberals were very low and they drew less than 2% of the vote in 1994.

The ANC therefore assumed power in 1994 in the absence of any obvious or credible political rival.

It immediately set about facing up to the economic wreckage it had inherited from the apartheid era. It was here, in its initial economic policies, that it had its greatest successes. GDP growth rates recovered to average over 3% between 1994 and 2007. For four of those years, between 2004 and 2007, growth rates averaged upward of 5% of GDP. Interest rates were cut in half, further supporting the growth recovery. Public debt levels were cut in half and the savings on the government's interest bill went much of the way to financing what would become the most expansive social welfare programme of any emerging market. Real per capita GDP resumed its upward trajectory and in 2006 exceeded, for the first time, its previous peak of 1981.

Improving economic conditions allowed for a commensurate improvement in living standards. The number of South Africans with a job roughly doubled between 1994 and 2007. The number of families in formal houses more than doubled. For every shack newly erected in the country, more than ten formal houses were being built. Water and electricity rollout into poor communities demonstrated equally impressive numbers. More than a thousand households were being connected to electricity daily. The black middle class grew to rival the size of the former white middle class (although as a first generation middle class it remains highly vulnerable to economic setbacks). Black South Africans became the majority of buyers of homes in what had formerly been white suburbia. The proportion of children under the age of five who were malnourished fell from roughly 14% to between 4% and 5% of children in that age bracket.

More examples could be provided, but the point is made. Life was getting better in South Africa and real progress was being made in escaping its apartheid past. Of course there are many analysts in South Africa who deny this fact but, in my experience, they mostly sit on either the extreme left of the political spectrum and resent the pragmatic conservatism inherent in the early economic policy thinking of the ANC, or they sit on the fringes of the white far-right and resent the ANC in principle – perhaps more so for the fact that it was able to right the economy.

It has seldom been fully acknowledged what the ANC achieved in its first decade and a half in government – while it spoke the language of revolution, many of its actual economic policies were sensible. This former propensity for some sound economics is the second of the two insights around which this analysis will suggest where South Africa may now be headed (the first, you will recall, is the ANC's capacity for ruthlessness).

The economic and social progress was essential to consolidating the ANC's popular mandate – and for many years after 1994 it did not seem to matter much that no credible political rival existed. Good polling research conducted for South Africa's presidency showed that popular confidence in the future of the country had reached levels approaching 70% between 2004 and 2007. By the time of the national elections of 2004 the ANC received a larger majority than when Nelson Mandela had led the party in the elections of 1994.



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You will notice that the argument has thus far restricted itself to events up until 2007 and nothing has been said, as yet, about more recent developments. In December of 2007, the ANC held a conference at which it elected a new set of leaders. To the surprise of many, although not analysts at the IRR, Mr Thabo Mbeki, who had served as leader of the ANC as well as president of South Africa, and who had been central to the economic policy-making of the party and the government, was dethroned as ANC leader. This later forced his resignation as president of South Africa.

In dispensing with Mr Mbeki, the ANC dispensed with more than the man. It also rejected much of the pragmatism of his economic policies. The South African Communist Party and the Congress of South African Trade Unions, both of which had been central to the axing of Mr Mbeki, became increasingly prominent in policy making. Following the 2009 national election, a number of key economic portfolios in the cabinet were in the hands of leftists and communists. They quickly set about dismantling the policy infrastructure of the 1994–2007 era and replaced it with a concept they called ‘the developmental state’. Leaks from cabinet meetings suggest that animated ideological debates took place about what such a state would entail – mostly concluding with ideological dogma about nationalisation and state direction of the economy.

Policy soon began to reflect that dogma. Proposals were made to nationalise mines and banks. A cabinet minister spoke of the need to destroy the capitalist system. A deputy minister accused foreign investors of looting the country. Another member of the cabinet proposed putting a ceiling on all private sector management salaries until economic equality had been attained (he seemed oblivious to the consequences for tax revenue). Labour laws were tightened. Firms that failed to meet the state-driven racial targets were publicly shamed. It was proposed that the private security industry be nationalised. Proposals were made to nationalise all land in private hands. An antagonistic line was adopted towards western capitals. Chavez in Venezuela, Castro in Cuba (as recently as this month) and Mugabe in Zimbabwe were hailed as role-models to be emulated.

