Ideology, Discourse, and the Geography of Hegemony: From Socialist to Neoliberal Development in Postapartheid South Africa

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The African National Congress (ANC) has long stood for a development policy committed to improving living conditions for black people in South Africa. Assuming power in 1994, the ANC adopted a leftist, basic-needs-oriented Reconstruction and Development Programme as the popular foundation for its economic policy. Within two years, the ANC had switched to a rightist, neoliberal Growth, Employment and Redistribution policy stressing privatization, deregulation, and trade liberalization. This article critically examines the displacement of economic policy from socialism to neoliberalism. My thesis is that ANC policy was disciplined by a neoliberal economic discourse formulated by an academic-institutional-media complex with linked centers of persuasion inside and outside the country. The article combines ideas about hegemony from Gramsci with notions of discourse derived from Foucault in constructing a geographic theory of globally hegemonic discursive formations colonizing alternative, counterhegemonic discourses.

After a century of struggle marked by the ultimate sacrifice of thousands of brave lives, South Africa’s black majority was liberated from apartheid in 1994. Two elections have subsequently shown overwhelming support for the African National Congress (ANC), an alliance of black nationalists with socialist unions and radical social movements that stands for fundamental social, economic, and political change. Time after time, the leadership of the ANC has responded to the demands of its militant supporters by promising that South Africa’s abundant wealth will finally be devoted to the welfare of the black majority. Yet, despite evident political gains in the postapartheid period, the economic resolve of a newly liberated people has been frustrated by severe limitations on policy in a neoliberal global era. At root, the dilemma facing South Africa’s people is lack of social control.
constructing a democratic developmental state in south africa

potentials and challenges

edited by omano edigheji
Can South Africa be a developmental state?

Ben Fine

This chapter consists of two main sections. The first provides a brief overview of the developmental state paradigm, and the second explores some insights from applying that paradigm to the South African economy. The conclusion drawn is that South Africa has a long way to go if it is to do more than aspire to be a developmental state. Indeed, South Africa might be thought to have been much closer to developmental state status in the past than it is now.

Economic and political schools of discourse on the developmental state

There is at least one great law and one minor law of economics. The great law is that whenever there is inflation, there is an increase in monetarism. Subject to the form that this law takes in terms of academic rationale, it seems to be so evident as to warrant no further discussion. The minor law is that whenever there is any development on a national basis, it is liable to be interpreted as reflecting the presence of a developmental state. This law is minor insofar as it is less extensive in both time and application. The developmental state has a much shorter intellectual pedigree than monetarism.

With pockets of development taking place around the world, some such as China very deep indeed, there is once more a renewal of interest in the developmental state, after a decline in the decade around the turn of the millennium. This confirms the minor law. And there is also a sudden emergence in the highest policy circles in South Africa of the idea that South Africa is to become, even always has been at least in waiting, a developmental state. Relative to our minor law, this is a remarkable conflation of cause and effect. Rather than declaring South Africa a developmental state after the event of achieving this status, it seems that, Canute-like, the simple declaration of developmental state status is sufficient to achieve that goal. It is a moot point whether any developmental state in practice has ever been aware it was such at the time, let alone declared itself to be so! Nonetheless, the fact that official circles should aspire to South Africa being a developmental state is, while being treated with some suspicion, even cynicism, generally been welcomed - both as a way of opening debate over what this means in principle and practice, and as a signal of an intention to depart from what have primarily been neoliberal policies over the post-apartheid period.

Of course, unlike Canute, who had no powers to reverse the flow of the tide, South African policy-makers do have some discretion to intervene in the course of events.
Monetarists would, though, suggest that they can only hold back development by doing so. Thus, in order to examine whether South Africa has the potential to turn rhetoric into reality, it is essential to explore both the reality and discourse of the developmental state and of South Africa itself. Unfortunately, these are extremely demanding tasks, particularly in the light of my own earlier conclusions concerning the developmental state – or should that be ‘developmental state’? For I have rejected the idea of the developmental state on analytical grounds for the reason that it accepts as a fundamental starting point the dichotomy between state and market. Instead, I have argued that it is more appropriate to identify underlying economic and political interests, especially those attached to classes, and unravel how they are represented through both the state and the market. However, even if there are problems with the developmental state paradigm, this does not necessarily mean that it is without substance and potential insight.

Although it has earlier origins, not least in the German nation-building protectionism of Friedrich List in the 19th century and the import-substituting industrialisation of Latin America in the 20th, the idea of the developmental state has been most closely associated with the rise of East Asian economies. While the classic study in this vein is of Japan by Chalmers Johnson (1982), the literature has probably been at its most prominent in the decade either side of 1990, with focus upon the rise of the East Asian newly industrialised countries (NICs), especially in the work of, and inspired by, Amsden (1989) and Wade (1990).

Yet the approach of Johnson and his followers and that of Amsden and Wade are very different for at least three reasons. First, and most obviously, Johnson was concerned with Japan and an earlier time period, as opposed to the more contemporary concerns of the later authors with the reality of development as it was materialising across the East Asian miracle. Second, the political context and motivation of the authors were very different. As Johnson (2006), a former CIA analyst, puts it, ‘I was a cold [war] warrior. There’s no doubt about that. I believed the Soviet Union was a genuine menace. I still think so.’ For Johnson, the point was to recognise the role that the state should, could and, indeed, had to play in promoting capitalism in order to save it from communism. In this respect, he plays a similar and, in part, complementary role to Keynes – pointing to the flaws in laissez-faire capitalism in order to save it from itself. In contrast, or possibly not, the later authors are most concerned to take the Washington Consensus as their critical point of departure, revealing positively what developmental states can achieve and the disastrous effects of relying exclusively upon the market.

Third, and most important for our purposes, there is a difference of approach, understanding and focus of the developmental state. This is so much so that I have suggested that they give rise to two different schools of thought, one described as the ‘political school’ and the other as the ‘economic school.’ For Johnson and the political school, the question addressed is primarily one of whether the state has the capacity to be developmental; by this is meant the ability to adopt the appropriate policies irrespective, more or less, of what they might be. Indicative is the title of his later
contribution, Johnson (1995), *Japan: Who Governs? The Rise of the Developmental State*. Inevitably, this raises the issue of the relationship between the state and the private sector, as emphasised in Johnson (1999). And, for Johnson's (1982) classic contribution, the Ministry of Trade and Industry (MITI) plays the decisive role as the state's instrument for industrial policy. In deference to specificity, Johnson (1999) is reluctant to offer a model for a developmental state but does point to the importance of four factors: a small, elite top-quality management within the state to select and promote industries, and to supervise competition; a political system that enables this; market-conforming methods of intervention; and an organisation such as MITI to effect implementation. Significantly, Johnson favourably singles out Castells's (1992) widely cited definition of the developmental state:

A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of growth and structural change in the productive system, both domestically and in its relationship to the international economy … Thus, ultimately for the developmental state, economic development is not a goal but a means.

(Castells 1992: 56–57)

This means that the developmental state seeks political legitimacy by being developmental, with success in the economy allowing it to sustain itself. This offers a striking rationale for our minor law, borders on tautology and, most important of all, is almost entirely without economic content either theoretically or empirically (i.e. what and how we are going to produce and for whom, for example, presumably being left to specificity).

In contrast to the political school, the economic school is exclusively preoccupied with appropriate economic policies, or the rationale for them, as opposed to the political (and ideological) conditions that make them possible. Heavy emphasis is placed on market imperfections and either correcting them through the state or positively creating them in order to promote development. For Amsden (1989, title of Chapter 6), it is a matter of Getting Relative Prices 'Wrong' and for Wade (1990), the emphasis of his argument is evident in his book's title, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. This is indicative of a general commitment to state interventionism, especially in industrial and trade policy, and state control and allocation of finance for investment, to accrue dynamic economies of scale and scope without undue competition and duplication of enterprise.

With the developmental state literature divided into these two schools, it has evolved over the past two decades or so in a complex way, in terms of rhythm and content, and across theoretical and empirical content. For the political school, the condition for a state to be developmental focused on its relative autonomy; as Evans (1992, 1995) argues, for a state to be developmental it needs to be sufficiently detached from the interests seeking its favour but, equally, sufficiently embedded to function positively for developmental goals. This raises the problems of what
the precise nature of the connections between state and society are, and what renders them functional - as opposed to dysfunctional (as in rampant corruption and appropriation of wealth by an autonomous state). The result has been an accumulating set of case studies in which further conditions and qualifications arise in order to accommodate what would otherwise be anomalous examples (why a state has or has not been developmental despite ticking all the burgeoning number of boxes). For White (1998), for example, in seeking to pin down how to allow for the emergence of a democratic developmental state, consideration is given to each of the following factors: consensus, institutions, political participation, authoritarianism, inclusion and exclusion, international environment, and social structure comprising class, gender, ethnicity, culture and religion.

The economic school has also evolved by relying upon case studies, with the East Asian NICs to the fore, but in a different way, reflecting its central preoccupation with challenging the Washington Consensus and the latter's blanket rejection of state intervention in general and trade and industrial policy in particular. By appeal to the pervasive presence of market imperfections, evidence is collected to the effect that development has only been successfully achieved, particularly but not exclusively for latecomer countries, through extensive intervention and systematic breach with the policy recommendations that flow from the Washington Consensus (see especially Chang 2002).

The developmental state literature was at its height of influence and energy in the mid-1990s. It played a major role in forcing the World Bank to acknowledge that there might be something different about the East Asian NICs. Even so, the Bank's report, The East Asian Miracle (1993) represented a remarkable case of analytical acrobatics in seeking to neutralise the thrust of opposition in suggesting, contrary to much of the evidence collated, that whatever the state did was what the market would have done had it worked perfectly (market conforming), and such success could not be replicated elsewhere. Yet, despite what can only be described as a telling intellectual and analytical triumph in combating the Washington Consensus in examining developmental success, the second half of the 1990s witnessed a decline in the prominence of, and effort dedicated to, the developmental state approach.

There are a number of reasons for this. First, the later emergence of the post-Washington Consensus, more state-friendly in scholarship and rhetoric at least (if not in policy), accepted but weakened the proposed role to be played by the state in the light of close examination of market and institutional imperfections; and thereby displaced the more interventionist position of the developmental state approach in policy debate. Second, the Asian Financial Crisis of 1997 threw the miracle, and hence developmental state, character of the NICs into doubt, although there was and remains a healthy debate over whether the cause and course of the crisis were the result of more or less enforced conformity to the dictates of Washington Consensus policies at the expense of continuing developmental interventions.

Third, though, even before the financial crisis, analytical problems were already being raised over the developmental state approach or, at least, over its scope of
application. In particular, within the political school, it was being recognised that
the developmental state in practice might be subject to an evolving euthanasia.
For, to the extent that it is developmentally successful, the state is liable to create
the very forces that undermine its continuing autonomy. In particular, with South
Korea in mind and the growth of its powerful corporate conglomerates, the chaebol,
a powerful capitalist class interest is created that can block the initiatives taken by
the state. By the same token, with a backward glance to the supposedly negative
impact of populism in Latin America, demands for welfare and democracy from the
working class can also constrain the state's capacity to act developmentally.

