



# South Africa: Politics, Economy, and U.S. Relations

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## Summary

South Africa is a multi-racial, majority black southern African country of nearly 52 million. It held its first universal suffrage elections in 1994, after a transition from white minority rule under apartheid, a system of state-enforced racial segregation and socio-economic discrimination. South Africa is influential regionally, due to its political engagement and trade and investment across Africa and its active role within the African Union. It is viewed as a U.S. strategic partner in Africa, despite periodic differences over some foreign policy issues. In late June 2013, President Obama traveled to South Africa after visiting Senegal, prior to a visit to Tanzania. The trip centered on U.S.-African partnership in the areas of trade and investment, development, democracy and youth leadership development, and peace and security. Key issues addressed in South Africa included bilateral political and economic ties, development cooperation, and shared U.S.-South African aims regarding conflict mitigation, increased trade and investment, and development across Africa.

Congress has long been engaged with South Africa, notably during the anti-apartheid struggle, and with regard to post-apartheid socio-economic development efforts, a key focus of bilateral ties. Since 1992, South Africa has been a leading recipient of U.S. foreign aid, mostly devoted to addressing HIV/AIDS and other health challenges. Aid oversight has drawn the bulk of South Africa-related congressional attention in recent years. U.S. policy makers are also increasingly focused on efforts to strengthen already growing U.S.-South African trade and investment ties. Other key areas of bilateral engagement include security cooperation and an ongoing U.S.-South African Strategic Dialogue. Established in 2010, the Dialogue centers on health, education, food security, law enforcement, trade, investment, and energy, among other issues.

South Africa has the largest, most diversified, and highly industrialized economy in Africa. It has enjoyed moderate economic growth in most recent years. Average per capita incomes and access to education have grown across racial groups, notably for blacks. Despite post-apartheid national socio-economic gains, South Africa remains a highly unequal society with respect to wealth and income distribution and access to jobs, social services, utilities, and land. Most blacks are poor, and average black incomes are far smaller than those of the historically privileged white minority. Blacks also suffer very high unemployment rates (36% in 2011), and have far less access to education. Shortages of quality housing, utilities, and social services in townships—the vast, high-density housing settlements where many of the poor live—spur ongoing social and political tensions. Other key problems include public corruption and widespread violent crime, notably rape and armed robbery. Vigilante justice and mob violence is not uncommon, and heavy-handed police tactics sometimes result in human rights abuses. South Africa also suffers high rates of HIV/AIDS.

In late 2012, the governing African National Congress (ANC) party, despite some reported internal divisions, reelected as its president Jacob Zuma, ahead of national elections in 2014. Zuma was elected to his first term as president of South Africa by the country's parliament in 2009. The ANC government faces the substantial challenges noted above, along with others, including labor unrest, rising dissatisfaction within key labor constituencies, and dissatisfaction among youths. Youth populations face particularly high jobless rates and may lack older generations' continuing allegiance and gratitude to the ANC for helping to end apartheid. To address these diverse challenges, the government is investing billions of dollars to upgrade infrastructure and improve public service delivery, but is likely to face continuing challenges in meeting popular expectations.



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In late June 2013, President Obama traveled to South Africa after visiting Senegal, prior to a visit to Tanzania. His trip to the African continent highlighted U.S.-African cooperation and policies in the areas of trade and investment, development, democracy, and peace and security, which the President addressed in a “framing speech” at South Africa’s University of Cape Town. During the speech, the President also announced plans to host a U.S.-Africa heads of state summit in the United States in 2014 and the roll-out of Power Africa, “a new initiative that will double access to [electrical] power in sub-Saharan Africa.”<sup>1</sup> While in South Africa, the President held a meeting and a joint press conference with President Jacob Zuma of South Africa, which he described as a “critical partner” of the United States. The meeting focused on U.S.-South African bilateral relations, which the President said are “extraordinarily strong,” and a wide range of regional, and global political, security, economic and development issues.<sup>2</sup> Among other activities in South Africa, the President also held a town hall meeting as part of his Young African Leaders Initiative, initiated in 2010<sup>3</sup>; met with the African Union Commission chair on continental issues and regional organization capacities; and visited the Desmond Tutu HIV Foundation Youth Center. The latter activity sought to highlight community-based solutions to healthcare challenges, and the Administration’s global health agenda, in particular efforts to help improve public health systems in South Africa and elsewhere in Africa.

President Obama’s trip to Africa came at a time of growing concern, in South Africa and internationally, over the rapidly failing health of former South Africa president, Nelson Mandela. Mandela, 94, was imprisoned for his anti-apartheid activities from 1962 until 1990 and was elected as South Africa’s first black president in 1994 after the first post-apartheid universal suffrage elections.<sup>4</sup> He is widely revered as an icon of the anti-apartheid struggle; for leading the transition to non-racial democracy, and efforts to foster national reconciliation and end socio-economic inequalities created by apartheid; and for working to advance peace and democracy across Africa and globally. During his trip President Obama repeatedly paid tribute to Mandela’s legacy, which he said had profoundly informed his own entry into a life focused on public and political affairs.

The State Department characterizes South Africa as a U.S. “strategic partner,”<sup>5</sup> and President Obama’s trip to the country underlined that bilateral ties remain close, as they have been since 1994, despite periodic differences on some foreign policy issues. Socio-economic development is a key focus of bilateral cooperation; since 1992, South Africa has been a leading African recipient

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<sup>1</sup> White House, “Remarks by President Obama at the University of Cape Town,” June 30, 2013. According to the White House, Power Africa will provide more than \$7 billion in aid and project financing by U.S. development, trade, and investment agencies to support public-private projects and spur private sector investments aimed at expanding power generation and transmission infrastructure across Africa. The initiative also seeks to enhance related institutional and regulatory capacities and “leverage private sector investments, beginning with more than \$9 billion in initial commitments from private sector partners to support the development of more than 8,000 megawatts of new electricity generation” in Africa. White House, “Fact Sheet: Power Africa,” both dated June 30, 2013.

<sup>2</sup> White House, “Remarks by President Obama and President Zuma of South Africa at Joint Press Conference,” June 29, 2013.

<sup>3</sup> During the meeting, the President announced a fellowship program under the initiative, which seeks to support young African leaders’ efforts to “spur growth and prosperity, strengthen democratic governance, and enhance peace and security” in Africa. White House, “Fact Sheet: The President’s Young African Leaders Initiative,” June 29, 2013; and Kasie Cocco, “President Obama Holds a Town Hall with Young African Leaders,” White House Blog, June 30, 2013.

<sup>4</sup> Apartheid was a system of white minority rule and state-enforced racial segregation and socio-economic discrimination.

<sup>5</sup> State Department, “South Africa,” *Congressional Budget Justification*, FY2013, among others.

of U.S. aid, the bulk of which supports HIV/AIDS and related health programs. U.S.-South African trade ties are also important. Total trade (exports and imports) more than doubled over the past decade, reaching a record of \$16.7 billion in 2011 before declining slightly in 2012. South Africa has enjoyed a significant but declining trade surplus with the United States and is a major export and investment destination for U.S. businesses in Africa. Security cooperation is another key area of engagement. In 2010, the two countries established a Strategic Dialogue centering on cooperation related to health, education, food security, law enforcement, trade, investment, energy, and nonproliferation. South Africa hosted two visits by former Secretary of State Hillary Clinton, as well as by other top U.S. officials. First Lady Michelle Obama traveled to South Africa in 2011, as did Vice President Joseph Biden and his wife in 2010, when they attended the World Cup.

Congress has played an active role in U.S. relations with South Africa. This was particularly true during the struggle against apartheid, beginning in the late 1960s, through the first decade that followed the 1994 transition to majority rule.<sup>6</sup> In recent years, congressional engagement with South Africa has mainly focused on foreign aid program oversight, particularly relating to HIV/AIDS and other healthcare-related programs. In addition to these traditional areas of interest, efforts to bolster trade and investment ties with South Africa, and with Africa generally, are drawing increasing congressional attention. Trade was a key focus of an early 2013 bicameral congressional delegation to South Africa.

## Country Overview

South Africa, a multi-racial but predominantly black country about twice the size of Texas, has the largest, most diversified, and most industrialized economy in Africa. South Africa is also influential regionally, due to its investment and political engagement in many African countries and active role and leadership within the inter-governmental African Union (AU). It has enjoyed economic growth for more than a decade, apart from 2009 when the economy contracted, and average per capita incomes and access to education have grown across racial groups, notably for blacks. Nonetheless, South Africa remains a racially unequal society with respect to wealth and income distribution and access to jobs, social services, and utilities. There are also significant regional, rural-urban, and intraracial disparities. Most black South Africans live in poverty and average per capita black incomes are one sixth as large as those of the historically privileged white minority, although this disparity has gradually declined. Blacks are also

### South Africa at a Glance

**Geography & Key Natural Resources:** Nearly twice as large as Texas. Ample metal and mineral deposits; rare earth elements; diamonds; and natural gas.

**Population:** 51.7 million (2011)

**Key Exports:** Platinum, gold, and other metals and minerals; diamonds; machinery and equipment.

**Languages:** 11 Official languages; of these, isiZulu, isiXosa, English, and Afrikaans are most widely spoken.

**Religions:** Christian, 79.7% (Protestant, various denominations, 36.6%; other Christian, 36.0%; Catholic, 7.1%); None, 15.10%; other/unspecified, 3.7%; Muslim, 1.5% (2001)

**Literacy:** 81% (2011)

**Under-5 Mortality:** 46.7 deaths/1,000 live births (2011)

**HIV/AIDS adult infection rate:** 17.3% (2009)

**Life Expectancy,** years: 50.3, male; 48.6, female (2012)

**Sources:** CIA *World Factbook*, 2013; World Bank data; and South African Census, 2011.

<sup>6</sup> Congress sought to induce democratic change by enacting a range of restrictions on U.S. relations with the apartheid regime in the 1970s and 1980s. These actions culminated in passage of the Comprehensive Anti-Apartheid Act of 1986 (P.L. 99-440). It imposed multiple conditional sanctions on South Africa and was enacted after being vetoed by then-President Ronald Reagan. The Reagan Administration had sought to promote change by maintaining links with the apartheid regime and engaging it in dialogue, in part due to shared U.S.-South Africa regional anti-communist goals.

disproportionately unemployed, at a rate of 36% in 2011, compared to 5.9% for whites, and have relatively less access to education, although black education rates are steadily increasing.<sup>7</sup>

South Africa faces a variety of other challenges, many related to poverty and public service provision. Most South African cities are surrounded by vast, high-density informal housing settlements, known as townships, which are populated mostly by blacks and coloureds.<sup>8</sup> Shortages of formal housing (i.e., legally registered, generally durable cement houses, as opposed to improvised shanty structures often constructed by squatters), water, electricity, and social services in townships have contributed to growing social and political tensions. Township protests demanding improvements in these areas have increased in recent years. Labor unrest is also common and rose sharply in 2012. Public corruption is another key challenge, and there are high rates of violent crime, particularly rape. There are periodic reports of vigilante and mob violence, and police reportedly often use heavy-handed tactics to respond to crime and public unrest, occasionally resulting in serious human rights violations. South Africa is afflicted by high but stable rates of HIV/AIDS; the adult HIV prevalence rate in 2011 was 17.3%.<sup>9</sup>

## **Politics and Governance Under President Zuma**

The governing African National Congress (ANC) has held a large majority in the National Assembly (parliament) since the first universal suffrage elections in 1994, and currently holds a majority just shy of the two-thirds required to amend the constitution. The Assembly elects the country's president, and as a result, the ANC has controlled the executive branch since 1994. The ANC customarily nominates its party president to serve as national president, with some exceptions (see textbox below). The assembly elected the incumbent ANC president, Jacob Zuma, to his first term as national president in 2009.