That this shift in policy coincided with the global financial crisis and growing risk aversion to emerging markets greatly exacerbated its impact. At a time of heightened global investor concern, South Africa was sending out the message that it did not value investment and would not protect the rights of investors – foreign or domestic. South Africa’s economic position was then further worsened by the pull-back in global commodity prices.

A fund manager put it to us during a briefing we delivered that the slurping sound the world was hearing was the draining of the commodity pool and that the world would soon learn which commodity producers had been ‘wearing pants’. South Africa’s trade deficit numbers soon showed that it had not been wearing pants. The country now runs a significant trade deficit with almost every major country and region of world. The United States, because of the generosity of the African Growth and Opportunity Act (AGOA), is not one of those countries – even though the post-2007 South African government went out of its way to place that agreement in jeopardy.



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South Africa's weak trade performance and particular vulnerability to commodity prices comes as no surprise. Data shows that the majority of its export products are dug out of the ground. The manufacturing economy's share of GDP is half of what it was in 1994, despite the weakening of the real effective exchange rate.

If the era of 1994 to 2007 was characterised by gradually rising economic growth rates and falling debt levels, the era from 2008 until today has shown the opposite. Public debt levels have roughly doubled since 2007 (a figure that excludes generous guarantees to wasteful state-owned companies). Economic growth that had averaged 5% in the four years to 2007 came in at 1.3% in 2015 and South Africa will find itself flirting with recession by the end of this year. Formal private sector job creation has been effectively stagnant for five to six years (while public sector employment increased by roughly 25%, thus placing further pressure on the budget deficit).

The example of public sector employment is a very good prism through which to view the post-2007 government's concept of a 'developmental state'. Essentially, money was being borrowed to employ more government workers, even as growth levels declined and investment levels tailed off.

The full gamut of indicators we track to develop an advance view of the South African economy appear to be in some considerable trouble at this point. These range from mining and manufacturing production indices to residential property prices, vehicle sales, credit extension and default numbers, business confidence indices, consumer confidence indices, and consumer spending itself. The most telling number of all is that, in real GDP terms, South Africans are again becoming poorer – as they did in the volatile and very violent 1980s.

The political consequences are turning out to be severe for the ANC and may bring about political shifts approaching the significance of those in 1994 – when a once powerful and entrenched administration was dethroned by its antithesis.

IRR analysts have identified a near perfect inverse correlation between the change in the real after-tax incomes of households and violent protest action in the country. We find the same correlation between household incomes and confidence in the future and the government.

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From an analyst perspective it seems foolish for the ANC in government not to appreciate that its political mandate rested in large part on its economic performance. In sacrificing that performance in pursuit of ideological goals, the ANC created rising new demand for a political alternative.

The political shifts triggered by South Africa's recent economic underperformance have shaken the seemingly once impregnable political edifice of the ANC. In South Africa's 2014 national elections (the most recent), just more than a third of all eligible voters (South Africans over the age of 18) turned out to cast their ballots for the ANC. This was a far cry from the over 50% of all eligible voters who turned out to vote for the ANC in 1994. Today there are more people over the age of 18 who are entitled to vote but choose not to do so than there are people who chose to vote for the ANC. If half the non-voters vote again, but do not vote ANC, then the party will lose its national majority, ushering in a new era of what will probably be coalition politics for South Africa.

The prospects for such an outcome must now be taken seriously. Earlier this month South Africa staged local government elections. Support for the ANC fell to a record low of 54%. More importantly, it lost its outright majorities in major urban centres. Its support in poorer rural communities also declined but in a country that may be 80% urban within 20 years the future voting market has swung in favour of the opposition.

To its left, the party now faces a passionate, if misguided and at times vulgar, challenge from the Marxist inspired Economic Freedom Fighters, led by a former ANC youth leader. To the centre, the ANC faces a challenge from the Democratic Alliance – the party that had its nucleus in South Africa's white-liberal anti-apartheid tradition, although it now has a black leader and has moved to the political centre, more social democrat than classically liberal, in an attempt to attract more black voters.