This suggests that the presence of a developmental state is liable to be confined to
an ill-defined but distinct middle stage in the process of development. It follows the
point at which industrial development is possible, but precedes the stage by which
industrialisation has been achieved. Significantly, both economic and political
schools focused upon industry and associated policies or policy potential. There is an
absence of consideration of agriculture, for example, and the classic role that it might
play in promoting industrialisation through provision of surplus for investment and
labour for a workforce. It is far from clear, though, why the analytical approaches
attached to the developmental state literature should be confined to some limited
stage in the process of development or, more exactly, industrialisation. The notions
of market or other imperfections for the economic school, and of relative autonomy
for the political school, are of universal applicability. As such, they should shed light
on earlier and later stages in development, however these might be conceived. And
it should also be possible to explain why some states are not developmental.

These observations are useful in understanding how the developmental state
literature has evolved, following something of a recovery once more over the
past decade. There is, of course, the minor law of economics of attaching the
developmental state to wheresoever there is any development. In this respect, China
is important in and of itself and indicative of a new feature within the developmental
state literature. For there has been some emphasis on the local developmental state
in China – Thun (2006), for example – in part a consequence of the country's sheer size and diversity. This reflects something more than a shift of attention
from national to local, since it is more generally representative of a widening of the
scope of application and content of the developmental state literature, especially
for the economic school. For, it is apparent that the developmental state literature
has neglected national/local relations. By the same token, however, it has neglected
many other elements in the developmental process, especially those that could not be
deployed directly in critique of the Washington Consensus (most notably focusing
on trade and industrial policy).

This gap or oversight is now being addressed in the developmental state literature, in
part prompted by the differential responses of the East Asian NICs to their financial
crises. Thus, for example, there has been closer consideration of the role played by
the welfare system (for instance, Haggard 2005; Kasza 2006; and Kwon 2003, 2005),
with diversity of outcome significant across time and place. At a more abstract level,
Lazonick (2008) understands the developmental state in terms of its promotion of innovative entrepreneurship. This is symbolic of the extent to which the developmental state literature has neglected not only this but other elements in the promotion of industrialisation, especially how technology is adopted, adapted and advanced, although such issues do generally appear in empirical narratives. On the broader analytical terrain, though, either appropriate political conditions allowing the state to be developmental or the correction of amorphous market imperfections are taken to be the leading edge of everything else falling into place. Consequently, the developmental state literature might best be seen as an organisational framework for beginning to examine whether the state can do it, and what precisely it is that the state has to do.

South Africa through the developmental state prism

Irrespective of the inner merits of the developmental state paradigm as an analytical framework, how does South Africa appear through this prism, in the light of both economic and political schools? As argued elsewhere, especially Fine and Rustomjee (1997), and in order to meet the criterion of specificity in applying the developmental state approach, the South African economy can be characterised as being dominated by a minerals-energy complex (MEC). What is meant by this? Although controversial as an approach and otherwise considered confined to a more or less distant past, the MEC is understood as an integral partnership between state and private capital, and an equally integral connection between a core set of activities around mining and energy, straddling the public/private divide.

In short, the MEC would appear to be highly conducive to incorporation within the developmental state paradigm. It focuses upon a key set of sectors; it invokes the interests of private capital and recognition that these have long been attached to highly concentrated conglomerates (even if subject to some unbundling recently); and the state has been highly interventionist. Of necessity, South Africa as a developmental state cannot be considered unchanging: it has a rapidly evolving history that can be traced back to the emergence of mining in the 1870s through to the present day. As will be apparent, if South Africa has ever been a developmental state, it might be considered to have been more so in the past than now or in the most immediate future.

In the interwar and immediate post-war period, core MEC sectors drove the economy, furnishing a surplus for the protection and growth and, ultimately, incorporation of what was initially small-scale Afrikaner capital separate from the core sectors. State corporations in electricity, steel, transport and so on represented an accommodation across the economic power of the mining conglomerates and the political power of the Afrikaners. Mining capital required such inputs but was reluctant to invest the necessary funds in case of hostile appropriation by Afrikaner interests, which were, nonetheless, served by the revenue that could be extracted from the MEC - albeit at the expense of provision of state corporations primarily serving mining and related sectors. The apartheid labour systems, involving migration from the southern
African region to mining, and varying degrees of segregation within the country, were less an accommodation than a common bond.

As a result, the divisions between Afrikaner and mining capitals precluded a more general strategy of industrial diversification out of core MEC sectors, leading to a partial vacuum in intermediate and capital goods capability, a failure to accrue economies of scale and scope other than in core MEC sectors, and an inefficient consumer goods industry surviving by protection upon demand. By the 1970s, though, Afrikaner and mining-related capital had been sufficiently integrated for a common economic strategy to be adopted, as had always been the case for labour systems. With the collapse of the post-war boom, the Bretton Woods system based on gold at US$35 per ounce, and the sharp rise in oil and energy prices, a huge premium attached to both gold and energy. Consequently, an industrial strategy for diversification was scarcely considered, let alone adopted. Instead, the 1970s witnessed an extraordinary state-led expansion of gold and energy production. In the 1980s, the crisis of apartheid also precluded a state and/or private strategy for industrial promotion. While the core MEC industries remained central to the economy, though, capital controls meant that profits generated internally that were not illegally transferred abroad (see below), were confined to accumulation within the South African economy itself. This gave rise not only to intensified conglomeration across the economy but also, first and foremost, to the expansion of a huge and sophisticated financial system as cause and consequence of the internationally confined, but domestically spread, reach of the South African conglomerates, with the Anglo American Corporation in the lead.

Yet what has happened to the MEC since the demise of apartheid? The interests of conglomerate capital have not been galvanised by the state for internal developmental purposes. On the contrary, conglomerates have successfully pressed for their own strategy of corporate globalisation and financialisation and, first and foremost, the export of their domestic resources and control. This has governed the role played by the state in its macroeconomic policy, with policies more or less indistinguishable from those of orthodox International Monetary Fund stabilisation being adopted to allow liberalisation of capital flows on favourable terms. Any prospect of a developmental state has been subordinated to such macroeconomic policy. It might be added that it has become a cliche that past developmental states have prospered because of the absence of economists (and that it all began to unravel once economists turned up). For Japan, in particular, macroeconomics had not even been invented when it became a developmental state and, for later latecomers, macroeconomic policies (and finance in particular) have been subordinated to developmental goals rather than vice versa.

Thus, far from the (developmental) state coordinating or even coercing private capital to commit to a concerted programme of industrial expansion and diversification, the interests of private capital have predominated over developmental goals. For the first decade of the post-apartheid economy, macroeconomic orthodoxy has prevailed at the expense of broader economic and social interventions. These have, of course,
been in part propelled by the political and rhetorical requirement to redress the inequities and inequalities inherited from apartheid. Progress has been limited, however, especially in employment, with the notable exception of black economic empowerment (BEE), for which the numbers of a newly created enriched elite are second only to Russia across the world.

Nonetheless, as already mentioned, over the past few years government has begun to talk of itself as a developmental state. And, in addition, it has proposed a more significant role for itself, not least through public corporations, in promoting growth and development. Close scrutiny of these initiatives, however, indicates that they are closely geared towards renewal of a strategy for expanding core MEC sectors. Far from being developmental, this possibly signifies a partial if continuing completion of globalisation and financialisation on the part of domestic conglomerates, and serving their needs for continuing profitability out of the domestic economy on the narrowest of productive bases.

Indeed, one stunning index of the lack of a developmental state in the South African economy is the increasingly prominent, and parasitic, position occupied by finance. It accounts for a fifth of domestic income but has failed to mobilise and prompt appropriate funding for domestic investment. Far from finance serving development, the effect has been for it to absorb a quarter of what is produced, with very little in return other than speculative and globalised profitability.

And equally indicative of the absence of a developmental state in South Africa is the electricity power crises over the past few years, with power cuts for all consumers, including core MEC producers. The decline of the capacity margin has slowly but steadily, and recognisably, occurred over the past decade (although there were some acute problems as well). Why was the necessary investment in new capacity not put in place in good time? While I have consulted widely in a context of a culture of blame, I am far from convinced that a full and convincing explanation is as yet on offer. What can be argued is how the crisis is indicative of the absence of a developmental state in South Africa from a selection of 11 closely related reasons, with corresponding implications for what needs to be done – if not necessarily how. First and foremost, the electricity does not go off in a developmental state or, at least, this is a developmental outcome that is to be avoided. For, second, a developmental state would have the economic and political foresight not to allow the reserve margin between capacity and demand to decline to such low levels without taking countervailing measures, rather than making little or no investment in new capacity as the crisis creeps into place.

Third, each of a number of individual ministries would surely have been sensitive to the needs of their constituencies, whether it be those responsible for mining, energy, transport, trade and industry or others. Each should be mindful of, and press for, secure supply of an essential input. And, fourth, apart from intra-departmental concerns over electricity supply, inter-departmental coordination could be expected to tease out overall demands and competition for supply, prompting action to ensure increased capacity. Fifth, other government departments, with decisive powers in
decision-making, such as finance and, increasingly, the presidency in South Africa, would be conscious of the problem and ensure corresponding remedial action.

In these respects, then, the South African state has been far from developmental, and the same applies, as observed earlier, to the predominance of macroeconomic policy over other goals. This might explain why the necessary levels of investment for expanding electricity supply were not forthcoming from the state, as this would have appropriated domestic resources at the expense of fiscal deficit. It is now being estimated, for example, that the scale of investment required to meet electricity demand is over 3 per cent of GDP per annum for the next five years (UBS 2008). Easier to let this go and hope for the best — but not if you aspire to be a developmental state; a developmental state, sixth and by contrast, would have made the necessary investment in and of itself in the absence of private sector participation.

Presumably this has proven necessary because, seventh, a developmental state would have forced or induced an individual domestic corporation to fund and/or participate directly in expanding electricity supply. Each major individual corporation has had no incentive to do so, given the general inclination to rely upon the state for provision of by far the cheapest electricity in the world, while being more concerned to export capital rather than tie it up in domestic activity. By the same token, eighth, there has been the failure — through the state or otherwise — to coordinate private capital to organise and implement for its collective interest in guaranteeing adequate investment in capacity. Instead, ninth, there has been a continuing failure to settle the institutional organisation of the electricity supply industry in part, but not exclusively, in terms of the shifting and thwarted plans for privatisation. This is itself not independent of the other factors previously covered, since privatisation has been constrained by lack of commitment to furnishing the necessary resources from either the state or the (domestic) private sector. In addition, tenth, this has left electricity supplier Eskom (the state-owned utility) in a state of limbo and uncertainty, with both a degree of freedom to act (and resist) and a lack of direction (so it is easy for government to blame Eskom rather than recognising that Eskom was placed in a position where it might be blamed). And, eleventh, unlike any developmental state in the past, policy for electricity supply has effectively been devolved to a regulator with limited powers other than the short termism associated with pricing (as opposed to commanding levels of investment, finance for it, technology adopted and so on).