In 2012, much political attention in South Africa focused on prospects for the selection of the top leadership of the ANC at the party's national conference in late 2012, ahead of national elections in 2014. Throughout much of 2012 there was speculation that Zuma might be successfully challenged, as he has been criticized from many quarters in recent years, along with the ANC at large. In the end, however, he mounted a carefully crafted, successful reelection campaign, easily thwarting a belated and reportedly ill-coordinated rival bid by his deputy, Kgalema Motlanthe.<sup>10</sup>

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<sup>7</sup> Statistics South Africa, *Census 2011*, Statistical Release P0301.4, October 30, 2012.

<sup>8</sup> Black Africans of varying ethnic groups make up 79.2% of the population. Most whites are Afrikaans speakers of Dutch, German, and French Huguenot ancestry, but there is a significant English-speaking white minority. Other key minorities include coloureds, a multi-racial group with varying black, white, Khoisan, Malagasy, and other ancestry; and Asians, many of Indian descent. Whites and coloureds each make up 8.9% of the population, while Indians/Asians make up 2.5% and others 0.5%. Statistics South Africa, *Census 2011*, Statistical Release P0301.4, October 30, 2012.

<sup>9</sup> HIV/AIDS prevalence rates have remained steady, at between 17.2% and 17.3% since 2004, but incidence, the rate of new infections, is declining. UNAID and World Health Organization (WHO) data through World Bank World Development Indicators database; and UNAIDS/WHO *Epidemiological Factsheet: South Africa*, as of June 2013.

<sup>10</sup> Motlanthe, who is the incumbent national vice president and Zuma's predecessor as South African president, entered the race as deputy ANC president. The Zuma camp reportedly "sent 40 hand-picked intelligence operatives" to the conference, both to ensure public security and to "identify and neutralise anyone attempting to swing the vote" for Motlanthe. In some instances, fraud, coercion, and patronage were allegedly used during pre-conference provincial delegate selections. *Africa Confidential*, "Zuma Leaves Nothing to Chance," December 14, 2012; and "How the Branches Voted" and "Zuma or Else," November 16, 2012.

Zuma's election as head of the ANC means that he is almost certain to win a second term as South Africa's president.

### Jacob Zuma: Background and Rise to the Presidency

Zuma has a colorful political persona. He comes from a poor background and was largely illiterate until adulthood. He joined the ANC in 1959 and its armed wing, Umkhonto We Sizwe, in 1962. After a 1963 sedition conviction, he served a ten year sentence at Robben Island prison, where many of the most notable members of the ANC—including Nelson Mandela, South Africa's Nobel Peace Prize-winning first president—were also imprisoned. Upon his release in the mid-1970s, he went into exile to work on behalf of the ANC. He rose in its ranks, serving as ANC Intelligence Chief and in multiple top political posts, both during and after the antiapartheid struggle. He has used his liberation background, his Zulu ethnic identity, and appeals to African cultural tradition to obtain support among Zulus and the larger black African population, notably in rural and poor areas. He reportedly adeptly uses local idioms to draw analogies between traditional African social institutions, ANC policies, and the developmental role of the state. Dubbed the "100% Zulu Boy," he is a traditional polygamist, having married six times. He is famous for singing and dancing to *Awuleth' Umshini Wami (Bring Me My Machine Gun)*, a Zulu language armed liberation song that some believe inappropriately legitimizes the use of political violence.

Zuma was first elected as ANC president in 2007, when he ousted then-national president Thabo Mbeki as head of the ANC at the party's conference, but Zuma did not become president of the country until 2009. His 2007 election was seen as the result of growing disenchantment with Mbeki among ANC rank and file members, many of whom reportedly viewed Mbeki, fairly or not, as an aloof, neo-liberal technocrat beholden to wealthy elite interests, and as having exhausted his electoral mandate. Zuma's run against Mbeki was also seen as driven by Mbeki's dismissal of Zuma as deputy national president in 2005 after allegations that Zuma had been involved in corrupt acts. After his dismissal, Zuma also resigned as a member of parliament. He faced further legal challenges in late 2005, when he was charged with raping the daughter of a late family friend, for which he was acquitted after a high-profile trial in 2006.

The corruption allegations stemmed from a prosecution that led to the conviction of Zuma's financial advisor for financial crimes, including charges related to a 1999, circa \$4.9 billion government arms deal with several large European firms. Zuma later faced corruption charges pertaining to the case against his advisor.<sup>11</sup> A conviction in the case would have rendered Zuma ineligible to become national president, but after extensive legal proceedings they were dropped in 2009, in part due to alleged interference by Mbeki in the case in a manner prejudicial to Zuma. This led to Mbeki's recall by the ANC leadership. He was replaced by Kgalema Motlanthe, who served until 2009, when national elections were held, after which Zuma was elected national president by the National Assembly.

## The ANC and Other Political Parties

While the ANC is the dominant party in South Africa, it faces a growing number of opposition parties. The ANC, an ideologically leftist political party, earned much of its political support by leading the struggle against the apartheid system. It is dedicated to ending the diverse, deep-rooted, enduring social inequalities created by apartheid; and to ensuring social unity and equal access to rights, opportunities, land, and other resources, including through affirmative action and redistribution. It seeks to attain these ends by creating a "developmental state" built on a mixed economy combining state and other forms of collective ownership with private property and a market-based system. The ANC often supports social democratic-leaning development policies and many of its political documents are steeped in leftist, often radical political doctrine, but ANC-led state policy-makers often advocate pragmatic, market-based approaches. The ANC governs in a tripartite alliance with the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP). Under the alliance, which guides ANC policy,

<sup>11</sup> See, for instance, Sam Sole, "Zuma Tapes: A Timeline," November 2, 2012 and Niren Tolsi, "Zuma Misses Deadline for Affidavit on Spy Tapes," October 24 2012, both in the *Mail & Guardian (M&G)*.

COSATU and SACP are independent entities, but their members nominate political candidates through the ANC, hold ANC leadership posts, and help shape ANC policies.<sup>12</sup>

The second-largest party in parliament, the Democratic Alliance (DA), was formed as a means of challenging ANC dominance.<sup>13</sup> In subsequent elections at various levels of government the DA gradually increased its electoral strength, and in 2009 won a majority in the provincial legislature of the Western Cape. In 2010, another opposition party, the Independent Democrats, announced that it would merge with the DA. The DA has a substantial white and coloured support base, but has faced challenges in attracting broad black support.<sup>14</sup>

A newer party is the Congress of the People (COPE), formed by a dissident group of former ANC government ministers in 2008, ahead of the 2009 election. COPE was formed in the wake of Zuma's successful ouster of Mbeki as head of the ANC in 2007, which caused enduring rifts between the two leaders' supporters. There is substantial animosity within the ANC for COPE. COPE won 30 seats in 2009, becoming the third largest party in parliament and arguably curtailing the strength of the ANC, but fared poorly in municipal elections in 2011, however, when it garnered only 2.6% of votes.<sup>15</sup>

A third major opposition party is the mostly ethnically Zulu Inkatha Freedom Party (IFP), headed by Chief Mangosuthu Buthelezi, who has been active in politics for decades. The IFP has steadily lost parliamentary seats since the 1994 election, in recent years due partially to the rise of Zuma, whose own Zulu background and popularity have drawn the support of many Zulus. There are a number of minor parties, and in early 2013 Mamphela Ramphele, a veteran antiapartheid activist, academic, and businesswoman, announced the formation of a new one, Agang, aimed at contesting ANC rule. Many analysts judge its prospects alone as poor, but it adds to the number of parties that could coalesce into a more potent challenge to the ANC.<sup>16</sup>

## **The Zuma/ANC Agenda: Policy Approaches and Challenges**

South Africa has made great socio-economic strides since the end of apartheid, but popular expectations and demands for change remain high, and the country faces a raft of problems. Far

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<sup>12</sup> ANC, *Building a National Democratic Society: Strategy and Tactics and the Balance of Forces in 2010*; ANC, *The Second Transition? Building a National Democratic Society and the Balance of Forces in 2012*, Special National Executive Committee, February 27, 2012; and ANC, *The National Executive Committee/ The Tripartite Alliance*.

<sup>13</sup> The DA was established in 2000 as a merger between the Democratic Party (a primarily white but liberal, historically anti-apartheid party) and the New National Party (descended from the National Party, the progenitor of the white apartheid regime). During local elections in 2000, the two parties' alliance enabled them to maintain electoral control of the provincial legislature, the key city of Cape Town, and many municipalities in Western Cape Province. The NNP left the DA in 2001 to ally with the ANC, with which it later merged, in part to obtain state posts for its leaders.

<sup>14</sup> DA, *Our History*, 2013; Neil Southern, "Political Opposition and the Challenges of a Dominant Party System: The Democratic Alliance in South Africa," *Journal of Contemporary African Studies*, (29:3), 2011; and various election result data sources.

<sup>15</sup> One 2012 ANC political document denigrates COPE's former ANC leaders as "the whisky-drinking, cigar-smoking, class that profited from policies we now call the '1996 class project'—the grouping in government who imposed the neo-liberal, pro-business and pro-rich" policies and whose members exhibit an "anti-communism and anti-worker, anti-trade-union attitude... exactly the same...as the apartheid regime." ANC (Northern Cape chapter), *Strengthening the Organization, and to Build an All-Round Activist Approach to Defectors Who Want to Rejoin Our Ranks*, 2012; and Bloomberg News, "South Africa's Cope Party Sees Voter Support Slump After Power Struggle," May 19, 2011.

<sup>16</sup> Nickolaus Bauer, "Parties May Join Forces to Fight ANC in 2014 Poll," *M&G*, February 15, 2013.

more schools, housing, and utilities are now available, notably to blacks, who make up 79% of the population. As the group most disadvantaged by apartheid, however, blacks continue to be the most impoverished portion of the population. Black access to education has grown substantially,<sup>17</sup> as have black incomes,<sup>18</sup> although massive gaps remain vis-a-vis whites. The range of other challenges that the country faces is diverse. According to analyses presented in a major 20-year national development plan (NDP) by the National Planning Commission (NPC), an executive branch entity:

- Too few people work; unemployment and underemployment rates are very high; the quality of school education for black people is poor; and South Africa remains a divided society, both socioeconomically and spatially (e.g. there are sharp rural-urban divides, and poor urban areas are often located at a distance from jobs, infrastructure, and public services), but most of all racially.
- Infrastructure is poorly located, inadequate, and under-maintained. Scaled-up investment in integrated freight and passenger transport systems, communication technology, and electricity generation and distribution systems is needed. Spatial divides hobble inclusive development; the poor often reside far from jobs, housing, infrastructure, and economic opportunity zones. Integrated urban and rural-urban planning investments are needed.
- The economy is unsustainably natural resource-intensive. Arable land, water, and natural resource commodity reserves are under stress. Economic retooling is needed to help avert climate change.
- There is a high national disease burden and the public health system cannot meet demand or sustain quality services. Spending has also shifted to the private sector, which competes with the public sector for trained workers and other resources. Public services have been scaled up but cannot meet demand. Quality is also uneven and often poor, in part due to political rather than professional management and a lack of accountability structures.
- Public corruption levels are high, partly due to weak, abuse-prone financial and procurement systems; lack of capacity to monitor for and sanction abuses; and unequal wealth distribution.<sup>19</sup>

The NDP lays out detailed goals and plans for addressing the problems identified above, among many others, and has been endorsed by parliament. It tracks closely both with other short- to long-term government economic development plans,<sup>20</sup> as well as the ANC's political and policy agendas, which closely inform and guide government action.