In the considerable aftermath of those polls, four trends rose to the surface. The first is that younger and more educated voters are turning against the ANC. Our own research now suggests that as an individual's level of education and income increases, he or she becomes more likely either not to vote, or to vote for an opposition party. The second is that urban and more upwardly mobile people are leaving the party faster than more rural and poorer people – although the latter, too, are beginning to abandon the ANC. The third is that, in the run-up to this month's polls, more than ten ANC candidates were assassinated – seemingly not by rival party forces, but by their own party colleagues. In-fighting and internal recrimination are likely to reveal deep-seated divisions that can no longer be kept hidden. Fourth is that a significant number of young people did not bother to register or vote. If that changes, political outcomes will swing to significant new extents.

The forces as they are stacking up – both politically and economically – suggest an environment primed for a high degree of change. From an analyst perspective it seems foolish for the ANC in government not to appreciate that its political mandate rested in large part on its economic performance. In sacrificing that performance in pursuit of ideological goals, the ANC created rising new demand for a political alternative. The absence of an obvious political rival to the ANC started to matter a great deal and the implication of the destruction of its former black rivals therefore took on a new degree of importance.

What is the newly emerging political alternative to the ANC? From which political quarter may the ANC now face defeat?

Before we get there, must the ANC now necessarily face defeat? Has it passed the point of no political return?

Our view is that the only way for the ruling party's national majority to survive another decade in power is to pull off an economic reformation. It will have to introduce policy reforms sufficient to draw massive amounts of new capital investment into the economy, in order to raise growth rates to levels sustainably approaching 5% of GDP. At home, many South African analysts and economists are sceptical that this can be done. Their scepticism is well founded in that the economic crisis facing South Africa is a self-made crisis, crafted in the cabinet, and in the face of well-argued criticism and advice that the 'developmental state' policy framework adopted by the government after 2007 could have but one set of consequences. Now that these consequences are in evidence, there is still no concerted effort on the part of the cabinet to change policy direction. In fact, a number of ministers are continuing to push for interventions that will harm sectors ranging from education to healthcare, security, mining, agriculture, tourism, high-tech services, banking and financial services, and manufacturing. Or take the example of a recent proposal by the ANC itself, following a series of meetings to assess its poor electoral performance, that the government move quickly to introduce a new national minimum wage. The ANC is losing support because of low growth and high unemployment and part of its response is to raise wage levels.

How is this possible, we are often asked by outside observers? Why does a country with such obvious potential continue to promote policies that are so harmful to its economy and the prosperity of its people?

Much of the answer emerges in appreciating the factionalised structure or nature of the ruling party. Reality is never so neat and tidy but an analysis of South Africa today is greatly aided by conceiving of its ruling political class (whether in party politics or the government itself) as being split into three groups.

The first group consists of the communists and the left. They emerged out of the trade union movement, the communist party, and various bits of academia and civil society; their star rose in the aftermath of the political changes that took place at the ruling party conference in December of 2007. They have sought to force a dated, and long discredited, form of ideological policy dogma onto the country. This is one that resents private enterprise, regards western countries as outposts of colonial aggression, denounces 'CIA inspired' plots to stir revolution, and prioritises state-led wealth redistribution over investment-led economic growth. It is their pursuit of ideology that created the economic circumstances that in turn set in motion the now growing political opposition to the ANC.



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Together the leftist and traditionalist camps have held the balance of power in the government for the past six or seven years. However, as growth has reduced and deficits have increased, together with rising popular dissatisfaction with the ruling party, the traditionalists seem to be losing confidence in the advice they have been receiving from their leftist comrades.

The second group is the traditionalists. They come out of the more rural and ethnically homogenous strongholds of the ruling party. Strong believers in the importance of traditional leadership structures, they regard western forms of liberal democracy as an unnecessary and colonial extravagance. They are largely out of touch with the aspirations of younger South Africans. When an artist painted a portrait, later displayed in a prominent gallery, of the president in a strident Lenin pose but with his private parts exposed, this group were apoplectic in their rage at the disrespect displayed to the country's leader. This group is quite authoritarian, often frighteningly corrupt, and has little understanding of economics. In many respects it represents the bombastic 'big-man' style politics that so many African countries have suffered through.