As heavy-handedly emphasised as they are, these 11 factors are indicative of the extent to which South Africa departs from the requirements of being a developmental state. Of course, developmental states in the past did make mistakes and did adopt failed policies (not quite the same thing), and these have tended to be overlooked in the selective emphasis upon their miraculous performance. Yet, if mistakes were made, it is reasonable to assume that an authoritarian developmental state would, at the very least, have imprisoned the alleged perpetrators (guilt possibly being less important than a demonstration effect), and a democratic developmental state might be expected to launch a fully open public enquiry into the causes. Once again, South Africa does not seem to comply.
CONSTRUCTING A DEMOCRATIC DEVELOPMENTAL STATE IN SOUTH AFRICA

Historically, then, South Africa’s MEC conglomerates have benefited from, even taken for granted, state provision of cheap electricity (together with profitable contracts for providing coal to power stations). Over the past decade, their individual if not necessarily their collective interests have been served by globalisation of their assets, in terms of which they have benefited from government macroeconomic policy. In this context, none would commit own resources to capacity investment in state-owned or to be (partially) privatised electricity. Nor would the state compel such a commitment, given macroeconomic priorities. As a result, the simplest task of a developmental state – to keep the electricity on – has not been achieved. Significantly, though, BEE did seek to appropriate 51 per cent of mineral rights in the state’s renegotiation of leases but settled for 26 per cent, clearly at the expense of the mining conglomerates (Hamann et al. 2008: 29–30). So, in this arena at least, the state was prepared to act to redistribute wealth but without regard for its creation through deploying such revenue for electrical power capacity.

There are much broader implications even than this, though. For, as far as industrial policy is concerned, it points to the absence of a developmental state in South Africa in a rather different way: the definition or understanding of industrial policy itself, let alone how and whether it has been implemented. Kaplan (2007), for example, for a time chief economist at the Department of Trade and Industry, concludes that ‘First, industrial policy should not, in the current context be too ambitious. Second, given limited governmental capacities, a more prominent role should be accorded to the business sector’ (2007: 91). As indicated, he bases these conclusions on the limited institutional capacity to deliver policy. This raises questions over why, if this is the case, industrial policy has not been more extensive (and failed), why existing capacity has been distributed as it has (to macroeconomic management for capital export and BEE), and why it might not be distributed elsewhere, as well as what is being done to raise institutional capacity (Fine 2008a).

In addition, Kaplan praises the Western Cape microeconomic development strategy as a model that might be followed by central government. It is worth noting though what view is taken by those implementing that model in the light of the power crisis, citing McDonald (2008):

A survey of business attitudes in Cape Town undertaken in late 2006 by the Western Cape Investment and Trade Promotion Agency (Wesgro) underscored these corporate concerns. Some 71 per cent of firms interviewed cited ‘electricity reliability’ as the second largest ‘constraint’ on business growth in the city (after crime), noting that unreliable electricity supply had a ‘serious debilitating impact on their business.’ (McDonald 2008: 14)

From this can be drawn four implications. First, it is necessary to slaughter two holy cows in the economic historiography of South Africa – that (flawed) industrialisation took place through protection of consumer goods, and that industrial policy was essentially a matter of tariff protection. For South Africa’s industrialisation was based on a limited diversification in and around the MEC.
with a whole range of industrial policies including expansion of state corporations and their coordination with private capital. Second, then, the notion of industrial policy should be much more widely stretched to incorporate whatever is necessary to guarantee industrial success including, as indicated here, the question of national and local power supply. Of course, this is not a matter of throwing in everything that you can think of but rather of incorporating those issues that are of significance to success for specific interventions. Third, as already suggested and more specifically, this is neither a matter of leaving power supply to the private sector nor of the absence of the institutional capacity of government to deliver. Rather, government has failed to intervene out of deference to the private sector. Fourth, and possibly most importantly, this all suggests that it is not possible to have an effective industrial policy unless it is extensive. For no or little policy, even with limited capacity, can arguably be worse than an imperfectly implemented policy with ambition. Even if the conglomerates know best and have the best capacity, they do not necessarily do best – just as we would not, presumably, leave defence policy to the arms manufacturers on the grounds that they know best regarding weapons capabilities and how to use them. Those with superior resources may have unacceptable motives and pursue them dysfunctionally for the rest of the population and even for themselves – although South Africa’s conglomerates are probably not regretting their failure to take on electricity supply on their own account.

Concluding remarks

Underpinning this contribution, there has been a tension between both deploying the developmental state paradigm and rejecting it in the light of the anomalies that arise out of its application. The deficiencies of the approach derive from relying upon a dual dichotomy, between state and market, and between politics and economics. The approach does have some merit though in pointing to the need for industrial (and other) policy, and for the formation of a configuration of economic, political and ideological interests that secure appropriate policy. However, with such propositions in place, primarily underpinned by empirical narratives from successful development, it is not clear what more the developmental state approach has to offer, given the need to incorporate both country and sector specificity. How, for example, would the developmental state approach rectify the electricity crisis in South Africa, let alone address continuing inequities in income, employment and other socio-economic indicators?

As an alternative to the developmental state approach, I have suggested that the South African economy be understood in the light of the MEC that lies at its heart. This has informed my own policy work; it poses what is to be done strategically in terms of industrial policy; it identifies underlying economic and political interests, not least those attached to corporate capital; and it addresses wider issues of social and economic progress in terms of commitment to health, education and welfare. I have offered corresponding policy proposals in the past (see the appendices to Fine 2007, for example). Although such proposals are inevitably dated by the passage of
time, this is less an issue than creating the political support for implementation in updated form.

From the evidence of South Africa, such a shift in political power is less than likely to come from a state relatively autonomous from class or other interests but more likely to flow from a shift in who exercises power over the state away from conglomerates, even if the latter do prevail— in part passively through the dull compulsion of corporate wealth. For the failure of the South African state to be developmental owes much to its capacity to neutralise pressure for more progressive policy and coincidentally to preempt the creation of that pressure in the economic, political and ideological arena. Inevitably, more progressive policy would only have reinforced the momentum for more of the same. Indeed, the paralysis in policy-making (with notable exceptions, such as macroeconomic policy to liberalise capital controls and allow for BEE) is less a wise deference to the insufficient capacity to deliver and more a judicious decision not to create what might provide the organisational basis for pursuit of further and more radical policies.

Acknowledgements

This chapter is based on one of three papers on South Africa written at much the same time and with some overlap. See also Fine (2005, 2006, 2007, 2008a, 2008b).

Notes

1 This seems a peculiar claim in the light of the demise of the Soviet Union but indicative of the idea of a Red under every bed. Note, though, that Johnson has become a critic of America for its over-extension of militarisation.

2 The difference is, of course, in the emphasis upon state-led industrial restructuring for Johnson, as opposed to state-manipulated aggregate effective demand for Keynes. Crucially, the division of economics into macro and micro, and the nature of their content, in the wake of the Keynesian revolution, was responsible for placing Johnson’s concerns on the margins of the discipline even though, arguably, alongside state provision of health, education and welfare, these factors were far more significant in promoting the post-war boom (for more on this, see Milonakis & Fine 2009, Chapter 14).

3 See also Fine and Stoneman (1996); and Fine and Rustonjee (1997, Chapter 2).

4 India has tended to escape the developmental state paradigm, other than as a generally unobserved counter-example, in view of its (falsely) supposed success of late being the result of neoliberal policies. See Saraswati (2007).

5 The section that follows draws upon Fine (2008a).

6 See Lee (2002) on how industrial policies for the car industry failed in South Korea until the predominance of components manufacturers over assemblers was reversed.
CAN SOUTH AFRICA BE A DEVELOPMENTAL STATE?

References


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CONSTRUCTING A DEMOCRATIC DEVELOPMENTAL STATE IN SOUTH AFRICA


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over the direction taken by the national economy. More specifically, the problem here, as elsewhere in the Third World, is the lack of a viable developmental program that achieves economic growth through redistributing incomes and satisfying needs. The tensions between a people persuaded that their time has finally come and an economic structure that, even following liberation, can satisfy but a fragment of long pent-up demands leads to a crisis of national conscience, only partly resolved by the well publicized Truth and Reconciliation Commission. Conscience has to have material consequences for reconciliation to be concluded.

This article positions the ANC’s quest for an economic policy within a theory of hegemony and discursive power relations. I construct a geographical theory of domination and discipline, drawing on Gramscian ideas about hegemony and Foucauldian notions of discourse. Power is produced and disseminated, I theorize, in linked academic-institutional-media complexes. Recently, these have propagated rightist political ideologies in the neoliberal guise of economic policies promising growth. By contrast, I see the ANC development discourse traditionally founded on principles of socialist democracy cultivated during the epic political struggle against apartheid. I explain the ANC’s drastic reorientation, from growth through redistribution to redistribution through growth, as a process of colonization: internal discursive processes articulated with and were disciplined by external discursive, political, and financial pressures. The paper concludes that South Africa needs a democratic development policy directed at satisfying the basic needs of its most vulnerable peoples.

**Culture, Discourse, and the Geography of Hegemony**

Economic discourses are symbolic formations arranged around persuasive political ideals. Symbolic formations result from collective interpretations of historical experiences; interpretations are cultural “schemas” led by master thinkers. Modern discursive power rests on the universalization of a particular, interpreted, theorized, and valorized regional experience. In previous work, I outlined concepts, especially notions of interpretation, social imaginary, and rationality, linking regional cultures with trajectories of economic development (Peet 1996, 1997, 2000; Peet with Hartwick 1999). What I term “cultural economy” sees economic rationalities, including the motives, methods, and ethics of production, deriving from interpretations of regional experiences, through the media of social imaginaries, formed within relations of power. Collectively rationalized actions create the developmental logics of economic systems. In return, these confirm as true the original interpretive schemas.
Hegemonic Discourse Theory

This formulation relies on Gramsci’s notion of hegemony—a prevailing common sense formed in culture, diffused by civic institutions, that informs values, customs, and spiritual ideals and induces “spontaneous” consent to the status quo. Gramsci includes, in hegemony, types of economic behavior: economic rationality, he says, responds to material necessity by constituting a complex of convictions and beliefs from which concrete social goals are proposed to collective consciousness (Gramsci 1971:412–413). This “proposition to collective consciousness” might be linked with Foucault’s (1972, 1973, 1980) discourse theory. Discourses would be carriers of conviction in the form of careful, rationalized, organized statements backed by recognized validation procedures, bound into discursive formations, and made within communities of experts (Dreyfus and Rabinow 1983; Escobar 1995). Discourses assume, as one propositional form, the shape of policies suggested to governing bodies.