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<sup>17</sup> In 2001, 17% of blacks attained secondary education degrees. That proportion had grown to 27% by 2011, while the rate for whites remained stable, at around 40%. In 2011, 24.4% of blacks had partial primary education (13.9%) or no education (10.5%), but this proportion was down from 40.8% in 2001, when 18.5% of blacks had limited primary education and 22.3% had none. Statistics South Africa, *Census 2011*, Statistical Release P0301.4, October 30, 2012.

<sup>18</sup> Average annual black per capita incomes rose from about \$2,620 in 2001 to \$8,385 in 2011, a 269% increase. Whites have remained far wealthier, with average per capita incomes of \$22,550 in 2001 and \$50,512 in 2011. White per capita incomes have grown rapidly (by 188%) but more slowly than those of blacks. Black to white income inequality ratios have also declined; in 2001, average per capita white incomes were 8.6 times higher than those for blacks, while in 2011, they were 6 times higher. Statistics South Africa, *Census 2011*, Statistical Release P0301.4, October 30, 2012.

<sup>19</sup> NPC, *National Development Plan 2030: Our Future-Make It Work*, August, 2012. The NPC's analysis dovetails with many of the conclusions of a July 2012 World Bank study, *South Africa Economic Update: Inequality of Opportunity*.

<sup>20</sup> Examples include the New Growth Path (see *The Economy*, below) and the "Outcomes Approach," a set of 12 strategic government goals and related agency "delivery agreements" and performance monitoring criteria. The outcomes focus on improvements in basic education, healthcare, and public security and criminal justice services; job skills training; infrastructure growth, integration, and related institution building; rural community development and agrarian reform, access to nutrition, and job and general economic growth; housing and basic services, notably in poor, (continued...)

## Governance Challenges

While the challenges identified and solutions offered by the NDP are the product of sober public policy analyses and planning, they also reflect a politically realistic self-assessment by the government; its findings dovetail with the views of many government and ANC critics. This is particularly true of unemployment, lack of educational and healthcare access, poor public service delivery, crime, and corruption, which are notable sources of widespread public anger. A wave of often violent mass labor strikes in 2012 was accompanied by a sharp rise in protests over inadequate township service delivery in 2012. At least 226 such protests occurred during the first eight months of 2012 and, as with labor protests, many were violent. Such protests have been common for many years but have steadily risen.

Ineffective police responses or other actual or perceived failures by the criminal justice system have also often been the focus on local protests in recent years. In some instances, protests turn into acts of vigilante justice (e.g., lynchings and extra-judicial mob beatings or killings of suspected criminals).<sup>21</sup>

Corruption by economic elites, including some senior ANC members, of policies aimed at reversing the economic inequalities of the apartheid era have also stirred resentment. The same is true of the ANC's reportedly often politicized management of public goods and services, which frequently appear to financially benefit its local or national leaders, their kin, or associates. Such practices and the local political violence that they generate are a reflection of the dearth of economic opportunities for blacks. For blacks with limited education and job prospects, local government posts gained through party ties may be one of the few ways out of poverty. Such actions often breed antipathy, however. According to one writer:

Local protests, in which [the ANC's] own members are participants, are increasingly hard to manage. While in the past, protestors symbolically burned public property, targets are now the homes, cars and persons of ANC councilors. ANC branch and regional politics has become dirty and violent, with some members carrying firearms to meetings and attacks and shootings of local leaders are not infrequent.<sup>22</sup>

(...continued)

high density urban areas; local government capacity building; environmental stewardship; and targeted anti-corruption measures. See The South African Presidency, *Guide to the Outcomes Approach*, May 2010.

<sup>21</sup> Wendell Roelf, "In South Africa's Slums, Mob Justice Rules," Reuters, July 12, 2012; and Nashira Davids, "The Year That Anger Boils Over," *The Times* via *The Sowetan*, October 11, 2012.

<sup>22</sup> Carol Paton, "Cosatu Finds A Way Through the Tricky Political Minefield," *BDLive*, May 16, 2012. There are multiple press accounts of local violence related to local service protests, ANC politics, and government corruption.

Figure I. South Africa Map



Source: CIA World Factbook, 2013.

## Corruption

Criticism of the ANC on corruption grounds is not limited to the party at large or its local branches; President Zuma and some members of his cabinet have also been reproached on this front. News and research reports have documented numerous cases of alleged patronage, influence peddling, and explicit criminal acts of corruption during Zuma's tenure, and some analysts allege that the incidence of such acts is increasing.<sup>23</sup> When he took office in 2009, South Africa ranked 55<sup>th</sup> best out of 180 countries on Transparency International's Corruption Perceptions Index. By 2012, it had dropped to 69<sup>th</sup> of 176 countries assessed. The government admits that corruption is a problem, and Zuma has taken strong public stances against it.<sup>24</sup> There have been reports, however, that prosecutions of suspected corrupt officials have been selective and that cases reported in the press are not always officially investigated. In some instances, public information about state spending or administrative roles in public projects or deals involving party officials has not been released, and there have been some reported efforts to inhibit discussion of politically sensitive allegations in parliament and other formal forums.<sup>25</sup>

Over the past year or two there has been a major school textbook procurement scandal, which added to criticisms of the Zuma government's education record; and an allegedly irregular mining deal linked to Zuma relatives. There also have been frequent scandals over so-called "tenderpreneurship," in which state officials, politicians, and politically connected businesspersons use their authority or influence to secure government tenders and contracts. These have included several property leasing scandals that have implicated top law enforcement officials.<sup>26</sup> Diverse other types of police corruption, such as roadside bribe activity, and other types of irregular or corrupt dealings by state officials have been widely reported.<sup>27</sup>

In early 2013, Zuma stated that if a businessman joins the ANC, "your business will multiply. Everything you touch will multiply." Critics interpreted this as implying that political links to the party can be used corruptly to generate private profit, but the ANC maintains that the statement

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<sup>23</sup> Moeletsi Mbeki, "Corruption and Dependence: South Africa's Road to Ruin or Salvation?," *Opendemocracy.net*, March 31, 2011; Corruption Watch, "What the Public Told Us About Corruption," January 31, 2013; Justice Malala, "Has ANC Been Stolen?," *Times Live*, March 18, 2013; Richard Pithouse, "Meeting Amidst the Rot," South African Civil Society Information Service, December 12, 2012; Associated Press, "SAfrica Audit: \$2.8 Billion Lost From Provinces," March 20, 2013; and *Times Live*, "Massive Looting at SABC Exposed," October 7, 2012.

<sup>24</sup> Donna Bryson, "S. Africa Prez Calls on ANC to Root Out Corruption," Associated Press, June 26, 2012; Stella Mapenzauswa, "Corruption Puts Strain on South Africa Budget," Reuters, February 21, 2012; and *M&G*, "Zuma Says Buck Stops With Him On Police Lease Deal," August 12, 2011.

<sup>25</sup> Lynley Donnelly, "Speaker Refuses Debate on Zuma Inc," *M&G*, August 19, 2011; and *M&G*, "How About We DON'T Talk About It, Says Presidency," August 15, 2011, among others.

<sup>26</sup> A South African Auditor General's report covering the 2010-11 fiscal year found that state agencies made about \$2.8 billion in unauthorized expenditures and that only three of 39 (8%) departments and less than half of 272 state firms (42%) had clean audits for 2011. A former police Special Investigating Unit reportedly estimates government corruption losses at up to R30 billion (about \$3.3 billion) annually, with other observers positing larger figures. Stella Mapenzauswa, "Corruption Puts Strain on South Africa Budget," Reuters, February 21, 2012, among others.

<sup>27</sup> On corruption, see Mandy de Waal, "Corruption Watch and SA's Crusade Against Graft," *Daily Maverick*, January 30, 2013; reports by Corruption Watch South Africa ([www.corruptionwatch.org.za](http://www.corruptionwatch.org.za)); numerous investigations by the *Mail and Guardian* and its Centre for Investigative Journalism ([amabhungane.co.za](http://amabhungane.co.za) >> Investigations), *City Press*, and other South African investigative media; Institute for Security Studies (ISS) studies on police corruption and analyses of corruption and politics; Peroshni Govender, "S.Africa's Zuma Fires Scandal-Hit Police Chief," Reuters, June 12, 2012; Erin Conway-Smith, "South Africa Troubled By Corrupt Cops," *Global Post*, May 10, 2012; and Johannes Myburgh, "Zuma Fires Police Chief, Appoints New Ministers," Agence France Press, June 12, 2012, among others.

merely indicates that the party is business-friendly.<sup>28</sup> Critics also contend that Zuma has used public funds to benefit himself or his political interests, especially in two ongoing cases linked to his rural residence and home village of Nkandla.<sup>29</sup>

## **Crime and Police Responses**

South African rates of violent crime are high, although rates for murder have steadily fallen (from 69.5 per 100,000 persons in 1994 to 30.9 in 2011/2012, according to South African Police Service [SAPS] statistics). In addition, it is common for perpetrators of crimes like robbery to aggravate such acts by also violently assaulting, raping, or killing their victims. Explanations for such brutality vary, and often trace the culture of violence among criminals to a mix of factors. These include norms formed under the apartheid system, including resistance to state repression and the widespread use of personal small arms; continuing stark socio-economic disparities; patriarchal social mores and gender inequality; and other self-replicating norms of violence. Among violent crimes, the rape of women and children is very common, and rape and murder also features in identity-based hate crimes targeting sexual minorities. Although rape in South Africa is believed to be highly under-reported, South Africa still has among the highest rates of reported rape globally, at 127.5 per 100,000 persons in 2011/2012, according to SAPS data. Alleged rapists are often not found guilty; the country has a reported 12% rape conviction rate.

Women's rights activists and other have long decried the lack of stronger public and state responses to sexual violence. A number of brutal crimes against women and children in 2012 and early 2013,<sup>30</sup> however, galvanized more public outrage than such incidents generally have, and the ANC Women's League, backed by the ANC, called for a National Commission of Enquiry into rape and gender-based violence in early 2013. President Zuma also launched an anti-rape education campaign. Two other crimes in early 2013 also drew global attention to issues of gender violence and police misconduct in South Africa, the most high-profile being the killing by double leg amputee Olympic runner Oscar Pistorius of his girlfriend, which many women's rights activists have viewed as a crime of gender violence.<sup>31</sup>

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<sup>28</sup> ISS, "When Do Close Ties Between Politicians and Business People Become Problematic?," January 25, 2013; Nickolaus Bauer, "ANC: Nothing Wrong With Zuma's Call For Support From Businesses," *M&G*, January 15, 2013; and M. Joshua Mazibuko, "Jacob Zuma Promoting Corruption-IFP NEC," Inkatha Freedom Party, January 14, 2013.

