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Key Judgment

On 21 September 2008, Thabo Mbeki handed in his resignation as president of South Africa after the National Executive Committee of the ruling African National Congress (ANC) requested that Mbeki resign as national president. The decision to seek the removal of Mbeki followed an accusation by a High Court Judge that Mbeki had unconstitutionally interfered with the workings of the National Prosecution Authority (NPA) and influenced it to indict Jacob Zuma on corruption charges relating to a \$4.8 billion arms deal concluded in 1999. Mbeki's resignation increases the likelihood of Zuma being nominated for election as president following April 2009 national elections - the incoming administration is unlikely to encourage the NPA to pursue the corruption charges against Zuma and if the ANC wins a parliamentary majority in 2009, which seems likely, it will therefore be able to nominate him for president. However, the immediate ANC priority is likely to be to repair the divisions within the party that have emerged since Zuma defeated Mbeki to win the party leadership in December 2007, in order to secure a large majority in 2009 elections. Significant policy

changes by the government are therefore unlikely before April 2009. The governor of the Reserve Bank, Tito Mboweni, and Finance Minister Trevor Manuel, are likely to retain their positions until at least the 2009 elections, and possibly beyond. This will ensure a large degree of fiscal and economic continuity. Although protests are likely in relation to wage negotiations in 2009, the risk of violent unrest in 2008 over a Zuma trial has decreased.

Detailed Analysis

The ANC's choice of interim president to replace Mbeki until April 2009 elections is likely to be endorsed by Parliament.

Under the South African Constitution, the country's president is elected by Parliament from amongst its members, either at its first sitting (when the person elected serves for a five-year term) or whenever a vacancy occurs (when the person elected serves for the remainder of the term during which the vacancy arises). The ANC has nominated Jacob Zuma's deputy, Kgalema Motlanthe, as its candidate for the presidency and his name is likely to be approved by the ANC-dominated Parliament. Motlanthe will then serve as president for the remainder of Mbeki's term, which would have expired in May 2009 after the holding of general elections in April 2009. Imprisoned on Robben Island for ten years alongside Mandela and later serving as the Secretary General of the National Union of Mine Workers, Motlanthe enjoys significant support from ANC members as well as the trade unions. Motlanthe is known for his fiercely independent and outspoken views and has often broken ranks with the current ANC leadership and rebuked members of the ANC's Youth League (ANC YL) for their anti-Mbeki pronouncements.

Mbeki's departure is unlikely to precipitate the break-up of the ANC as he is unlikely to endorse such a development.

Mbeki retains strong support within the ANC, as evidenced by the 40% of the votes he received as candidate for ANC leader in December 2007. Our sources indicate that some staunch Mbeki allies (including Defence Minister Mosiuoa Lekota

and Gauteng premier Sam Shilowa) are considering starting a new party in competition with the ANC. Such a party is very unlikely to have enough time to make a big impact on the 2009 elections, but it could weaken the ANC's electoral dominance. However, this is unlikely to happen as Mbeki would be very unlikely to endorse a break-away party. Despite being forced to resign, Mbeki has reiterated his loyalty to the ANC and it is unlikely that he will change this view in the foreseeable future. Consequently, the ANC is likely to be the dominant party after the April 2009 general election and determine future policy direction in South Africa.

There will probably be financial and economic policy continuity in the next six months as key officials are likely to be retained.

Since his election as ANC leader, Zuma has consistently tried to alleviate fears that there will be a drastic change in economic policy under his leadership. For example, during a trip to Germany, France and Britain in April 2008, he assured business leaders that the ANC would not fundamentally change economic policies whilst he was leader. While there may be a partial shift to more socially-oriented programmes after 2009, the immediate focus of the ANC leadership will be to try to unite the party before the next elections and not to try to introduce new policies. This means that there is likely to be policy continuity for at least the next six months until the holding of general elections in April 2009. Zuma stepped down as vice president and member of Parliament in 2005 in order to confront allegations of corruption and rape against him. His lack of a parliamentary seat means he is constitutionally barred from being nominated as interim president but he is likely to re-entered Parliament in April 2009 and then receive the nomination for president. Motlanthe has campaigned for Zuma and is unlikely to launch a leadership bid of his own in 2009. After announcing the decision to ask Mbeki to resign, ANC Secretary General Gwede Mantashe specifically indicated that the ANC leadership wants current ministers and key government officers to remain in office. Although a number of close Mbeki allies in cabinet are likely to resign

with him, Motlanthe's appointment is likely to prevent a mass exodus. The key minister from an investor perspective, Finance Minister Trevor Manuel, has indicated that he will stay on. The governor of the Reserve Bank, Tito Mboweni, is also likely to remain in his post, thus ensuring that key economic policy will not be drastically changed in the six month view.

Mbeki's forced resignation will likely put pressure on the National Prosecution Authority to suspend Zuma's prosecution and will reduce but not eliminate the risk of violent protests over the coming year.

The forced resignation of President Mbeki was triggered by the finding on 11 September 2008 by Judge Nicholson of the High Court that corruption proceedings against Jacob Zuma were procedurally invalid and that they appeared to have been politically influenced. Given this finding, the National Prosecuting Agency will now find it extremely difficult to re-institute proceedings in the face of considerable political opposition from the ANC and its alliance partners, namely trade union umbrella organisation COSATU and the South African Communist Party. A suspension of proceedings against Zuma, which we assess as very likely, will reduce the risk of civil unrest that would have accompanied the ANC leader's trial. The ANC YL and COSATU had vowed to mobilise their members to launch protests against the prosecution. Nevertheless, with numerous wage agreements across many sectors coming up for renegotiation in July 2009, the scope for disruptive strikes is still significant in 2009.

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