These ideas intersect with applications of Gramscian ideas in international relations theory. In Robert Cox’s (1981, 1983, 1993) reformulation, Gramsci saw structures of physical means of production and social relations shaped by, and shaping, superstructures of ideology and political organization to form what he termed historic blocks. Intellectuals develop and sustain the mental images, technologies, and organizations that bind strands of the common identity of a hegemonic class. Following Gramsci (1971:180–195), three levels of consciousness are distinguished: the economico-corporative, aware of the specific interests of a particular group; the solidarity or class-conscious, remaining at the economic level yet extending to a whole social class; and the hegemonic, harmonizing the interests of the leading and subordinate classes into an ideology expressed universalistically. Gramsci saw economic life in subordinate regions penetrated by hegemonic notions formed in regions that had already undergone social and economic revolution. Change in the periphery reflected international developments transmitted through ideological currents reformulated by a peripheral intellectual stratum. Cox applied these Gramscian notions to international organizations governing world monetary and trade relations, as mechanisms through which the universal norms of global hegemony are expressed. Such international organizations ideologically legitimate the norms of the world order, embody the rules that facilitate its expansion, co-opt elites, and absorb counterhegemonic ideas from peripheral countries. Extending this, Stephen Gill and Dennis Law (1988, 1989) see the post-1945 regime of accumulation cemented by a new international historic bloc rooted in the material and normative structures of American liberalism. In this structure, a hegemonic ideology serves the class interests of capital by stressing that private
property and capital accumulation are essential to economic growth (Gill 1993).

My contribution adds a Foucauldian-Gramscian notion of “globally hegemonic discourse”. This term refers to a system of political ideas, derived from leading class interpretations of regional experiences, elaborated in coherent, sequential theoretical statements, as with policy formulations, within internationally recognized bodies of experts. The **hegemonic depth** of a discourse—its intensive regulatory power—resides in its ability to restrict serious, “responsible” consideration to a limited range of topics and approaches or, more generally, an ability to specify the parameters of the practical, realistic, and sensible among linked groups of theoreticians, policy-makers, and practitioners. The regulatory space of a discourse—its **hegemonic extent**—comes from its ability to persuade or coerce others across broad swathes of territory, where practices would otherwise be conditioned by narratives, discourses, and theories deriving from greatly different interpretive traditions applied to diverse regional experiences. Discourses with hegemonic depth originate in political and economic command centers and achieve hegemonic extent by extending persuasion, coercion, and power over spatial fields of influence. Mutually reinforcing combinations of depth with extent create what I would reterm **geographic blocs** of states and institutions exercising power through globally hegemonic discourses. Hierarchies of centers of persuasion organize spatial systems of discursive flows that result in a series of articulations between universal and regional discursive formations. Articulations take the form of two-way interactions during which disciplinary or regulatory effects are exchanged more frequently from the universal to the regional. Several discursive dimensions structure this disciplinary effect: the imposition of theoretical legitimacy, in terms of linking formalized systems of ideas with a recognized interpretation of a dominant, regional experience, set down in a hegemonic textual tradition, and widely accepted as proven and universally applicable; the establishment of a more directly realistic legitimacy, in terms of a prevailing sense of technical viability as adjudicated by expert opinion; several kinds of institutional legitimacy, in terms of the labeling of ideas as “mature and responsible” in a social accounting process controlled by conventions derived from dominant “proven” practices of wealth accumulation; and popular processes of the carrying of conviction from experts to people through cultural practices developed by established media that marshal broad patterns of consent.

**AIM Complexes**

Of particular importance for growth and development discourses are the clusters of economic institutions that command significant financial resources and approved accounting practices. How might
these institutional clusters be more exactly specified? The organized, systematized ideas behind an economic discourse often originate in theories elaborated by academics in elite institutions, usually leading universities, with large endowments stemming from long-established capital accumulations. The ideas behind a discourse are also thrown up more directly by productive practices interpreted by groups of economic agents, as with business and financial elites: depending on the degree of ideological sophistication, these are rephrased into universalistic value formats, often by business federations, chambers of commerce, and similar elite economic organizations. Increasingly, as market relations penetrate cultural production, economic discourses are thought up on contract by researchers working in think tanks financed by grants from (often conservative) corporations. Ideas and personnel continually move among business, academic, and quasiacademic institutions and the higher reaches of governmental bureaucracies, especially the departments of finance, where real state economic power resides. Some of the ideas, propagated by academic and institutional agents and processed into policies, are picked up by the information media—especially, in the economic case, the business sections of respectable national and international newspapers, economic dailies or weeklies, popular magazines, and news and commentary shows on television and radio. Here we find the clearest links with commodification and advertising revenues that underwrite the apparent neutrality of “all the news that’s fit to print”, although my claim is that the entire discursive process, from ideological conceptualization to policy implementation, is structured by class, gender, and ethnic interests.

These intimately related, expert- and public-personality-filled organizations form academic-institutional-media (AIM) complexes producing policy prescriptions, position papers, press releases, popular columns, commentaries and programs, news bites, expert interviews, and a vast panoply of well-written, illustrated books, reports, and articles. Taken as a whole, the representations produced by an AIM complex constitute a coherent discourse dealing with a definite range of topics derived from a definite politico-theoretical (interpretive) perspective. In general, discourses are lent hegemonic depth by the cultural-institutional-geographical contexts of their production, revealed in the reputations of key formative institutions such as Harvard, Oxford, and Cambridge Universities. The boundaries of geographic blocs are extended and reinforced through formal, institutional mechanisms: political/military interventions enforce adherence at times of crisis, when competing interpretive schemas collide in geopolitical space; blocs are more usually policed by policy means, as when structural adjustment by the World Bank forces borrowing countries to adopt hegemonic models of development. But capitalism
operates mainly through markets. So discipline takes, as its most powerful construct, the “free market” form of speculation on stock exchanges, currency, and futures markets. That is, discipline is exercised by “the market” on the basis of an economy’s expected degree of adherence to the policies deemed rational and pragmatic by a leading discourse (Soros 1998:chapter 3). More generally, the powers of leading centers of persuasion derive from the interlocking of several AIM complexes—economic, cultural, and political—that produce, project, and protect a linked series of discourses that constitute the entire hegemonic ideological formation of a geographic bloc.

The designation “complex” for an AIM complex is intended to describe a composite rather a unity. Competing tendencies within an AIM complex, each serving fractional class interests and responding to varying politics of interpretation, produce different versions of a given discourse. For example, business federations stressing profit motivation, valorized as job creation, in discourses of economic growth are opposed by liberal academics posing universal enlightenment values of human betterment in discourses of development. Struggles for discursive power within and between institutions lend internal instability to even the most established AIM complex. Yet, at any given time one institution establishes a leading style, a persuasive vocabulary using approved terms, even an archetypal aesthetic appearance for ideas and personnel, that permeates an entire AIM complex. The World Bank, as one commentator wittily puts it, “is to economic development theology what the papacy is to Catholicism, complete with yearly encyclicals” (Holland 1998:5). Squabbles within a hegemonic formation take textual shape as variations in policy prescription, as, for example, differences over International Monetary Fund (IMF) intervention in the economies of East Asian countries during the financial crises of 1997 and 1998. Individual and institutional reputations rise and fall as positions are taken in these intradiscursive thematic squabbles.

More generally, all leading players in hegemonic AIM complexes participate in what Huntington (1996), from an insider’s position, calls the “Davos culture”:

[T]hey know how to deal with computers, cellular phones, airline schedules, currency exchange, and the like. But they also dress alike, exhibit the same amicable informality, relieve tensions by similar attempts at humor, and of course most of them interact in English. Since most of these cultural traits are of Western (and mostly American) provenance, individuals coming from different backgrounds must go through a process of socialization that will allow them to engage in this behavior with seemingly effortless spontaneity. (Quoted in Berger 2000:421)
The new policy missionaries, Harvard and Cambridge graduates all, have their way paved by academic-intellectual dependencies, in which local intellectuals, trained in Western knowledge, already speak the colonial language and think through theories developed in the center (Alatas 1993). Reputations are made locally by how quickly the latest discursive trend emanating from a recognized center of influence can be mentioned, rethought, and projected into policy. Occasionally, new discursive styles originate in subcenters of power, although their initiators usually end up living at the center. Even so articulation between the universal hegemonic and the regional subhegemonic may dominantly be described as “translation”, in which the universal is converted into the local as discourses are made appropriate to still-differing contexts. Regional centers of persuasion, with their own interpretive instructors, have locally constituted AIM complexes projecting modified hegemonic discourses into practice via regional consciousnesses. All together, these interlinked formative and translating centers of persuasion and influence, linked by flows of discourse, make up the institutional space of a globally hegemonic geographic bloc.

Counterhegemony

Hegemonic discursive formations—originating in power centers, based on well-established theories, backed by mighty institutions, with billions of dollars behind them—colonize subhegemonic discourses originating in regional experience yet interpreted through conventions that often correspond to universal norms. In turn, both are confronted by alternatives deriving more directly from different interpretations of the varying experiences of oppressed peoples. As Raymond Williams insisted, “the hegemonic” is neither total nor exclusive. Rather, alternative or oppositional cultures continue. For Williams (1977:125), these alternatives may be “residual”—based on experiences lived in the cultures of previous social formations—or “emergent”—based in new meanings and values, new significances and experiences, not fully incorporated into the dominant.

Even with intensive globalization, different spaces exist in discontinuous time sequences. In these spaces of difference, oppositional groups contend with the residues of dominations discarded elsewhere or, more realistically, long integrated into synthetic new kinds of domination—contentions with feudal social formations, for instance, or explicitly racial segregation, in the case of apartheid. Continuing exclusion from material benefits forms the experiential base projecting residual resentments into emergent alternatives. These counterhegemonic alternatives have their own bases in power complexes, often situated in social movements or unions, different in that they employ more informal media of thought, discussion, and dissemination. Sometimes counterhegemonic formations receive limited financial
backing from liberal funding sources in the center—the Canadian International Development Research Centre, in the case of development, for instance. They have their own media outlets, as with Zed Books in London, South End Press in Boston, or Raven Press in South Africa. Intellectuals marked by class, ethnic, or gender difference often serve as spokespersons for what otherwise can amount to sullen resistance phrased in narrative forms using languages or dialects restricted to local ethnic groups. Translation within the counterhegemonic takes the form of radical academics or liberal professionals converting popular emotion, anger, poems, songs, testimonies, and assertions, often based in residual resentment, into the rationalized policy prescriptions, press releases, books, and scholarly articles of an emergent alternative.