<sup>29</sup> Since August 2012, controversy has raged over public spending and unusual contracting terms in a state-financed, circa \$23 million security upgrade to Zuma's private rural homestead. An initial probe absolved Zuma of responsibility, but the Public Protector, a state ombudsman, is investigating further. The separate planned public-private construction of a new \$200 million-plus "smart growth center"—essentially, a new town near Zuma's residence, with about half financed by the state, allegedly through a presidentially led public entity that the DA opposition party views as a political patronage scheme—is also the focus of a Public Protector probe.

<sup>30</sup> An extremely brutal gang rape and murder of a teenager in an early 2013, coming after weeks of public furor in India about a similar incident, sparked widespread public revulsion and calls for punitive and policy action to counter crimes of sexual violence. The rape of a two year old in early 2013 also provoked outrage, as had the gang-rape of a 17-year-old girl in 2012, a recording of which was uploaded to and went viral on the Internet.

<sup>31</sup> SAPS responses in the Pistorius case, which is ongoing, drew public criticism after reports of errors by the lead detective investigating the case and revelations that the same officer was facing seven attempted murder charges. In February 2012, the SAPS again faced sharp criticism from the public and from President Zuma after the death of a taxi driver in police custody. Eight SAPS officers face murder charges for tying the driver to a police vehicle and dragging him for a considerable distance. A similar, separate but police dragging case was reported days later.

Police misconduct incidents, ranging from serious human rights abuses—including torture and targeted killings<sup>32</sup>—to high-level corruption to lesser misconduct, such as roadside bribery and absenteeism, are part of a trend, according to many observers and many media reports. Such problems reportedly have multiple roots. Management challenges are a key factor, in part because the SAPS is a large, nationally dispersed force of about 200,000 personnel. Other factors include training deficits, partially arising from a wave of post-apartheid hiring; a purported code of silence regarding internal misconduct reporting; and the residual effects of repressive apartheid-era police practices. Abuses also stem from a hardnosed policing culture that appears to be a reaction to the highly violent crime context that officers confront daily.<sup>33</sup> Despite problems of misconduct, the SAPS reportedly has a core of well-trained officers and a number of highly specialized units, notably the Directorate for Priority Crime Investigation, a serious organized and commercial crime and high-level corruption unit. Moreover, SAPS is seen as a capable force by regional standards, and the majority of police reportedly do not engage in misconduct or abuse.

### **Youth Population: Political Potential and Character**

Another long-term challenge for the ANC government stems from South Africa's large youth population, especially those born after 1994. Dubbed the "born free" generation, they comprise about 38% of the population and have always lived in a democracy. Of this age cohort, nearly two million (almost 10% of the potential electorate), will be eligible to vote for the first time in the 2014 elections. The group will make up nearly 23% of eligible voters in the 2019 elections (when the entire generation will make up 48% of the population). Adults under 35 years of age suffer especially high unemployment rates, estimated at over 50%. The "born-free" group shares frustrations with older generations over corruption, lack of services, and poverty, but many are reportedly not party-affiliated and lack older generations' continuing allegiance and gratitude to the ANC for its role in ending apartheid. Generational rifts have recently been on display within the ANC Youth League (ANCYL) in relation to the ANC's expulsion of the fiery, populist former ANCYL leader, Julius Malema.<sup>34</sup> Youth also participate in more service protests than do older generations, but reportedly vote less often than their elders, which may attenuate their potential electoral influence. To cater to youth demands, political parties have vied to introduce state youth wage and jobs schemes (often in the face of union opposition), expanded skills training programs, and youth-friendly procurement and hiring preferences.

### **Media and Expression**

The Zuma government has reportedly sought to curtail access to public information and has used the state South African Broadcasting Corporation (SABC) to promote ANC views and limit criticism. Critics allege that Zuma and the ANC have used defamation suits or threats of suits to quiet critics. Another source of controversy has been the Protection of State Information Bill (dubbed the Secrecy Bill), which was enacted by parliament in late April 2013. Originally, it included tough sanctions against persons possessing most types of classified government

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<sup>32</sup> AI, "Brutal Reign by South African Police Claims Another Victim," March 1, 2013.

<sup>33</sup> In 2008, a deputy police minister stated that, despite constitutional protections for the rights of accused persons, police "have permission to kill" criminals. Lydia Polgreen, "Outrage in South Africa After Police Drag Man Behind Truck and He Dies," *New York Times*, February 28, 2013.

<sup>34</sup> Malema, who expelled from the ANC in 2012 for repeatedly harshly criticizing Zuma and other top ANC leaders, also drew criticism for using racially charged rhetoric. He faces a range of fraud, public corruption, and other charges.

documents, with no exceptions for matters of public or press interests. Civil society and media opponents suggested that the bill might abet politicized classification of legally or politically damaging information and subject those who reveal it to prosecution. The bill has since been amended to address such concerns, but questions remain over possible conflicts with the Promotion of Access to Information Act, a constitutionally required freedom of information law. Moreover, the bill may still contain loopholes enabling unwarranted classification and “can be used to jail whistle-blowers and journalists” who report on corruption.<sup>35</sup>

## **Increasing Labor Unrest**

In 2012, in addition to service delivery protests, a series of labor strikes disrupted production in the gradually declining but still economically vital mining sector and spurred later strikes in other sectors. Labor unrest has since continued.<sup>36</sup> This wave of labor actions reflects a long-standing pattern of union activism. It has taken on increased political significance, however, because it reflects rising discontent by a key element of the ANC's political support base—alongside a more general growth in dissatisfaction over governance—and has led to questioning of Zuma's reputation as a champion of workers' rights and the working poor.

Many of the strikes, including a violent one in early 2012 at a large platinum mine that is viewed as a motivating factor in the later series of strikes 2012 and 2013, have been led by the insurgent independent Association of Mineworkers and Construction Union (AMCU). A growing number of miners have turned to AMCU for representation, claiming that leaders of the ANC-affiliated National Union of Mineworkers (NUM), South Africa's largest union, have ignored or ineffectively supported their demands for political reasons or due to financial ties to corporations. Growing AMCU influence implies a possible weakening in grassroots labor support for the Congress of South African Trade Unions (COSATU), of which NUM is a key member, and thus for the ANC and Zuma. The situation is not as straightforward as such an analysis may suggest, however, because COSATU is deeply internally divided between pro- and anti-Zuma factions. In addition, while COSATU has long been a key partner in the ANC's governing alliance, it has also long acted as a channel for criticism of the ANC.<sup>37</sup> In 2012, COSATU sponsored multiple public protests focusing on such issues as new ANC-supported road tolls and short-term labor contract agencies. Further toll protests have continued in 2013.<sup>38</sup> In addition to such issues, the protests are viewed as reflecting COSATU demands that the ANC pay heed to its members' political priorities in the run-up to the 2014 elections.

A particularly serious political challenge for the ANC was sparked by a wildcat strike at the Lonmin corporation's Marikana mine in August 2012. It began after NUM officials at the mine, who reportedly were paid regular miners' salaries plus large Lonmin bonuses, refused to meet with strikers demanding pay increases. The strikers, mostly NUM members, then marched on the NUM offices and were assaulted by NUM officers, leaving two strikers fatally shot. Days of running clashes with police and mine security guards ensued, resulting in as many as 10 deaths. On August 16, police launched an operation to contain the protesters. Accounts vary, but most

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<sup>35</sup> Jon Herskovitz, “South Africa Passes Secrets Bill; Critics Say It May Hide Graft,” Reuters, April 25, 2013.

<sup>36</sup> Wendell Roelf, “South Africa's Zuma Talks Tough Against Mining Unrest,” Reuters, May 30, 2013.

<sup>37</sup> *Africa Confidential*, “ANC Wields the Long Knives,” April 12, 2013.

<sup>38</sup> COSATU alleges that labor contract agencies exploit workers by providing low pay and few job benefits and maintain unequal work practices rooted in the apartheid system.

suggest that this action prompted further striker-police clashes, during which gunshots were fired at the police. Police then opened fire on the strikers, killing 34 and wounding 78 or more.

The killings prompted widespread public outrage, especially after 270 arrested strikers were charged with legal responsibility for the murder of the slain miners under an apartheid-era law, even though the strikers were killed by the police. The Zuma government later dropped the charges in the face of harsh criticism. The police were further criticized after investigations suggested that many of the dead had been shot in the back and that some were killed at a distance from the main protest site. The massacre is the subject of a broad-ranging official commission of inquiry. After the killings, workers and their relatives at the site continued to strike for several weeks and there were further non-fatal clashes with police. In late September, a deal was announced giving the strikers a historically high 22% salary increase. This success, as well as subsequent populist calls for nationwide strikes and mine nationalization, is widely viewed as spurring further large strikes at other mines in succeeding months and labor unrest in the transport, farming, and other sectors. Labor unrest, notably in the platinum and automobile manufacturing sectors, have continued in 2013.

## **The Economy**

South Africa's economy is diverse and is the largest in Africa.<sup>39</sup> The country is a famed wine producer and exports a range of agricultural products, such as wool, maize, sugar, and fruit and juice, although only about 10% of its land is arable and agriculture contributes less than 3% of the gross domestic product (GDP). Industrial contributions to GDP, at 31%, are far more significant. South Africa is the world's leading producer of platinum and chromium and a major gold, diamond, and coal producer. Other key industrial sectors include automobile assembly, chemicals, textiles, foodstuffs, and iron and steel production. Services contribute the largest share of GDP, 67%.<sup>40</sup> South Africa has large and well-developed tourism, banking, energy, legal, communications, and transport sectors. South African cell phone companies and other firms are active throughout Africa, and SABMiller, formerly South African Breweries, operates globally. The Johannesburg Stock Exchange is among the 20 largest exchanges globally, and South Africa is one of the few African upper middle income countries (defined by the World Bank as those with a per capita gross national income of \$4,086-\$12,615 in 2012).

Domestically, South Africa faces a number of economic challenges. Low local savings rates mean that South African firms seeking credit must often turn to foreign sources of finance. Government deficits have increased in recent years, from an average of 0.5% of GDP from 2005 to 2008 to an average of nearly 5% of GDP from 2009 to 2012, and government net debt as a percent of GDP has grown from a low of about 23% in 2008 to over 34% in 2012. Total external debt stocks have risen steadily, from \$68 billion in 2008 to nearly \$114 billion in 2011.<sup>41</sup> Due to population increases, real per capita GDP growth has also lagged behind national GDP growth rates.

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<sup>39</sup> South Africa had a gross domestic product (GDP) of \$384 billion in 2012. The African countries with the next largest gross domestic products were Nigeria (nearly \$268 billion) and Egypt (\$257 billion). IMF, World Economic Outlook Database, April 2013 update.