For the past six or seven years these two camps have got on fairly well.

On a number of areas of policy, the communists have found it easy to take advantage of the policy and economic naiveté, as well as the greed, of the traditionalists and have essentially duped (deceived would be just as good a word) them into endorsing policies that have done much harm to South Africa's economy. It is difficult, I am sure, to grasp just what a hold the traditionalist camp has over South Africa's politics. One window into that world is that, ahead of the recent local government polls, the president, on a number of occasions, warned voters that their ancestors would disapprove of their voting for opposition parties and they would suffer years of bad luck if they did not vote for the ruling party. This is no joke in many communities and would have a chilling effect on support for opposition candidates in South Africa's poorest rural backwaters. However, it also reveals how out of touch the traditionalist leadership is with the aspirations of modern young South Africans who, while carrying a measure of respect for old traditions, are most unlikely to base their electoral decisions on such 'sorcery'.

Together the leftist and traditionalist camps have held the balance of power in the government for the past six or seven years. However, as growth has reduced and deficits have increased, together with rising popular dissatisfaction with the ruling party, the traditionalists seem to be losing confidence in the advice they have been receiving from their leftist comrades. The traditionalists do not hold firm ideological views. Their politics is about power and patronage. Protests and anti-government activism frighten them – and increasingly they blame the leftists for the economic crisis that now threatens their political mandate and therefore the fiefdoms of patronage they worked so hard to craft. This is a most important development.

The leftists, worried at losing their political influence, do not have much room to manoeuvre. They have overplayed the political hand they were dealt in 2007 and, in creating the circumstances that have brought about a decline in support for the ANC, are now in a very vulnerable political position.

This presents an opportunity for the third faction of the ANC – the modernists. The comfortable relations between the leftists and the traditionalists have been exasperating for the modernists or reformists in the ruling party. This modernist camp is made up of a new class of successful black entrepreneurs, the emerging urban black middle class, and a cross-section of older party stalwarts who, despite being raised and schooled in Marxism, are beginning to understand that policy reform will be necessary to secure the future of what they see as Africa's grandest liberation movement.

This faction is often overlooked in analyses of South Africa. Some argue that no such group exists, or that it has been swallowed up by the arrogance and corruption of the party. We believe that this is selling the ANC short.

If the modernist factions of the ruling party can eject the leftists and form a new balance of power with the traditionalists, then a new range of reformist scenarios are open to South Africa. This new camp will be neither democrats nor leftist ideologues. Coinciding with a commodity comeback and stable global economic conditions, this camp could conceivably secure the economic turnaround that the ruling party would need in order to head off what will otherwise be a future electoral defeat.

Keep in mind the two opening points on which this analysis rests. First, that the ANC is not a fundamentally democratic movement and retains a capacity for extreme ruthlessness. Second, that it once showed a propensity for sound economics. If those two points remain correct, this opens the way to an alliance between the traditionalists and the modernists and it is this that we term the 'rise of the new right' in South Africa's politics.

The political model that such a traditionalist/reformist alliance might follow would approach that of Lee Kuan Yew in Singapore, Park Chung-hee in South Korea, and Deng Xiaoping in China, while closely resembling that of Hailemariam Desalegn in Ethiopia and now Paul Kagame in Rwanda – with many important differences. The model would see a distinct turn in the ideological outlook of the government, while still offering the ruling party the political control it craves over the country. However, it could also secure the economic performance, and critically the jobs, necessary to restore popular confidence in a future government. South Africa will thus have a more authoritarian party-driven government that makes reasonably good economic decisions.

It is premature, therefore, to write off South Africa's current ruling party and to say it is beyond help and that true economic reform is simply an ideological bridge too far for the party. Late in the day as it is, it still has time to save itself. However, short of the rise of such a 'new right' the clock will keep ticking on the ANC's time in office.

South Africa's next decade is therefore headed towards one of two broad sets of outcomes.