In making counterhegemonic discourses, some degree of disciplining is inevitable. Indeed, the very process of translation from popular narrative into formal discourse might be a variant of colonization. Most importantly, translation “reimagines” local grievances and ideas for solutions, based in local interpretive schemas, in terms of outcomes already intellectualized in the liberal, social democratic, and socialist traditions of the West. Important, too, is the intellectual capturing of the radical academic mind by grants, institutional recognition, “policy relevance”, and invitations to visit Harvard for a corrupting while. In other words, subhegemonic and counterhegemonic translation processes correspond through contradictory positions and dubious alliances marked by frequent crossovers in political adherence.

However, despite such disciplinary processes, contestations between the hegemonic, the subhegemonic, and the counterhegemonic in regional centers of persuasion are frequently punctuated by episodes of violence, including physical confrontations that leave bodies dead on the streets. This is because counterhegemonic discourses more fundamentally derive from the collective wills of desperate peoples, from the experiences of the poor and downtrodden, from pangs of hunger and the anguished cries of children, from the loss of respect during the death of a culture.

In the present instance, therefore, “colonization” refers to the imposition of the ideas and discourses of a hegemonic geographic bloc over the counterhegemonic narratives of the peoples of the peripheries through the disciplinary media of policy discourses. Colonization occurs through a series of “articulations” among: central, hegemonic discourses; translated regional subhegemonic versions; and emergent alternatives, based in residual cultures and translated into counterhegemonic discourses by dissident intellectuals. In this complex geography of hegemony, the crucial moment lies not in the sequencing of competing hegemonic and counterhegemonic discourses, nor even in
the spatial ordering of linked centers of persuasion, as much as it does in the disciplinary pressures exchanged between interpretive traditions during discursive articulations.

**Neoliberalism**

In the last quarter of the twentieth century, in a widening sphere of societies, economic growth and development policies came to be formed by the same neoliberal principles. Neoliberalism is a broad structure of beliefs founded on right-wing, yet not conservative, ideas about political democracy, individual freedom, and the creative potential of unfettered entrepreneurship. In neoliberalism, the main restriction on an inherent tendency for free capitalist economies to grow is market failure resulting from perverse governmental policies. In neoliberal thought, governments may play a productive role in providing public goods, such as infrastructure, while macroeconomic (especially monetary) policy may provide stability, but most governments in welfare state societies and developing countries alike have gone too far in interfering with the free play of markets (Wade 1992:270–272; Wade 1996; Wade and Veneroso 1998).

**Interpretive Schemas**

The economic analysis lying at the theoretical core of this system of beliefs derives from readings of the founding texts of classical and neoclassical liberal economics. These in turn stem from leading interpretations of the Western European experience in early modernity. The masters of Western interpretation, mainly philosophers and political economists writing in 17th- and 18th-century Britain (Hobbes, Locke, Hume, Smith, and so on), thought on behalf of the new class of merchants and manufacturing entrepreneurs. Their primary interpretive task lay in reconciling individual striving, marker of the emerging capitalist order, with communalism, residue of medieval religious morality. Increasingly, this reconciliation relied on a modern belief in the freedom of the self-seeking yet morally responsible enlightened individual, disciplined by equally modern institutions, principally the market (Smith 1976). Adam Smith’s *The Wealth of Nations* (1937) elaborated what he termed the laws of moral philosophy into a liberal theory of competition, specialization, and trade: self-regulating markets were the silent rationality (“invisible hand”) transforming private interests into public virtue.

Neoliberalism interprets these early liberal doctrines in ways more appropriate to late modernity. The basic liberal (Smithian) notions of free trade and the liberating potential of markets are regarded as proven by the subsequent economic success of the West. Theories based in schemas of interpretation founded in Western religious
rationalism are validated through demonstration effects, being causally linked with growth, material abundance, consumption, and opulence in the case of classical and neoclassical economic theories. In this sense, economy is overdetermined by culture, as secular schemas validate consumption over family or tradition. Yet the past is remembered, not merely as received wisdom, but also through a series of creative re-enactments. Hence, an obsession exists in contemporary neoliberalism with deregulation and the privatization of previously state-run enterprises, this time in critical reaction to Keynesianism and social democracy as opposed to liberalism’s earlier negative reaction to mercantilism. The classical economic liberalism of the 18th and 19th centuries is recalled, too, within a new domain of geopolitical power relations. It retains an ideological zeal stemming from Western anticommunism, and it enjoys a market triumphalism arising from the collapse of the Soviet Union, in what Fukuyama (1989) trumpeted as “the end of history”—the apparent ending of all political alternatives to liberal democracy.

Interpretive Scheming
The conversion of rightist political ideology into “economic science” occurred at a number of coordinated centers of influence and persuasion: the Austrian School of Economics in Vienna, the London School of Economics, the Institute of Economic Affairs, Centre for Policy Studies and Adam Smith Institute, also in London, and the ordoeconomics school of Walter Euchan and Franz Bohm at Freiburg. The intellectual capital of this rightist AIM complex is the Chicago School of Political Economy, initiated by Frank H. Knight, a liberal in the 19th-century sense and a critic of New Deal (20th-century) liberalism, who believed in the “ideal of active individual freedom” (Tilman 1992:51). Knight was followed by a second generation of “liberal revivalists,” including Milton Friedman, George Stigler, and James Buchanon, who likewise subscribed to self-interested, competitive behavior in economy and polity (Bosanquet 1983; Sally 1998; Samuels 1993). Friedman translated the rightist politics of the school into the apparently scientific, neutral, mathematical codes of monetarist economics (ie the idea that macroeconomic problems like inflation and indebtedness derive from excessive government spending driving up the quantity of money circulating in a society). The “socio-philosopher of economics” and early critic of Keynes, Friedrich von Hayek (1984:363–381), elaborated the basic beliefs of this school of thought as an advocacy of the spontaneous order of the market and an aversion to the coercive powers of government, especially when these operated under the “illusion of social, distributive justice.” Neoliberal ideas were disseminated by the American Heritage Foundation, parts of the Hoover Institution, the American Enterprise Institute, and
other United States organizations well-financed by conservative corporations. Milton Friedman regularly wrote from a laissez-faire position as a columnist for *Newsweek*. The long-gestating liberal revival in economics was reinforced by anarcho-capitalist notions developed in political science (e.g., the idea that the free market can coordinate all functions of a society currently carried out by the state; Brown 1997), published in works written mainly by Austria- or Chicago-connected political theorists, especially Murray Rothbard (1970, 1973) and David Friedman (1989).

What came to be called *neo*-liberalism moved from right-wing quackery to recognized convention in 1974 with the awarding of the Nobel prize in economics to von Hayek (along with Gunnar Myrdal!) at a time of supposed crisis in postwar Keynesianism. Big business moved from supporting state regulation of the economy to neoliberalism in the 1970s: large corporations and banks that had previously supported foundations, such as the Brookings Institution, advocating government regulation of the economy, switched their donations to right-wing institutions, like the Heritage Foundation, which became increasingly wealthy and influential (Kotz 2000). Neoliberal economic policies were imposed by the IMF and a right-wing U.S. Treasury on a left-leaning Labour government in Britain in the middle 1970s (Panitch 2000:12–13) and were eagerly adopted by “supply-siders” in the Reagan and Thatcher governments in the early 1980s—indeed, the Reagan cabinet wore ties embroidered with Adam Smith’s profile to demonstrate allegiance to their classical master (Rayack 1987:13). Some of these policies had already been tested in Chile, where General Pinochet was heavily advised by Chicago School economists (Overbeek 1990, 1993). Harry G. Johnson, a critic of Keynesianism who taught at Chicago, was a main player in the counterrevolution in development economics. Following Milton Friedman’s (1958:508–509) lead that what is required in the underdeveloped countries is the “release of the energies of millions of able, active, and vigorous people ... who exist in every underdeveloped country” and “require only a favorable environment to transform the face of their countries”, neoliberal development policy aims at creating “more competitive markets with brave, more innovative entrepreneurs” (Straussman 1993:287; Toye 1987).

The established media picked up on these ideas in the early 1980s, when neoliberalism was causally linked with an intensification of globalization. Neoliberal policies were regarded as effective means for underdeveloped countries to join the global economy, despite the contradictory evidence of the East Asian route, led by interventionist, developmental states (Wade 1992). The World Bank began a shift towards neoliberal positions with the Berg report on development in sub-Saharan Africa (World Bank 1981). Subsequent *World Development*...
Reports (World Bank 1983, 1984, 1987) generalized and retheorized these ideas. By the late 1980s, a system of policy recommendations, dubbed the “Washington consensus,” dominated a previously social democratic and Keynesian development discourse. Favoring renewed faith in classical economics while advocating “prudent macroeconomic policies, outward orientation, and free market capitalism” (Williamson 1990, 1997), this consensus is underdetermined by logic or empirical verification (MacEwan 1999:35), and overdetermined by institutional reputation and financial backing. In this sense, the World Bank’s neoliberal “structural adjustment” should be seen as an economic technique of political power. Casual application of structural adjustment to societies with vastly different traditions and conditions, as with most African countries, has had disastrous results, particularly for poor people (Gibbon 1992; Watkins 1994).

In response to increasing criticism, the World Bank shifted around 1990 to a revised neoliberal model stressing market-friendly state intervention and good governance (political pluralism, accountability, and the rule of law), conditions suddenly found typical of the East Asian “miracle economies” (Kiely 1998; World Bank 1991:1–2). In the 1990s various World Bank reports outlined an “holistic approach” to development combining social safety nets, poverty, health, education, environment, and rural and gender considerations with conventionally neoliberal principles like increased property rights, trade liberalization, and privatization. The culmination of this trend towards a Third-Way “neoliberalism with a human face” was announced in the 1999/2000 World Development Report. This report proposed a synthetic “Comprehensive Development Framework” (CDF) with two complementary parts: a stable macroeconomy, shaped by prudent fiscal and monetary policies; and the CDF itself, stressing honest governments and strong property and personal rights supported by an efficient legal and judicial system, human development, as in the cases of education and health, physical infrastructure, and sectoral elements like integrated rural development strategies and urban management (World Bank 1999).

The turn of the century found neoliberalism moving to a reflexive developmentalism that incorporates its own critique into ever more refined but basically unchanged versions. My claim is that conventional developmentalism is a hegemonic global discourse spread and enforced by an AIM complex captured by neoliberal ideas of privatization, deregulation, and liberalization, all encapsulated within political beliefs about democracy, entrepreneurship, and individual freedom. This capturing resulted from an organized attempt instituted by a coherent political group aimed at decisively shaping the political-economic imagination by propagating hegemonic discourses through networks of centers of persuasion. I will further claim that neoliberal
development discourse is utterly unsuited to the conditions prevailing in postapartheid South Africa.

**South Africa: A Discursive History**
The history of modern South Africa has been ably recounted in terms of three economic-discursive transitions:

1) The Dutch mercantilist system based in bonded labor and slavery was conservatively transformed in the early 19th century by British liberal notions of universal humanity that insisted on respect for markets and private property.