<sup>40</sup> Sectoral GDP shares from World Bank, World Development Indicators database (WDI). Mining trends from U.S. Geological Survey commodity surveys. Land and industry summaries from CIA *World Factbook* 2013, *inter alia*.

<sup>41</sup> Data from IMF, World Economic Outlook Database, April 2013 update; and CRS calculations based on this data. External debt stocks from World Bank, WDI.

An inadequately educated workforce is widely seen as a key hindrance to growth. Education quality in South Africa ranks poorly in international comparisons, despite large investments in the sector.<sup>42</sup> High unemployment, limited access to social services, and diverse public infrastructure investment needs are also viewed as key barriers to economic growth. According to the IMF, distortions of demand, supply, and pricing in the labor market, together with other market imbalances, have undermined South Africa's economic production potential and contributed "to preserving inequality and high unemployment."<sup>43</sup>

## South Africa in a Global Economic Context

While South Africa's international competitiveness is hindered by the internal structure and dynamics of its economy, global market trends also strongly influence South Africa's internal economic growth patterns. According to the IMF, the export sector "generates a significant amount of the wealth" in the economy and "facilitates the generation of value added in supporting industries and the provision of services." In recent years, two key external developments have posed significant economic challenges. The 2008-09 global financial crisis reportedly contributed to a 1.5% decrease in South Africa's real GDP in 2009, although the economy largely recovered, growing by 3.1% in 2010. The second, the ongoing European economic crisis, is seen as the reason for a drop in European demand for South African products, although a general rise in exports, most notably to China and Africa, have more than made up for that decline. South African firms are also expanding their investments in Africa, particularly in banking, mining, and telecommunications.<sup>44</sup>

Foreign direct investment (FDI) is another indicator of South Africa's linkages with other economies. FDI flows into South Africa have been variable but generally have risen since the early 1990s. They peaked at just over \$9 billion in 2008, and stood at \$5.8 billion in 2011, when FDI stocks totaled almost \$130 billion. In 2012 FDI inflows decreased by 24%, dropping from \$6.04 billion in 2011 to \$4.57 billion in 2012, when FDI stock stood at \$138.96 billion. However, South African FDI outflows—investments abroad—also increased, from a negative \$257 million in 2011 (compared to the previous year) to \$4.37 billion in 2012, when South African foreign investments totaled \$82.37 billion.<sup>45</sup> The World Bank's annual *Doing Business* survey has found that South Africa is a relatively easy place to do business. Its ranking under the survey, however, has gradually declined under the Zuma Administration, from 32<sup>nd</sup> in 2009, when President Zuma

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<sup>42</sup> Among 144 countries assessed in the World Economic Forum's *Global Competitiveness Report 2011-2012*, South Africa's educational system ranked 140<sup>th</sup> with respect to supporting national economic competitiveness, while the quality of its math and science education ranked 143<sup>rd</sup>. The quality of its primary education system ranked 132<sup>nd</sup>.

<sup>43</sup> The IMF reports that South Africa's "high unemployment is the result not only of chronic skill and geographical mismatches (legacies of Apartheid), but also of policies, product market structure, and labor market arrangements that end up protecting insiders at the expense of the unemployed. High margins in product markets and wages in labor markets have resulted in uncompetitive domestic costs of production, eroding external competitiveness and excluding part of the population from formal economic activity. This has constrained South Africa's ability to diversify its exports into areas that go beyond its comparative advantage of exploiting its mineral endowment. The relatively high wages and profits for insiders have resulted in higher consumer price levels and unemployment for outsiders. In addition, labor market arrangements have set entry-level wages above the productivity of inexperienced workers with little marketable skills, including through relatively high minimum wages. The struggle for dividing rents between highly concentrated, oligopolistic firms and strong and politically influential labor unions has resulted in large economic losses associated with frequent labor strikes." IMF, *South Africa 2012 Article IV Consultation*, August 2012.

<sup>44</sup> Ibid. Real GDP data from IMF, *World Economic Outlook* database, April 2013 update. Export shares from CRS calculations based on IMF *Direction of Trade Statistics* database data.

<sup>45</sup> U.N. Conference on Trade and Development (UNCTAD), *World Investment Report 2013*.

took office, to 41<sup>st</sup> in 2012. Key hindrances to FDI growth in recent years have reportedly included violent crime; corruption; Black Economic Empowerment regulation (see below); risks arising from political volatility in neighboring Zimbabwe; and South Africa's own racial, class, and political divisions.

In recent years, South Africa has sought an increased role in world economic fora and hosted a number of major global sporting events, such as the 2010 soccer World Cup, and multilateral policy events (e.g., 2011 the U.N. Climate Change Conference and the 2002 U.N. World Summit on Sustainable Development). It is a member of the G20, and in late 2010, at the invitation of China, joined the BRIC (Brazil, Russia, India, and China), a political and economic formation of major emerging market economies.<sup>46</sup> South Africa is a key trading and investment partner of China in Africa, and a key target of increased Chinese economic and diplomatic cooperation over the past decade. China became South Africa's largest trading partner in 2009.

Selected recent key economic indicators are provided in **Table 1**, below. **Table 2** provides information on the sectoral composition of the economy and summary trade trends.

**Table 1. GDP and Other Key Economic Indicators, 2007-2012**

Indicator/Year	2007	2008	2009	2010	2011	2012
GDP (Current Rand, Billions)	2016.2	2256.5	2406.4	2659.4	2917.5	3155.2
GDP (Current U.S. dollars, Billions)	285.8	273.5	285.2	363.2	402.2	384.3
Real GDP Growth (Annual % Change; Constant Rand) <sup>a</sup>	5.5	3.6	-1.5	3.1	3.5	2.5
Real GDP Growth Per Capita (Annual % Change; Constant Rand) <sup>b</sup>	3.4	2.5	-2.6	2	2.2	1.3
Inflation, Consumer Prices (Annual % Change)	7.1	11.5	7.1	4.3	5.0	5.7
Unemployment (Annual; % of Total Labor Force)	23.3	22.9	24	24.9	24.9	25.2 <sup>c</sup>

**Source:** International Monetary Fund, World Economic Outlook Database, April 2013 update.

- Annual percentage change in GDP in constant (i.e., inflation-adjusted) Rand, with 2005 as a base year.
- CRS calculation of annual percentage change in per capita GDP measured in constant Rand, using 2005 as a base year.
- IMF estimate for 2012.

**Table 2. Key Trade Indicators, 2007-2011**

Indicator	2007	2008	2009	2010	2011
<b>Exports of Goods and Services</b>					
Current U.S.\$ Billions, BoP	90.3	98.9	78.6	99.7	117.7
Annual % Growth	5.9	2.4	-19.5	4.5	5.9
Value as % of GDP	31.3	35.8	27.4	27.3	28.8
<b>Imports of Goods and Services</b>					
Current U.S.\$ Billions, BoP	98.1	107.5	80.8	100.3	120.1
Annual % Growth	9.0	1.4	-17.4	9.6	9.7
Value as % of GDP	34.2	38.8	28.3	27.5	29.4

<sup>46</sup> The BRIC group was renamed the BRICS to reflect the addition of South Africa, which hosted the 5<sup>th</sup> BRICS summit in late March 2013. South Africa is also a member of the India, Brazil, and South Africa (IBSA) Dialogue Forum.

Source: World Bank, World Development Indicators database.

## Economic Policy Under Zuma

In general, the Zuma government has pursued a free-market, private sector-driven economic model underpinned by large actual or planned state investments aimed at spurring increased economic growth, productivity, and job creation. Such investments support infrastructure construction, job skills training, public works and service jobs, and selected private sector projects determined to have the potential to increase employment and enhance economic productivity. In late 2010, the Zuma administration launched a medium-term growth strategy, the *New Growth Path*. Its centerpiece is an industrial policy aimed at expanding economic output, creating five million new jobs, and reducing unemployment from 25% to 15% by 2020. It targets large public infrastructure investments in five key areas: energy, transport, communication, water, and housing. It also funds investment and human resource development programs aimed at increasing jobs and output in the “green economy” (solar, wind and biofuels industries); agriculture; manufacturing; tourism and other services; and mining. It calls for the creation of a state mining firm focused on value-added processing and “enhanced resource exploitation in competition with a strong private mining sector.” It also calls for state fiscal discipline and emphasizes diverse roles for the private sector. Some aspects of the new strategy, including proposals to cap wages and bonuses, have met with objections from unions and from business interests, which fear that private sector pay bonus caps may deter FDI.

Spending on such infrastructure and capital investment projects, along with institution capacity-building projects, is forecast to total about \$97 billion over the next three years and \$600 billion over the next decade. Increasing public expenditures are reflected in South Africa’s first-ever trillion-plus Rand (about \$150 billion) budget in its 2012/2013 budget year. The government has also suggested that it may expand the role of state development finance institutions in funding its agenda, although most spending is set to come from state agencies’ operating capital and 30% from the open market. This agenda has left private industry unsure of its role in the government’s plans and has led business interest groups to call for the creation of infrastructure-focused public-private partnerships. Critics have also questioned whether state agencies and parastatals (partially or wholly publicly owned commercial entities) are up to the job, in light of factors such as massive state project delays, cost overruns, and failures to expend funding allocated for infrastructure construction.<sup>47</sup> State efforts to access financing to fund public investments could be hindered by labor unrest and corruption. In late 2012, these factors helped spur country economic risk rating downgrades or warnings (e.g., by Moody’s, Standard and Poor’s, and Fitch), which may make public investment financing more expensive, and potentially prompt the government to seek funding from international financial institutions or non-Western lenders, such as China.

South Africa’s public spending is creating significant market opportunities for U.S. business backed by U.S. public export financing assistance, notably the U.S. Export-Import Bank (Ex-Im). It financed several large deals in South Africa in 2011 and 2012, including two rail locomotive manufacturing deals involving GE Transportation, a U.S. firm, and South African rails parastatals. In 2011, Ex-Im approved an \$805.6 million direct loan to help finance a major

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<sup>47</sup> Development Bank of Southern Africa (DBSA), *The State of South Africa’s Economic Infrastructure: Opportunities and Challenges 2012*; Tom Nevin, “South Africa: Gordhan’s Trillion-Rand Splurge,” *New African*, April 23, 2012; Democratic Alliance, “South Africa: R4 Trillion Infrastructure Programme Asks Too Much of SOEs,” October 28, 2012; and SABC, “Infrastructure Development Will Not Come Cheap,” October 19, 2012.

expansion of a large coal fired power plant run by South Africa's state electricity utility. In 2012, Ex-Im signed an agreement of intent to provide financing for South African purchases of up to \$2 billion in U.S. technologies, products and services, most related to clean energy production and South African government infrastructure construction initiatives.<sup>48</sup>

## **Key Policies to Increase Economic Equality**

Since 1994, successive post-apartheid governments have pursued two major efforts to increase racial economic equality. One, known as Black Economic Empowerment (BEE), seeks to promote the increased participation of blacks throughout the South African economy, a process dubbed "transformation." The other, land reform (a set of inter-related policies), seeks to increase black land ownership, among other goals.