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The first is this:

The reformists gain a balance of power in the ruling party over the next eighteen months. They seize control of the party at its internal leadership elections in December 2017 and lead the party to contest the 2019 national elections and choose a reformist cabinet – possibly with support from the centre-right of the opposition spectrum (we do not write off a future DA/ANC alliance from around 2019 – do not be misled by the emerging DA/EFF alliance, this is but a temporary strategic position as both parties have their focus on the real prize; an alliance with what remains of the ANC by 2019). The cabinet moves quickly and firmly to secure property rights, deregulate the labour market, professionalise the sluggish civil service, and employ the private sector as partners on the road to rebuilding the South African economy. Where opposition to the government’s reformist agenda is encountered, we expect it to act decisively and harshly to ensure that its reformist agenda is not derailed – as harshly, possibly, as the ANC dealt with its political opponents 30 years ago. Such firm action may extend to the point of undermining civil rights, free speech, the sanctity of the courts, rights to free political association, and the standing of trade unions and other civil society groups. If such a reformist agenda were to be pursued with vigour, we anticipate South Africa’s debt and interest rates peaking in the period around 2020, before declining back to levels last seen around 2006. Growth levels will have averaged below 2% of GDP into 2020, but will then commence a gradual rise, to average in excess of 5% of GDP by 2024–2026. The currency will strengthen back to purchasing power parity levels by the mid-2020s, while the current account and budget deficits will narrow. Rising employment and living standards will stabilise the politics of the country – as they did for much of the period from 1994 to 2007. Factor in a global economic recovery and commodity comeback, and South Africa’s economy may perform very strongly. As confidence in the government returns, restrictions on civil rights and free expression may concomitantly be lessened.



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Our second case is as follows:

South Africa’s ruling class is unable to unite around a reformist economic policy agenda. Policy confusion and uncertainty continue, exacerbated by weak commodity prices and global economic underperformance. Growth levels slip further as investment dries up and South Africa experiences a decade of volatile stagnation – a term we use to describe a society that is making no economic progress as its politics becomes more volatile. Quite possibly, this is a future of deep recession and declining living standards. Deficit and debt levels will escalate sharply and economic and industrial output will fall, even as the currency weakens. Anti-government protest actions will escalate sharply and will be met, when not with rubber bullets and arrests, with wild populist promises. Property rights are then likely to be eroded as well as civil liberties, as a rapacious and ideologically stubborn state refuses to turn on policy. Considerable politically-inspired violence may occur. This outcome may also see the EFF party triumphantly return to its ANC mother body and may, for a time, offer the ANC some valuable percentage points of political support. The effective reincorporation of the EFF into the ANC may, however, also put paid to any chance that the ANC could meet the aspirations of younger voters through staging an economic turnaround. The ANC/EFF collective will then find itself facing electoral defeat – just on a slightly extended timeline. A minority view in my organisation is that if it assumes the leadership of the ANC, the existing EFF leadership, which has some high calibre thinkers, may turn sharply right on the economy. A third view is that the great unknown factor in South African politics, the unregistered youth voter, may turn out in

sufficient numbers to give the DA a clear national majority. What becomes apparent is that despite populist attempts at clinging to power, this future will culminate in 2024 (if not in 2019) in the political defeat of the ruling party. This will, in turn, usher in a new era of politics – and most probably coalition politics. South Africa would remain an unstable society that undershoots its economic potential.



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If South Africa follows the first trajectory described above, the model may well become influential in further shaping the evolution of high growth economies across the African continent. South Africans would cede some of their political freedoms in exchange for growing prosperity and the promise of stability. Where growing prosperity is achieved, it will resemble the development model that was followed by many of the Asian Tiger economies – albeit with very important differences. It is also the model that is being pursued with some economic success in Rwanda and Ethiopia. However, where prosperity is not forthcoming, it is also a model that invites a system of rule with impunity, from which South Africa may not escape for some considerable time.

This analysis is based on a briefing by Frans Cronje to the Atlantic Council in Washington DC in September 2016. It was authored with support from a number of IRR analysts and Policy Fellows.