2) In the late-19th-century transition to industrial capitalism, discourses of innate racial differences were employed to limit the political enfranchisement of the black petty bourgeoisie and regulate the supply of African labor to the rapidly growing mining industry.

3) After World War II, a revitalized, American-based discourse of universal humanity, which nevertheless maintained white dominance increasingly expressed as class rather than race, was forced on the governing National Party by continuing protests against apartheid. In the postapartheid period, the pretensions of the new (ANC-led) South African state have been held in check by the “prescriptions of a newly assertive post-Cold War West” (Lester, Nel and Binns 2000:144).

Discursive adaptations, Lester and colleagues say, set the agenda for counterdiscourses by limiting the practical opportunities available to oppositional movements. They see the abandonment of apartheid and the normalization of South Africa’s position in the global system as implying acquiescence to free-market doctrines that impede large-scale redistributions of resources to the black population. Thus “it is difficult to imagine that the [postapartheid] South African state could have pursued an alternate course of action [other than moving to a neoliberal policy position], given the demise of state socialism internationally and the neoliberal discursive prescriptions of the global economic powers” (Lester, Nel and Binns 2000:145). Yet, until a few years ago, it was difficult to imagine the ANC following anything but a socialist development policy! To appreciate this transformation in economic imaginary, we need to retell the legend of South African liberation.

**Discourse of Resistance**
Conventional analysts claim that the ANC produced “no substantial economic policies until 1990” (Nattrass 1994:344). Yet a grassroots network of organizations and individuals centered on the ANC
produced a series of statements on social and economic transformation as the political basis of a coherent, alternative policy discourse. The crucial founding event, the Congress of the People of 1955, adopted a Freedom Charter that subsequently became strategically important as a statement of radical opposition to the apartheid government. The actual words of the Charter were written by a committee of the Congress of Democrats, a white, liberal-left alliance associated with the ANC (van der Westhuizen 1994), but the document was based on lists of grievances submitted by hundreds of meetings convened under difficult circumstances. It is an elegantly and beautifully phrased counterhegemonic document written by intellectuals working on behalf of oppressed peoples. A preamble states the principles on which the Charter rests:

We, the People of South Africa, declare for all our country and the world to know:

That South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of the people;

That our people have been robbed of their birthright to land, liberty, and peace by a government founded on injustice and inequality;

That our country will never be prosperous or free until all our people live in brotherhood, enjoying equal rights and opportunities;

That only a democratic state, based on the will of the people, can secure to all their birthright without distinction of colour, race, sex, or belief;

And therefore, we the people of South Africa, black and white, together—equals, countrymen, and brothers—adopt this FREEDOM CHARTER. And we pledge ourselves to strive together, sparing nothing of our strength and courage, until the democratic changes here set out have been won. (Freedom Charter, quoted in Esterhuyse and Nel 1990:157)

Sections 4 and 5, dealing with economic rights and land reform, are particularly important for social transformation. Here the main passages read:

The national wealth of our country, the heritage of all South Africans, shall be restored to the people;

The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole;

All other industries and trade shall be controlled to assist the well-being of the people;

Restriction of land ownership on a racial basis shall be ended, and all the land redivided amongst those who work it, to banish famine and land hunger;
The state shall help the peasants with implements, seed, tractors, and dams to save the soil and assist the tillers. (Freedom Charter, quoted in Esterhuyse and Nel 1990:158)

The Freedom Charter combined nationalist principles with Western democratic ideals and European socialist policies in a radical economic statement about development, social control over resources, and human liberation (cf Crush 1995:xi). As signatory to the Charter, the ANC was accurately seen as a black nationalist organization with a radical, socialist politics.

During the following years of turmoil, the ANC used the Freedom Charter to claim social and political justice. A considerable documentary history records debates within the ANC on its political-economic principles (ANC 1985). In their “Constitutional Guidelines”, ANC officials interpreted the Freedom Charter as a guide for making a just and democratic society that would sweep away the legacy of colonial conquest and white domination. The Guidelines argued that 90% of the land and instruments of production were held by the white ruling class. Ending poverty would mean “a rapid and irreversible redistribution of wealth and opening up of facilities to all”. The Guidelines said that “[t]he state shall ensure that the entire country serves the interests and well-being of the entire population”, and “the private sector of the economy shall be obliged to cooperate with the state in realizing the objectives of the Freedom Charter in promoting social well-being”, so that “the economy shall be a mixed one, with a public sector, a private sector and a small-scale family sector” (ANC [1987] 1990:165). As the Guidelines indicate, the ANC remained a radical, modernist organization based on socialistic principles.

After several years of informal meetings between liberal South African business people and the ANC, the ban on the organization was lifted in February 1990 and the organization’s leaders released from their long, punishing confinements on Robbens Island. A negotiated settlement was finally reached at the World Trade Centre in Kempton Park in 1994. Elections held with black participation resulted in overwhelming victories for the ANC in 1994 and 1999 (Friedman 1993; Magubane 1979; Murray 1982; Thompson 1990).

Discourse of Development
South Africa’s decade of liberation between the mid-1980s and the mid-1990s saw intense discussion about the future course of economy and society (eg Bond 1991; Patel 1993; Schrire 1992; Sunter 1987). Much more formalized discourses began to emerge, written by “experts” on development, economic policy groups composed of radical and liberal academics advising the Congress of South African Trade Unions (COSATU) and the ANC bureaucracy; and increasingly people
from business, conventional academia, the World Bank, and the IMF produced counterproposals. A series of conferences on the future of the South African economy, held outside the country in the late 1980s, was attended by members of the ANC, the South African Communist Party (SACP), and unions and many prominent, exiled, leftist academics.

Inside South Africa, in the late 1980s and early 1990s, a number of research networks formed to debate macroeconomic policy issues. Two of the leading organizations were:

1) *The Economic Trends Group (ET)*, formed in 1986 at the suggestion of COSATU and composed of leftist, union-oriented academics in Johannesburg and at the University of Natal and Cape Town University. An important meeting was held in Harare, Zimbabwe in 1991 between COSATU, ET, and the ANC’s newly formed Department of Economic Planning, which drew up a “Draft Resolution on Economic Policy” for circulation and discussion within the ANC organization. The ANC committed itself to promoting economic growth through redistribution, including satisfying basic needs, and empowering the disadvantaged (Kentridge 1993). This was to be achieved by a mixed economy led by a developmental state (ANC 1991). The ANC national conference, held in May 1992, reaffirmed support for the “basic needs” approach inherent in this document (ANC 1992). The proposal was heavily criticized as inflationary by conventional economists, business organizations, and the South African media (Marais 1998:149–151).

Later, a reconstituted ET research group, with help from the Institute for Development Studies at Sussex University and with Canadian financing, conducted a detailed study of the South African economy under the auspices of the Industrial Strategy Project (ISP). This study culminated in *Improving Manufacturing Performance in South Africa* (Joffee et al 1995). In the words of one (critical) observer “The ISP’s policy recommendations represent a distinct shift away from a national, demand-side, developmental approach to a more global, supply-side strategy for economic reconstruction” (Padayachee 1998:437).

2) *The Macro-Economic Research Group (MERG)*, founded in 1991 on the recommendation of a mission from the Canadian International Development Research Centre (IDRC), centered on leftist academics in the University of the Witwatersrand economics department, with a wide network of contacts in the South African educational system, and initially well-connected with ANC members within the country, such as Trevor Manuel,
later to become Minister of Finance, and Maria Ramos, later Director General of Finance. This proposed a post-Keynesian policy framework advocating a state-led social and physical infrastructural investment program to be followed by sustained growth with increasing private investment (MERG 1993).

In the 1994 election, the ANC stood on ground specified by its *Reconstruction and Development Programme* (RDP) (1994), a popular policy document written by intellectuals from ET and MERG, together with representatives of various social movements and nongovernmental organization (NGOs), and finalized by a series of workshops in a relatively open and democratic process (cf Smith 1999). Six principles framed ANC policy:

1) an integrated and sustainable program;  
2) a people-driven process;  
3) peace and security for all;  
4) nation-building;  
5) the linking of reconstruction with development;  
6) the democratization of South Africa.

Of these, the key to economic policy was principle number 5. In deep structural crisis, the South African economy was considered in need of fundamental restructuring. In contrast to the view that economic growth and development/redistribution were contradictory processes, the RDP document claimed to “break decisively” by integrating the two (ANC 1994:6–7). Specifically this meant a 5% economic growth rate and the annual creation of 300,000–500,000 nonagricultural jobs. The industrial strategy involved increasing national investment, especially in manufacturing, job creation, and the meeting of basic needs. Stable policies, it was thought, would also create a climate conducive to foreign investment—the RDP mentioned, but did not stress, South Africa’s integration into the world economy as an exporter of manufactured goods. The RDP document warned that foreign investors would have to abide by the country’s laws and standards, particularly with respect to labor, and that the government would ensure the transference of knowledge and technical capacity and participation by workers in decision making.

Most of the proposals were written into a government white paper on reconstruction and development in November 1994, entering into the official policy of the ANC-dominated government of national unity. The white paper differed from the RDP document in placing greater emphasis on “financial and monetary discipline”, the “establishment of an economic environment conducive to economic growth”, and “trade and industry policies designed to foster a greater outward
orientation” (Government of the Republic of South Africa 1994:21). These can now be read as signs that a reorientation of official policy had already begun. Even so, in the first free elections held in a liberated South Africa, the ANC publicly committed itself to reconstruction and sustainable development that increased the poor’s ability “to mobilize sufficient development resources including from the democratic government where necessary” (ANC 1994:15). Where vigorously applied, the RDP has worked well for poor people. In the five years following adoption of the RDP, 3 million people were provided with safe drinking water from taps within 200 m of their houses as part of a plan by the Ministry of Water Affairs and Forestry to supply 21 million people with basic water services.6

The portent for the future seemed clear. There was going to be a democratic, redistributive, even socialistic, new society in South Africa.

**Disciplining the ANC**

However, it now appears that the leadership of the ANC was secretly moving towards neoliberal policies well before the 1994 elections. In the period between 1990 and 1994, during which the ANC moved from illegal to legal opposition and partial incorporation into the South African state, statements made by ANC leaders came under intense, critical attention by business spokespersons, academics, and official commentators in the established media. The result was a disciplining of the ANC’s radical positions, as a consequence of which “a more nuanced view won the day … When Mandela's support of nationalization earned a cool response inside South Africa and in the Western media, a number of more qualified statements on nationalization followed” (van der Burg 1990:117). On release from prison in 1990, Mandela said that “nationalization of the mines, banks and monopolies is the policy of the ANC and a change or modification of our views in this regard is inconceivable”; within hours, Johannesburg Stock Exchange traders were “unceremoniously falling out of bed” to launch a selling spree (Marais 1998:146). A few months later, Mandela (1990) said that the banks, mines, and monopolies would be nationalized but other industries would not; soon after, he stated that this would occur only if it boosted the economy. Mandela finally rejected nationalization while attending the world economic forum in Davos, Switzerland in February 1992. Other ANC leaders (Joe Slovo, Walter Sisulu, Thabo Mbeki) found nationalization not necessarily fundamental to ANC policy: indeed, former communist Mbeki added that nationalization had never been part of it. The ANC began to speak of policy alternatives, such as antitrust legislation and government-appointed directors on the boards of major companies (Ceruti 1996). Asked in 1995 why the ANC had changed its position
on nationalization, Minister of Finance Trevor Manuel said that the
collapse of the Soviet Union broke the romantic illusions of many
leftists in the ANC (Habib and Padayachee forthcoming).