### ***Black Economic Empowerment***

BEE policies primarily seek to increase access to jobs by blacks and certain other marginalized groups in all occupational categories and levels of employment, and to increase rates of ownership and management of firms and other types of productive entities by these groups. Initial BEE efforts prioritized business ownership transfers to blacks, as well as preferential black access to corporate leadership positions, leading to criticisms that BEE was creating a privileged black class rather than achieving broad black "economic empowerment."<sup>49</sup> To address such criticisms, current BEE policies more heavily emphasize efforts to advance racial employment equity, and to provide job training and other skills development services to blacks and other BEE beneficiaries.

Implementation of BEE goals is mandatory for public entities. The government promotes private sector investment in BEE goals by working with industries to set up sector-specific transformation best practice "charters" and "sector codes," but the main tool for fostering attainment of BEE goals are BEE scorecards, which assess a business's attainment of a range of benchmarks. BEE scorecards are used as eligibility criteria in public procurement, some forms of licensing, participation in public-private partnership deals and transactions (e.g., sales of state-owned assets), tax preferences, public company stock listings, and other matters of economic concern to firms. Higher scores can be attained if a firm's suppliers meet BEE goals, a measure aimed at using business demand to drive private sector adoption of BEE policies. There are some exemptions from BEE policies for small firms. For larger and more complex firms, BEE compliance is highly legalistic and is accompanied by paperwork-intensive reporting requirements.<sup>50</sup> In June 2013, the government introduced a BEE amendment bill that would create

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<sup>48</sup> This effort is linked to the creation of the U.S.-Africa Clean Energy Development and Finance Center, a joint effort by Ex-Im, the U.S. Trade and Development Agency (USTDA), and the Overseas Private Investment Corporation (OPIC). Its establishment was announced in November 2012 by Acting Commerce Secretary, Rebecca Blank. Its aim is to develop clean energy projects in sub-Saharan Africa, in part using Ex-Im financing. It is also bolstered by the \$20 million State Department-funded U.S.-Africa Clean Energy Finance (US-ACEF) Initiative, a collaborative financing mechanism between State Department, OPIC and USTDA designed to spur U.S.-African clean energy private-sector clean energy deals. It acts as a finance clearing house for energy sector business developers.

<sup>49</sup> Gugulakhe Lourie, "South Africa Signals Shift in BEE Laws-Paper," Reuters, April 20, 2011; Dale T. McKinley, "The Real History and Contemporary Character Of Black Economic Empowerment," Part 1, January 10, 2011, and Part 2, February 9, 2011, South African Civil Society Information Service; and Will Emkes, "Black Economic Empowerment and South Africa," *Contemporary Review*, (294: 1705), June 2012.

<sup>50</sup> Department of Trade and Industry (South Africa), *Broad-Based Black Economic Empowerment* (online collection of legal, regulatory, and explanatory documents); BEE123, *BEE News and Info*; and Association of BEE Verification (continued...)

a range of BEE policy implementation monitoring, oversight, and advocacy measures and mechanisms and introduce new offenses and penalties for scorecard misrepresentation.<sup>51</sup>

### ***Land Reform***

Land distribution has historically been highly contested in South Africa; under apartheid, whites owned most of the productive land, a substantial amount of which had been initially obtained through seizure from its original non-white occupants or owners. After the transition to majority rule, most of this land remained in white hands. In order to address these challenges, the government initiated a series of land reform programs. One key set of programs has sought to compensate those dispossessed of land during apartheid through a mix of land restitution, financial compensation, and resettlement aid. Another has centered on efforts to achieve more racially equitable land distribution by redistributing state-owned land, some purchased from whites, to blacks and other non-white groups that had suffered apartheid-era economic discrimination. Some land transfers also involve the provision of financing, training, and farm extension services to land transfer recipients, in order to help them make their holdings economically viable and spur economic growth.

For the most part, transferred land has been bought by the state from white sellers under a constitutionally grounded, so-called “willing buyer, willing seller” principle under which mutually acceptable land sale prices are negotiated. Private sales have also contributed to a growing number of transfers. Most restitution claims have reportedly been settled, but programs to aid land transfer recipients have also come under criticism for being administratively inefficient or underfunded. Land transfers have often been burdened by complex legal proceedings, in part due to differences between land sellers and buyers over property values.<sup>52</sup> As a result of the slow redistribution process, there have been periodic calls for a more active approach to state redistribution land acquisitions, potentially including forced sales or even uncompensated seizures, akin to the situation in Zimbabwe.<sup>53</sup> Such calls have alarmed many observers, because the Zimbabwean model is seen as having undermined the rule of law and the rights of private property owners.

For the most part, the South African government has resisted such proposals, opting instead to hasten sales through changes to administrative and legal procedures. At its 2012 party conference, however, the ANC resolved to pursue a new “radical” land reform program. Among other objectives, it would devote larger financial resources to existing land reform efforts; reopen the land restitutions claims process; and “expedite” enactment of a proposed Expropriation Act, a bill that could facilitate a greater number of compulsory state “public interest” purchases of land from unwilling sellers. It would do so by allowing factors other than market value (e.g., current property uses and acquisition history; relative state and private investments in the property, if any; and the intended purpose of an expropriation) to be used to define “just and equitable” pricing of

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(...continued)

Agencies, *Sector Codes*.

<sup>51</sup> Department of Trade and Industry, “Economic Empowerment Amendment Bill to be tabled in the National Assembly,” June 20, 2013.

<sup>52</sup> At the start of the reform process, the government sought to transfer 30% of white-owned farm land to blacks by 2014. Between 15.5% and 28% of that target has been reportedly achieved, although there are considerable differences in transfer rates among provinces. Lynley Donnelly, “Land Audit Urgently Required,” *M&E*, February 8, 2012.

<sup>53</sup> Nickolaus Bauer, “ANCYL Warns of Zim-Style Land Invasions in South Africa,” *M&G*, June 6, 2012.

transferred land.<sup>54</sup> How such reforms might affect the pace of future land transfers is unclear, both because transfers could still be legally contested, and because bureaucratic inefficiencies may continue to hinder reform programs. Other reforms may also be on the table. In late 2012, for instance, President Zuma proposed reforms that would increase state purchases of existing land offerings on the market; prioritize state land acquisition of properties owned by financially stressed or absentee owners or held in the estates of deceased owners; and create district land reform committees to help identify suitable land for transfer. Under his proposal, the state would also buy the land at 50% of its market value (i.e., at a putative “fair productive value”).<sup>55</sup>

## Trade and Investment Relations and Policy Issues<sup>56</sup>

South Africa is the largest non-oil-focused U.S. trade partner in Africa in 2012, and the second largest overall, after Nigeria. It is the third-largest, on average, over the past decade.<sup>57</sup> Bilateral trade in goods grew by over 210% over the past decade, rising from \$7.7 billion in 2003, to \$16.2 billion in 2012, when South Africa was the 40<sup>th</sup> largest source of U.S. imports and the 35<sup>th</sup> largest U.S. export destination.

Top U.S. goods exports in recent years include machinery; vehicles, mostly tractors and trucks; electrical machinery; precious metals and stones, mostly gold; and aircraft, engines, and parts. Top U.S. goods imports include precious metals and stones, mostly platinum and rough diamonds; vehicles, mostly cars; iron and steel; ores, slag, and ash; and machinery. U.S. FDI in South Africa has gradually grown in recent years. U.S. FDI in South Africa in 2011 centered on manufacturing (37%), notably of chemicals (11%) and transportation equipment (6%); wholesale trade (13%); professional, scientific, and technical services (13%); and non-bank holding firms (8%). **Tables 3 and 4** summarize trends in U.S.-South African trade and U.S. FDI in South Africa.

U.S.-South African trade and investment is attracting relatively high-level attention from U.S. policymakers, including Members of Congress and business leaders. This increased interest may partly reflect the Administration’s growing focus on trade and investment as both a goal and tool of foreign policy in Africa and elsewhere.<sup>58</sup> U.S. private sector interest in African markets, spurred by positive economic growth and governance trends in much of the region in recent years, is also rising. Concern over competitive threats to U.S. government and business interests

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<sup>54</sup> ANC, *53rd National Conference Resolutions*, December 2012; Nickolaus Bauer, “SA’s Land Reform Policies Are About to Get Heavier,” *M&G*, June 28, 2012. On the Expropriation Bill, see South African Government, *Explanatory Memorandum on the Draft Expropriation Bill*, 2013, March 15, 2013.

<sup>55</sup> Sellers under his proposal would be given BEE compliance status, and the state, in part through public-private partnerships, would marshal greater funding to finance land reforms and greater agricultural research and development. Maryke Vermaak, “Zuma Proposes Five-Step Land Reform Plan,” *M&E*, October 23, 2012; and Nickolaus Bauer, “Experts: Zuma’s Land Reform Plans Need Ploughing,” *M&E*, October 24, 2012.

<sup>56</sup> Brock R. Williams, CRS Analyst in International Trade and Finance, contributed to prior versions of some material contained in this section.

<sup>57</sup> South Africa’s rank as a bilateral African trade partner has ranged between second and fourth largest over the past ten years, but other top U.S.-African trade partners (Algeria, Angola, and Nigeria) are primarily oil exporters.

<sup>58</sup> Beginning in 2011, then-Secretary of State Clinton prioritized as a tool of U.S. diplomacy what she termed “economic statecraft”: the use of U.S. economic power and relations abroad to both advance U.S. foreign policy goals and strengthen the U.S. economy. In June 2012, President Barack Obama released his *U.S. Strategy Toward Sub-Saharan Africa*. It lays out four key goals, one of which centers on promoting economic growth, trade, and investment goals in or with Africa. Clinton set out her vision of economic statecraft in various speeches (e.g., “Economic Statecraft,” October 14, 2011, and “Delivering on the Promise of Economic Statecraft,” November 17, 2012).

posed by burgeoning Chinese engagement in Africa has also fostered increased U.S. attention toward Africa.

In February 2013, a bicameral congressional delegation joined the launch in South Africa of the U.S.-South Africa Business Council, formed in late 2012 by the U.S. Chamber of Commerce (USCC).<sup>59</sup> The congressional visit followed Acting Commerce Secretary Rebecca Blank's November 2012 start of the Obama Administration's *Doing Business in Africa* campaign and an August 2012 State Department/Chamber trade mission to South Africa. *Doing Business*, a whole-of-government effort, seeks to promote trade, investment, and trade financing in Africa to meet the goals of the Obama Administration's Africa strategy and its National Export Initiative, an effort to double U.S. exports by 2015. Blank was the first Commerce Secretary to visit sub-Saharan Africa in a decade. These visits followed the June 2012 signing of an amended U.S.-South African Trade and Investment Framework Agreement (see below).