However, nationalization was only the most obvious of a series
of changes in ANC policies (Rantete 1994). Disciplinary pressure on
the ANC came from two main sources: business organizations and the
media within the country; and the World Bank and IMF from outside.
Progressive business organizations, centered on the South African
Chambers of Industries and Commerce and the Afrikaans Trade Insti-
tute, had long sought moderate policies from the apartheid state.
Operating through the Urban Foundation liberal business people
lobbied for changes in housing policy, the recognition of informal
housing and reform of the Pass Laws. Together with progressive clerics
from some Afrikaaner churches, members of the Urban Institute later
formed the Consultative Business Movement (CBM—now called the
National Business Initiative, or NBI) to support negotiated change
and pragmatic rather than “ideological” economic policies. The CBM
played a facilitative role in bringing about compromise between the
ANC and the apartheid state.

When unbanning the ANC in 1990, Nationalist president F W de
Klerk asked business leaders to articulate what the new South Africa
might look like. In response, business people, academics, and develop-
ment consultants produced a plethora of research documents on the
future of the South African economy. Sanlam, an insurance con-
glomerate, laid out a “Platform for Investment” scenario castigating
“macroeconomic populism” and calling instead for macroeconomic
stringency, limited social restructuring, an outward-oriented economy,
and a facilitating state. The South African Chamber of Business pro-
duced “Economic Options for South Africa”, a document recognizing
the need for economic reforms but insisting that promoting optimal
conditions for free enterprise to flourish was the best way of reducing
poverty. A Mont Fleur scenario drew ANC and union executives into
a “social democratic” exercise that still managed to dissuade redis-

For slick, neoliberal sophistication, however, the report entitled
South Africa: Prospects for Successful Transition is particularly notable
(Tucker and Scott 1992). The report advocated redistribution through
growth brought about by change from an inward-looking resource
orientation to an outward-looking manufacturing focus for the econo-
my. It emphasized stability, resisting populist pressures, a shared
vision of the future, and achieving consensus. Billed as a short-term
“scenario exercise” in the guise of “articulating what the new South
Africa might look like”, the report became a discursive device for
implanting long-term and conventional yet neoliberal, business-
oriented ideas about growth and development into elite and popular
consciousness (Tucker and Scott 1992:126). As a result of these reports, neoliberal notions of redistribution through growth in concert with an outward focus for the economy began to appear with increasing frequency in discussions of development policy. In the late 1980s, the Afrikaner National Party shifted from its previous import substitution strategy to a more export-oriented program, codified in the Normative Economic Model (NEM) of 1993, essentially following IMF prescriptions. The ANC soon began moving towards a position compatible with NEM and the IMF.

In the early 1990s, South Africa had come under increased scrutiny from the World Bank and the IMF. The World Bank assiduously courted ANC leftists as part of a “trust-building” process. The Bank’s position was that poverty could be alleviated and jobs created through private sector expansion in labor-intensive industries (Fallon and de Silva 1994; Jonsson and Subramanian 2000; World Bank 1994, 1996). As prelude to a 1993 $850 million loan, the IMF published a report stressing an outward-looking macroeconomic strategy, with growth trickling down to the poor through private sector employment growth and increased government revenue (IMF 1992). A secret “letter of intent”, signed with the IMF in 1993 and agreed to by the ANC, committed the South African government to “responsible management” of the economy, interpreted as cutting state deficits, controlling inflation, imposing wage restraint, adopting outward orientation, and, most importantly, recognizing the superiority of market forces over state regulatory interventions (Padayachee 1994). According to one left critic, Patrick Bond (1997), the ANC government not only followed IMF policies, but liberalized the economy faster and further than expected. Massive international pressures lay behind this shift: “ANC leaders, including Trevor Manuel and Tito Mboweni, visited the International Monetary Fund in Washington; tycoons from the Brenthurst Group—first set up by Mandela and business friends—met with the ANC to discuss economic problems, while the British and American Ambassadors kept inquiring about MERG’s plans” (Sampson 1999:466).

With these preparations, things changed rapidly when the ANC assumed leadership of the Government of National Unity after the 1994 elections. An independent governmental department supervising implementation of the RDP was soon closed, with its duties assumed by the office of Deputy President Thabo Mbeki. In 1995 and 1996, the battle of scenarios intensified. The South Africa Federation coordinated a report on behalf of the business community advocating a neoliberal economic policy. By comparison, the 1.8 million–member COSATU’s “Keynesian” alternative, set out in Social Equity and Job Creation (COSATU 1996:3), advocated “an expansion of the social wage through mass state housing financed through public borrowing, a national health program, all-embracing social security, and public
job creation, as well as an enlarged public sector”. The SACP called for worker empowerment and public sector spending. But the question had already been settled (Saul 2001).

Getting in GEAR

The ANC’s response was dramatically revealed by the next development report, entitled *Growth, Employment, and Redistribution* (GEAR), prepared by the Department of Finance, with Manuel as Minister, and a team of academics, representatives of the Development Bank of Southern Africa, the South African Reserve Bank, and the World Bank (Government of the Republic of South Africa 1996). GEAR reiterated the RDP’s link between economic growth and the redistribution of incomes, as a concession to the left, but it argued that much higher economic growth rates were necessary to achieve social objectives. Sustained growth on this higher plane (6% and 400,000 new jobs a year) required transformation towards an outward-oriented economy centered on a “competitive platform for a powerful expansion by the tradable goods sector” within a “stable environment for confidence”, with a “profitable surge in private investment” and “flexibility within the collective bargaining system” (Government of the Republic of South Africa 1996:2). GEAR recommended a series of policies to promote an outward-oriented industrial economy integrated into the global environment and responsive to market pressures. The state’s budget deficit was to be cut from 5.4% to 3.0% of GDP by 2000, while trade was to be liberalized. The GEAR report called for a national social agreement to create a competitive environment for investment and economic growth, for example, through wage moderation. All this was to “break current constraints and catapult the economy to the higher levels of growth, development and employment needed to provide a better life for all South Africans” (Government of the Republic of South Africa 1996:2). In March 1997, Manuel delivered the first budget prepared by an ANC minister that consolidated the ANC’s support for such neoliberal policies. With this, ANC economic policy was made compatible with liberal-business opinion within the country (redistribution through growth), and with the neoliberal structural adjustment policies outlined by the World Bank and the IMF. Indeed, all three positions became virtually synonymous, except that the ANC has been particularly vigorous in pursuing privatization, deregulation, and an “internationally competitive” business climate.

South Africa’s unions objected that the GEAR report had been adopted to please big business rather than the working class. Critical discussion focused on three areas: (1) the proposal for cutting government expenditures as a proportion of GDP in the context of massive needs that could only be met by state intervention; (2) the government’s commitment to “flexible labor markets”, widely interpreted
as a euphemism for the suppression of unions; and (3) the idea of privatization of parastatals to reduce state debt, again interpreted as an attack on the government’s power to control the economy in the interests of poor people. The unions called the GEAR report a self-imposed structural adjustment policy. They argued that GEAR policies reimposed social and economic conditions like those experienced under apartheid. Andrew Donaldson (1997), chief director of financial planning in the South African Department of Finance, replied that GEAR policies of macroeconomic constraint, especially reductions in public spending, remained compatible with the RDP goals of targeting the remaining public expenditures towards the poor. Greeting such replies with skepticism, the unions threatened mass actions against GEAR, withdrawal of support from the ANC, and the start of a more leftist party in company with the SACP. In the interests of political harmony, COSATU and the SACP ended up working for the ANC in the 1999 electoral campaign, agreeing to mute their objections to the GEAR macroeconomic policy. As president since Mandela’s retirement in June 1999, Thabo Mbeki has reaffirmed the ANC government’s commitment, albeit within ambiguous language (“GEAR in the broad framework of the RDP”) and with vague references to an “African Renaissance” (for background, see Smith 1999). The Ministry of Trade and Industry, under Alec Erwin (a former COSATU official), signaled its commitment to GEAR by designating ten Spatial Development Initiatives (SDIs) as unregulated platforms for export-led growth. Under an Igoli 2002 plan, city services in Johannesburg are being privatized, a measure that has aroused intense opposition led by the South African Municipal Workers Union (SAMWU), the militant union of municipal workers. Even the University of the Witwatersrand is being privatized, to the disgust of faculty, students, and staff. Nevertheless, the ANC remains committed to the GEAR strategy. Although it is fiercely opposed by the unions represented by COSATU, GEAR has the backing of the elite fraction of the ANC in control of state macroeconomic policy (Bond 2000).

South Africa has now passed into its period of greatest socioeconomic trial. The extreme, persisting racial inequalities result in a high level of social violence, including widespread battering of women, frequent assassinations of political and union leaders, and a staggering high crime rate—the murder rate in Johannesburg is twice that of New York City at its worst (in 1990) and six or seven times the present New York murder rate. An AIDS pandemic—with 20% of the population HIV-positive in a country where reproductive information faces severe problems in terms of availability and customary sexual resistance, government expenditures and health facilities are limited, and the President doubts that the HIV virus is the causal
agent—threatens social cohesion. Half the people of South Africa live in rural areas, 70% under conditions of dire poverty. Social transformation must entail massive redistribution of people from semideserts, into which millions were dumped when their lands were taken during apartheid, into habitable areas in which the vague possibility of a job exists. This process cannot begin until land is either restored to its previous occupants or redistributed to people in need; rebuilding the society without land restoration etches the inequalities of the past into the landscape of the future. The Lands Claims Commission, established by the new state in 1995, was flooded by 63,000 claims, mainly for land restitution. Five years later, only 3% of the disputed land had been redistributed.

**The Present Conjuncture**

If GEAR-type policies were “working”, all this might be of mere doctrinal interest, significant only to leftist academics who, like priests, are permitted to take positions purely on the basis of faith because our incomes are secure. However, there is scant evidence that GEAR is actually producing the growth that might eventually, somehow, allow income redistribution: South Africa’s economic growth rate dropped from 3% in 1996 to 1.7% in 1997, 0.6% in 1998, 1.2% in 1999, and a similar rate in 2000; the unemployment rate stands at 37.6% (South African Reserve Bank 1999; *Statistics South Africa* 2000).