**Table 3. U.S. Trade with South Africa, 2008-2012**

(\$ billions; totals may not add up due to rounding)

Year	2008	2009	2010	2011	2012 <sup>a</sup>
<b>Total Trade (U.S. Exports and Imports)</b>	<b>20.1</b>	<b>13.8</b>	<b>18.0</b>	<b>21.4</b>	<b>16.2</b>
<b>U.S. Trade Deficit</b>	<b>-2.7</b>	<b>-0.1</b>	<b>-1.8</b>	<b>-1.2</b>	<b>-1.1</b>
<b>U.S. Exports</b>					
Goods	6.5	4.5	5.6	7.3	7.6
Private Services	2.2	2.4	2.5	2.8	na
Export Totals	8.7	6.8	8.1	10.1	7.6
<b>U.S. Imports</b>					
Goods for Consumption	10.0	5.9	8.2	9.5	8.7
Private Services	1.4	1.1	1.7	1.8	na
Import totals	11.4	7.0	9.9	11.3	8.7

**Source:** Goods trade data: International Trade Commission (ITC), Trade DataWeb and CRS calculations. Services exports: Bureau of Economic Analysis (BEA), Commerce Department, "Private Services Trade by Area and Country, 1992-2011."

a. 2012 totals reflect goods trade only; 2012 services trade data not currently available.

**Table 4. South Africa: U.S. FDI and Related Indicator Trends**

Indicator/Year	2008	2009	2010	2011
<b>U.S. FDI Stocks (\$ billions, historical-cost basis)</b>	5.00	5.81	6.47	6.55
<b>U.S. Financial Flows into South Africa (\$ millions, without current-cost adjustment)</b>	306	410	779	722

**Source:** BEA, "U.S. Direct Investment Abroad: Selected Items by Detailed Country, 2007-2011"; and CRS calculations using data from BEA, "U.S. Direct Investment Position Abroad on a Historical-Cost Basis, 2011."

The August trade mission, part of the broader U.S.-South Africa Strategic Dialogue, included a summit and other meetings between top South African and U.S. business leaders and government

<sup>59</sup> The Council seeks to facilitate U.S. firms' activities in South Africa. Other initial Council activities center on advancing a southern Africa trade and investment framework; clarification of BEE foreign investment "equity equivalency" requirements (i.e., compliance with BEE mandates through socio-economic development investments rather than sales of shares); intellectual property rights protections; and reform of temporary worker hiring laws. Senator Chris Coons, "Congressional Delegation Applauds Launch of United States-South Africa Business Council," February 20, 2013; and USCC, "U.S. Chamber Launches U.S.-South Africa Business Council," December 10, 2012.

trade agency officials, including then-Secretary of State Clinton. In her remarks, Clinton contended that public-private partnerships can play important roles in efforts to expand trade and investment. She stated that South Africa's multi-billion dollar public infrastructure investment initiatives will "create massive new opportunities for American businesses in energy, transportation, and communications technology, which means more jobs here and more jobs back in the United States." She described several U.S. public interagency initiatives to support U.S. private sector involvement in achieving these goals. One is an Export-Import Bank project aimed at financing up to \$2 billion in U.S. clean energy exports to South Africa (see *Economic Policy Under Zuma* section, above). Another is a new U.S.-South Africa Aviation Partnership.<sup>60</sup> Clinton also noted that small and medium enterprises (SMEs) contribute 50% of South Africa's GDP and nearly 60% of its jobs. In recognition of such contributions, Clinton noted, the United States has established a \$150 million USAID SME loan program and a separate \$65 million OPIC new private equity investment fund for South African SMEs.<sup>61</sup>

### **Trade and Investment Agreements and Policy Tools**

The United States and South Africa are parties to two mutual trade and economic cooperation agreements. The first, a Trade and Investment Framework Agreement (TIFA), was signed in 1999 and amended in June 2012. It established a U.S.-South Africa Council on Trade and Investment, which meets annually to discuss trade and investment-related issues with the goal of removing "impediments to trade flows."<sup>62</sup> The second is the 2008 U.S.-Southern Africa Customs Union (SACU) Trade, Investment, and Development Cooperation Agreement (TIDCA).<sup>63</sup> It was signed after the suspension in 2006 of talks, launched in 2003, aimed at establishing a U.S.-SACU free trade agreement (FTA). This effort foundered, in part, over the parties' differences regarding the scope of prospective trade liberalization. The United States also has a double taxation agreement with South Africa signed in 1997, the only such agreement with a sub-Saharan African country.

South Africa is also eligible, along with other African countries, for trade benefits under the U.S. African Growth and Opportunity Act (AGOA, P.L. 106-200, Title I, as amended), but not for the AGOA Special Rule for Apparel.<sup>64</sup> These benefits enable many South African products to enter the United States duty-free, and are in addition to tariff preferences enjoyed by South Africa under the Generalized System of Preferences (GSP). The value of South African exports under

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<sup>60</sup> The partnership, between USTDA and South Africa's Transportation Department, seeks to build South African aviation sector human capacity and infrastructure, and among other goals. Initial foci are reverse trade missions, training programs, and project planning activities for South African aviation leaders, aimed at familiarizing them with U.S. commercial technologies and services, policies, airport modernization, and air traffic management technologies.

<sup>61</sup> On Clinton's statements, see, "Remarks at the U.S.-South Africa Business Partnership Summit," August 6, 2012; and "Remarks at Meeting With U.S. and South African Business Leaders," August 7, 2012, online at <http://www.state.gov>.

<sup>62</sup> The most recent Council meeting, held in June 2012, focused, in particular, on "tariffs, the business and regulatory environment, implementation of AGOA, export diversification, energy, trade facilitation, and enhancing the participation of small and medium-sized enterprises in trade and investment." USTR, *U.S. Trade Representative Ron Kirk and South Africa Trade Minister Rob Davies Sign Agreement to Enhance Trade and Investment*, June 18, 2012.

<sup>63</sup> SACU is dominated by South Africa; its other members include Botswana, Lesotho, Swaziland, and Namibia. The TIDCA establishes a Consultative Group on Trade and Investment, which periodically discusses trade cooperation, with a "focus on customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary (SPS) measures, and trade and investment promotion." USTR, "South Africa," n.d.

<sup>64</sup> This rule provides tariff preferences under AGOA for apparel assembled using non-U.S. fabric and yarn to certain lesser-developed AGOA beneficiaries. South Africa is not considered a lesser-developed country under AGOA and therefore does not qualify for this preference. See CRS Report RL31772, *U.S. Trade and Investment Relations with sub-Saharan Africa and the African Growth and Opportunity Act*, by Vivian C. Jones and Brock R. Williams.

AGOA fell in 2004 and 2005, but has generally grown since. Their value peaked in 2011, at \$2.5 billion. In 2012, about 80% of South African exports under AGOA were automobiles. The next largest categories were iron and steel; citrus; chemicals; and wine and other alcoholic beverages. Together with autos, these items made up nearly 95% of AGOA exports.

### South Africa's Eligibility for AGOA Benefits

There has been some discussion of South Africa's future AGOA eligibility within the context of broader debate over the reauthorization of AGOA trade benefits, which are set to expire in September 2015 for all beneficiary countries. In August 2012, then-Secretary of State Clinton stated that "the Obama Administration remains committed" to renewing AGOA "with South Africa included."<sup>65</sup> Nevertheless, there has been South African press speculation that some in Congress might question the merit of South Africa's continued eligibility for the U.S. trade preferences provided through AGOA due to its relatively advanced level of economic development and possible competitive threat to U.S. firms—even though eligibility for AGOA is not defined by such factors.<sup>66</sup> Reasons cited included South Africa's export of high-end cars; the large size and relatively advanced character of its economy relative to the rest of sub-Saharan Africa; and its growing importance as an emerging market, highlighted by its inclusion in the BRICS group. Congressional concerns might also arise around U.S. private sector claims of a competitive disadvantage *vis-à-vis* European Union (EU) firms with respect to accessing the South African market, given that there is an EU-South African reciprocal FTA. (South Africa and the EU each have mutual preferential access to the other's markets. Under AGOA South Africa has preferential access to U.S. markets, but AGOA is a non-reciprocal trade framework; it does not give U.S. firms special access to AGOA countries' markets.) These and other factors could prompt some U.S. policymakers and business interests to consider whether U.S. competitive interests might be furthered by modifying South Africa's eligibility criteria, perhaps by making it partially or wholly reciprocal, potentially based on various criteria or conditions, or by potentially removing it altogether.

## Bilateral Relations and U.S. Assistance

U.S.-South Africa bilateral relations are generally close, based on shared socio-economic growth and development goals and mutual support for democratic values, among other factors, although there are occasional differences over foreign policy issues. South Africa often backs developing country positions that may be at odds with U.S. interests and has also generally opposed; has advocated caution with respect to proposed U.S.-backed external interventions in international crises (e.g., in Iraq and Libya); and takes stances toward Cuba and the Palestinian cause that are at odds with those of the United States. However, South Africa tends to concur with the Obama Administration regarding most African political or military crises, and on major aspects of issues such as climate change and nonproliferation. The two countries cooperate in the areas of development and defense, in addition to having close trade and investment ties. Since 2010, they have pursued an ongoing Strategic Dialogue with regard to health, education, food security, law enforcement, trade, investment, energy, and nuclear nonproliferation.

Congressional engagement with South Africa in recent years has centered mainly on foreign aid program oversight, notably HIV/AIDS and other healthcare-related efforts, and often takes the

<sup>65</sup> State Department, "The United States-South Africa Partnership: Going Global," remarks, August 8, 2012. Under Secretary of Commerce for International Trade Francisco Sánchez also reportedly expressed confidence that Congress would likely extend AGOA, including for South Africa, while acknowledging that final decisions on the matter are a congressional prerogative. Peter Fabricius, "SA's AGOA Future is Uncertain; Continuation of Beneficial Law Hinges on November U.S. Elections and New Congress," *The Sunday Independent*, August 12, 2012.

<sup>66</sup> While the promotion of stable, sustainable economic growth and development is a major goal of AGOA, country eligibility for AGOA benefits is defined by adherence to the rule of law and rights protections in various areas; pursuit of market-based economic growth policies; and the elimination of barriers to U.S. trade and investment, among other factors. Basic AGOA eligibility is not based on the relative size or nature of a beneficiary country's economy.

form of leadership exchange visits and congressional travel to the country. Trade and investment ties with South Africa and Africa generally, may also attract congressional attention in the 113<sup>th</sup> Congress, as they did in the 112<sup>th</sup> Congress. South Africa was not the main focus of any hearings or substantive resolutions or bills in the 112<sup>th</sup> or 111<sup>th</sup> Congresses, but several bills in the 112<sup>th</sup> did contain key South Africa-related measures.<sup>67</sup>

### **South African Foreign Policy and the United States: Zimbabwe and Other Issues**

The United States has long criticized the policies of Zimbabwe's president, Robert Mugabe with respect to human rights, democracy, and land reform, and has imposed targeted travel and financial sanctions on him and other top members of his political party. Political and economic turmoil in Zimbabwe over the last decade led to a massive Zimbabwean emigration into South Africa and other Southern African countries, placing a burden on their economies and social systems. The economic situation in Zimbabwe has improved since early 2009, when a power-sharing accord came into effect. Before the accord, U.S. support for greater regional pressure on Mugabe to allow free elections and political reforms had been at odds with South Africa's "quiet diplomacy" approach under then-president Mbeki. Mbeki did, however, help negotiate the accord, implementation of which is overseen by President Zuma on behalf of the Southern African Development Community (SADC), the accord's guarantor. SADC has consistently pressed for the accord's full implementation. These efforts have received U.S. praise, although the United States and SADC continue to be at odds over sanctions, which SADC believes should be lifted.

The United States and South Africa have both cooperated and differed over policy toward Iran. South Africa moved to comply with U.S. banking and trade sanctions on Iran by eliminating its imports of Iranian oil in 2012, earning U.S. sanction waivers. In the past it has variously opposed and supported U.N. sanctions on Iran. In September 2012, it offered a U.S.-opposed amendment to a U.N. resolution, which called for International Atomic Energy Agency probes of suspected Iranian atomic bomb research. South Africa was also critical of the U.S.-led invasion of Iraq in 2003, as well as alleged U.S. unilateral actions toward the regime of Saddam Hussein prior to the war. More recently, it opposed western military intervention in Libya, preferring an AU-brokered mediation that the United States and others ultimately viewed as ineffective. South Africa, which served on the U.N. Security Council from 2011-2012, has also voiced caution regarding proposed external interventions in Syria and called for even-handed treatment of the government and opposition groups. Currently, the United States and South Africa, the current AU Commission chair (a post held by President Zuma's former wife, Nkosazana Dlamini-Zuma), share concerns regarding African security and AU economic development priorities. South Africa has publicly supported the French military intervention in Mali, which is backed by the United States. Former president Mbeki has also played key mediating roles between Sudan and South Sudan and in other African crises, such as that of Cote d'Ivoire.

## **Bilateral Assistance**

Since the end of apartheid, the South African government has been a leading African recipient of U.S. foreign aid, although U.S. bilateral assistance has gradually been declining in recent years. U.S. aid to South Africa totaled over \$571 million in FY2011 and by FY2014 will have fallen, if the Administration's request is enacted, to nearly \$446 million (see **Table 5**). Despite such gradual decreases in overall funding, the proportion of aid directed toward State Department and U.S. Agency for International Development (USAID) Global Health Program (GHP) efforts, primarily to counter HIV/AIDS under the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), has remained steady. An average of 96% of actual or requested aid between FY2011

<sup>67</sup> These provisions, none of which were enacted, would have: 1) prohibited the Trilateral Assistance Program, which provides U.S. assistance to South African government bilateral aid activities in Africa that are of mutual bilateral interest (H.R. 2583); 2) required a report by the Secretary of State on a transition strategy for the President's Emergency Program for AIDS Relief (PEPFAR) in South Africa, including projected levels and types of U.S. aid (S. 3241); and 3) required Department of Homeland Security on-site reviews of all visa applications and supporting documents before adjudication in South Africa, among other selected countries (H.R. 1741). H.R. 4758 and S. 3077 (both introduced in the 111<sup>th</sup> Congress and, like H.R. 1741 titled Secure Visas Act) contained similar provisions. S. 2944 (111<sup>th</sup> Congress) contained a similar provision, but did not require in-country visa reviews.

and FY2014 has supported such ends. The total amount of such aid over the past decade-plus has been substantial; according to USAID, between FY2004 and FY2011, the United States provided \$3.23 billion in assistance to South Africa under PEPFAR.

**Table 5. U.S. Bilateral Assistance for South Africa**

(\$ millions)

Account/Year	FY 2011 Actual	FY 2012 Actual	FY 2013 Request <sup>a</sup>	FY 2014 Request
Total	571.4	542.2	488.8	445.6
Development Assistance (DA)	15.7	14.7	14.6	17.3
Foreign Military Financing (FMF)	0.8	0.7	0.7	0.7
Global Health Programs-State (GHP-State)	535.3	510.0	459.4	414.6
Global Health Programs - USAID (GHP-USAID)	15.5	12.0	11.0	10.0
International Military Education and Training (IMET)	0.8	0.8	0.8	0.7
International Narcotics Control and Law Enforcement (INCLE)	2.0	3.0	2.0	2.0
Nonproliferation, Antiterrorism, Demining and Related Programs (NADR)	1.3	1.1	0.3	0.3

**Source:** FY2011 and FY2013 data from State Department, “South Africa,” *Congressional Budget Justification Foreign Operations*, FY2013. FY2012 and FY2014 data from State Department, “Executive Budget Summary,” *Function 150 & Other International Programs*, FY2014.

**Notes:**

- a. Due to funding of FY2013 budget under continuing resolutions and due to sequestration, full-year FY2013 estimated allocations were not yet available at time of publication. FY 2013 request levels are therefore provided in this table and elsewhere in this report where FY 2013 funding levels are discussed.

According to the State Department, FY2013 GHP aid is focused on efforts to transition U.S. health aid “from emergency assistance to sustainable prevention, care and treatment activities under the President’s Emergency Plan for AIDS Relief (PEPFAR) program, including the specifics of transitioning to South African ownership and funding of most programs while ensuring there is no interruption in essential care and treatment services.”<sup>68</sup> FY2013 plans called for GHP funds to be used to fund “integrated prevention, care and treatment programs... and support for orphans and vulnerable children.” Funding was also slated to target tuberculosis (TB) surveillance, monitoring, treatment, including efforts to target multi-drug-resistant TB.<sup>69</sup>

Apart from HIV/AIDS and other health-related aid, under its State Department FY2013 *Congressional Budget Justification* (CBJ) for South Africa, the Obama Administration planned to support programs in the following areas: investments in people; economic growth; and peace and security. South Africa also receives limited USAID regional program funding that supports diverse development goals. The bulk of aid not devoted to healthcare or security-related programs takes the form of Development Assistance (DA) targeting basic education, economic growth and

<sup>68</sup> This transition is detailed in a five-year Partnership Framework agreement, signed in late 2010, and a Partnership Framework Implementation Plan signed in August 2012. On PEPFAR, see CRS Report R42776, *The President’s Emergency Plan for AIDS Relief (PEPFAR): Funding Issues After a Decade of Implementation, FY2004-FY2013*, by Tiaji Salaam-Blyther.

<sup>69</sup> In 2011, South Africa’s adult HIV prevalence rate was 17.3%, and about 66% of South Africans in need of antiretroviral therapy (ART) were receiving it. The TB prevalence rate in 2011 was 993 per 100,000 persons, but as many as 31% of TB infections go undiagnosed. About 65% of TB patients are also HIV-positive. UNAIDS and WHO data through World Bank World Development Indicators database; and other UNAIDS and WHO data sources.

environmental initiatives. Education aid, focused on policy and technical support and teacher and administrator training, has varied in recent years (\$3 million in FY 2011, an estimated \$7.7 million in FY 2012, with \$2.5 million requested for FY2013). Remaining FY2013 DA funding (\$6 million) under the FY 2013 request is allocated toward:

- reducing trade and investment barriers and enhancing overall trade, supporting the creation of effective policies to address youth unemployment and inequality, and improving the business climate and private sector competitiveness, and increasing regional integration;
- promoting clean lower emissions energy technology and skills training under the U.S. Global Climate Change Initiative (GCCII); and
- tapping the expertise and training capacity of South Africa's public and private sectors, universities and technical/research institutions to enhance food security in U.S. Feed the Future (FTF) focus countries across Africa.

Peace and security assistance is diverse. One component of such aid is International Military Education and Training (IMET) programs, a key focus of U.S. military cooperation. IMET programs center on specialized officer training to enhance the readiness of the South African National Defense Forces (SANDF) to respond to regional conflict and participate in peacekeeping operations. The U.S. Department of Defense (DoD) views the SANDF as a basically operationally capable entity, despite recent criticisms focused on its performance in the Central African Republic. Health and C-130 aircraft technical training are other IMET foci. Foreign Military Financing (FMF) aid supports technical, equipment and training for the SANDF's U.S.-sourced C-130s. International Narcotics Control and Law Enforcement (INCLE) account-funded programs support a new Narcotics and Law Enforcement Affairs (NLEA) embassy post and local law enforcement capacity training focused on basic policing and forensics skills training. Nonproliferation, Antiterrorism, Demining and Related Programs (NADR) funds are used to support a multi-year initiative to improve South Africa's border control capacity and "strategic trade control enforcement capabilities... in key areas of export control, [and] improve legal and bureaucratic frameworks."

The Peace and Security portion of the request also included \$1.2 million in Development Assistance to support the Trilateral Assistance Program (TAP), under which the South African government administers "various small-scale development projects" in Africa that "directly" serve U.S.-South African "mutual political, economic, and commercial interests."<sup>70</sup> A small number of South African officers receive DoD Combating Terrorism Fellowship Program training. The DoD humanitarian assistance program undertakes small school construction projects; carries out a military HIV/AIDS Program under PEPFAR; and sponsors medical and engineering civic action field program exercises.

Since 2005, South Africa has received peacekeeping training under the U.S. Africa Contingency Operations Training and Assistance program (ACOTA). The SANDF also participates with the U.S. forces in multiple annual cooperative bilateral and regional military training exercises. These focus mainly on maritime and border security, peacekeeping training, and military

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<sup>70</sup> According to the State Department's FY 2013 Congressional Budget Justification (CBJ), TAP "leverages South Africa's significant influence in the regional and international organizations," and enhances "its capacity to promote and strengthen democratic norms, including respect for rule of law and human rights, and good governance on the continent." TAP aid will support technical assistance in support of the government's "growing efforts to establish an international development agency."

humanitarian/civic action. In 2005, South Africa and the New York National Guard (NG) formed the first U.S. NG State Partnership Program (SPP) partnership in Africa, which focuses on mutually beneficial capacity-building programs. DoD also regularly supports South Africa's biennial African Aerospace Defense Exhibition. The major forum for U.S.-South African security cooperation coordination is the U.S.-South Africa Defense Committee (DEFCON), formed in 1997. The Pentagon hosted the most recent annual DEFCON meeting in September 2012.

## **Outlook**

South Africa appears likely to remain politically stable for the foreseeable future. Still, dissatisfaction among miners, unemployed youth, township residents, and others concerned with government performance, crime, and corruption, could lead to localized volatility and unrest. Such discontent could also translate into weakened political support for the ANC and political opportunities for opposition parties. The 2014 elections will serve as a test of the ANC's political dominance and the relative depth of the challenges it faces, and gauge public support for the ANC's wide-ranging policy agenda and state-led economic and political vision for the country.

Despite significant challenges, South Africa's economy is large and diversified, and appears to have the capacity to expand moderately in the coming years. The IMF projects a slight uptick in real growth in 2013, to 2.8%, and then to 4.1% in 2014. Given South Africa's economic linkages to and investment in sub-Saharan Africa, South Africa may also benefit as other African economies continue to expand. Trade with the United States is likely to grow. South Africa is making a range of large-scale public infrastructure investments, which could help boost economic growth. Such spending could, however, gradually become a burden on the state, which is facing revenue limitations and must balance infrastructure spending goals with a need to finance education, healthcare, and other social services.

South Africa may gradually increase as a U.S. investment and export destination, due to South African demand and regional economic growth; increasing U.S. government and private sector efforts to expand trade and investment ties; and opportunities created by South Africa's infrastructure investment initiatives. U.S.-South African ties are growing closer in other areas as well; under the two countries' Strategic Partnership, there have been an increasing number of high-level exchanges and visits. Over the medium term, one question for policymakers will be how, if at all, the nature and level of relatively large levels of U.S. aid in the healthcare sector—specifically to counter HIV/AIDS—should change, in light of shared U.S. and South Africa government plans to transition to a situation in which South Africa funds most of its own HIV/AIDS programs.

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