The basic premise behind GEAR is that South Africa lacks the capital for investment in rapid growth achieved by any means, via the satisfaction of internal needs, or through export orientation. Attracting foreign capital means creating the right “business climate” for private investment. This in turn means adopting neoliberal policies, including “wage moderation”. Thus, we find formerly militant, communist union officials now ensconced in Pretoria demanding “internationally competitive” wages. In the strike-prone years since 1994, South Africa’s unions, with their long history of leftist militancy, have turned to demanding higher wages. COSATU and SACP form the left wing of a tripartite alliance with the ANC. Thus, “creating the right business climate” entails the state, led by the ANC, to turn against organized labor, its militant base of support.

Indeed, the history of state–labor relations in postapartheid South Africa can be read exactly in these terms, as the black nationalist side of the ANC comes to the fore and what used to be an alliance of social movements becomes an established political party, dominated by the rising black bourgeoisie, the new state bureaucrats, the party functionaries, and the conspicuously cell-phoned elite. The romantic ideology of an “African Renaissance” has arisen to cover the transition. There is no necessary connection, ideologically or practically, between black
nationalism and socialism—hence, the tendency for the left wing of the ANC-led alliance to reluctantly (and ineffectively) call for a leftist labor party. In brief, for neoliberal GEAR-type policies to “succeed” in their own terms, the state must repress labor. This, in the South African class context, means a generation of internecine struggle.

Alternatives to GEAR that express the social transformation perspective exist. The RDP remains officially in place, with support from significant leftist fractions of the ANC. The trade unions and social movements have their own (Keynesian) development alternatives. Indeed, South Africa presents an opportunity for what Arthur MacEwan (1999) calls a democratic strategy of development, the core of which consists of state investment in social programs. When the ANC took power in 1994, internal conditions existed for supporting this kind of democratic strategy. The liberation of South Africa brought a wave of optimistic commitment to social transformation, a network of highly organized antiapartheid social movements was in place, and a deep sense of guilt prevailed among the white minority. In short, all the conditions necessary for initiating a democratic strategy in the only possible way—tax the rich, invest in the poor—were present. Thus the question underlying this entire discussion must at last be addressed. Why did the ANC shift from its long commitment to structural transformation through democratic developmental means, towards structural adjustment using neoliberal economic means?

Conclusion: The Articulation of Hegemonies in South Africa

The decade of South Africa’s liberation, 1985–1995, was marked by an articulation between three discursive positions: (1) counterhegemony articulated by the ANC and later by the left; (2) subhegemony articulated by South African capital through liberal business organizations strategically integrated into the ANC; and (3) hegemony, articulated on behalf of global capital primarily by development institutions.

Counterhegemony

The ANC had a fifty-year history of translating popular and widespread resentment against the seizure of land and the imprisonment of people into counterhegemonic proposals for justice, equality, socialism, and development. As the end of apartheid drew near, dissident intellectuals armed with Marxian analyses, along with SACP members and COSATU officials, formed a series of socialist research groups (ET and MERG most prominently) to produce leftist development documents aimed at guiding ANC economic policy. Under the
still-dangerous circumstances of the time, it is doubtful whether institutional or theoretical consistency emerged in a fully organized AIM complex or a coherent counterhegemonic development discourse. Institutionally, the left severed into fractions (as when the ANC Department of Economic Planning split with MERG), riven by suspicion and jealousy. Theoretically, two main versions of development discourse emerged: a workerist nationalization and state planning discourse; and a left-Keynesian, democratic policy of growth through redistribution that formed the main left content of the RDP. Momentous changes were occurring just as the possibility of the ANC assuming state power intensified. SACP members, in particular, were disillusioned by the fall of the Soviet Union in 1989. In this context, the leftist discourse on democratic development failed to translate a morally superior stance into a coherent counterhegemonic policy. Leftist development became associated with outmoded ideologies, even by activists who previously had dedicated their lives to its cause. I am speaking here, not necessarily (or always) about loss of political principle by previously committed radical activists, but rather about a capturing of the sense of political practicality and economic realism among politicians and bureaucrats who retained their commitment to South Africa’s oppressed majority.

Subhegemony
South African capital had long been preparing for the end of apartheid. Liberal business organizations strategically ensured that liberation was finally achieved through negotiation rather than violent upheaval. Encouraged by an increasingly realistic Nationalist government, business organizations invested in scenario exercises exploring redistribution through growth led by private enterprise initiative. In these partly home-grown visions, the role of the state would be limited to providing the right business climate for investment and, at most, overseeing limited social redistribution through welfare, education, and housing programs financed by taxation rather than deficit spending. These ideas were effectively disseminated as a relatively coherent development discourse, by consultants, economic experts, and media personalities through sophisticated presentations to the elite of South African society, including the upper echelons of the ANC. Most importantly, the models proposed by local business organizations were lent legitimacy through correspondence with “accepted” international economic opinion. I speak here of a geopolitical context in which left alternatives to free market capitalism, whether communist or social-democratic, have all but disappeared as viable possibilities. As one economist put it: “Capital is all-powerful; national policy must pay obeisance or pay the cost” (Nattrass 1996:25).
**Hegemony**

Global capital's interests in this country with strategic economic and political significance were directly represented by the IMF, which made several loans to South Africa under well-defined stabilization conditionalities, and the World Bank, which used antipoverty and job-creation programs to leverage structural adjustment. By the middle 1980s, both institutions had fastened onto a standard set of neoliberal means of achieving rapid economic growth in countries like South Africa. I argue that these policies derived from the capturing of the leading developmental AIM complex by ideas stemming from right-wing, liberal-revivalist, monetarist scheming at the Chicago School of Political Economics. This discourse proposed joining the global capitalist system through trading connections freed of restrictions, with a domestic environment made internationally competitive through deregulation, privatization, wage restraint, and prudence in government spending. As the end of apartheid drew near, the ANC came under heavy diplomatic and institutional pressure to adopt policies in accorded with these positions. More significantly, neoliberalism became the picture of economic progress that flooded the speculative imaginary on stock exchanges and currency markets, locally and around the world. Even the whisper that deviation might taint this idealized vision brought instant retribution—most obviously in the form of runs on the rand—from the bears of the world's financial markets.

By comparison with the disarray and disillusionment on the counterhegemonic left, the interests of global institutions and local business federations were synthesized in a hegemonic neoliberal discourse that has learned to turn a compassionate face on social problems moralized as poverty, illness, and ignorance. Acting not in unison but in parallel, global hegemonic and regional subhegemonic forces joined in projecting a discourse seemingly invested with the authority of moral respectability and the scientific aura of truth, one that captured the developmental imaginary to such a degree that even the model's massive failure to deliver has barely shaken the confidence that unfettered private enterprise will eventually come through.

What terror on Robbens Island could not do to Mandela, the Davos culture could.

**Endnotes**

1 While vaguely aware of this work in international relations, I read it in depth only while finishing the final version of this article.

2 Significantly for this article's subsequent argument, Berger (2000:421) specifically includes members of the ANC in exile as willing subscribers to the Davos culture.

3 Von Hayek was trained in the Austrian School and served as a professor at the London School of Economics and the University of Chicago before taking up the chair of his friend Walter Euchen at Freiburg. He was the intellectual mentor of the Mont Pelerin Society, begun in 1947 at an hotel in Switzerland, attended by the leading lights
of early neoliberalism, and dedicated to the “exchange of ideas about the nature of a free society and … the ways and means of strengthening its intellectual support” (Leube 1984:xxiii).

4 Neoclassical economics has a Smithian basis, so we are speaking here not of conversion but of biased revival.

5 For more on the background to neoliberalism, see Cox (1993). Note that Cox differentiates a postwar “neoliberalism” that included Keynesian regulation from the “hyperliberalism” of the Thatcher-Reagan years, while I use the term “neoliberalism” to refer only to the latter ideology.

6 The record on housing construction, by comparison, has been far less promising.

7 In 1978, Thabo Mbeki, architect of the African Renaissance, wrote on false remedies for historical injustices: “[B]lack capitalism, instead of being the antithesis, is rather confirmation of parasitism, with no redeeming features whatsoever, without any extenuating circumstances to excuse its existence” (Mbeki 1985:48).

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Between Globalisation and (Post) Apartheid: The Political Economy of Restructuring in South Africa

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Between Globalisation and (Post) Apartheid: the Political Economy of Restructuring in South Africa*

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Whereas most countries in Southern Africa have experienced globalisation as externally imposed, in South Africa it has been largely internally generated by the state and the major business groups that dominate the economy. This paper examines the political economy of restructuring in South Africa, focusing particularly on the statist and capitalist logics of globalisation, and how they intersect. It explains how the South African state is trying to negotiate globalisation, and why major South African conglomerates have moved their headquarters to Britain. The impacts on employment and economic diversification of increasing globalisation from the ‘outside in’ are explored. As a result of the restructuring of globalisation, the South African state is increasingly characterised by ‘negative autonomy’ from domestic social forces and embeddedness with transnational capital, which undermine the potential for a national developmental project. South Africa’s experience has important implications for globalisation theory, which can inform praxis. The article concludes by suggesting ways the political economy might be progressively restructured.

Introduction

When South Africa achieved its transition to non-racial government in 1994, a debate took place about the future direction of economic restructuring.¹ Two years later the Government of South Africa changed its development strategy by adopting an orthodox economic reform programme.² The South African economy is now rapidly globalising, but the nature of that

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globalisation differs significantly from that experienced by the rest of the region. While most of Southern Africa has experienced globalisation as something externally imposed and mediated through World Bank/International Monetary Fund (IMF) structural adjustment programmes (SAPs), in South Africa globalisation has been largely internally generated. The two sets of actors that have most promoted globalisation from within are the state and the country’s major conglomerates. How this politico-economic project evolves has important implications for globalisation theory, the popular classes of South and Southern Africa, and their resistance to it.

The Globalisation Context in Southern Africa

The Southern African region accounts for only 0.5 per cent of global economic output. However, elements of the South African economy are highly developed – it contains the highest number of internet servers of any non-Organisation for Economic Cooperation and Development (OECD) country for example – and its economy dominates the region. As such, with the end of apartheid, it was meant to be well placed to act as an ‘engine of growth’ for surrounding countries. However, despite the elimination of international sanctions, since 1996 when neo-liberal economic reforms were introduced more than a half a million jobs have been lost, in contrast to the 600,000 that were meant to be created. Total private non-agricultural employment fell almost 6 per cent from 1997–1998 alone, and employment declines have continued unabated since then. In the first nine months of 2000, as the gold price declined, over 9 per cent of goldminers lost their jobs, with each worker supporting approximately ten people financially.

This deepening jobs crisis could be read as a working through of the previous economic crisis, and an adjustment to globalisation, which will bring renewed growth and job creation in its wake: the position espoused by ministers in the South African government. Alternatively, the interaction between internal economic conditions, external competition and capital flows may presage deepening economic dualism and marginalisation. Which of these outcomes results depends importantly on the actions and strategies of the major companies that dominate the South African economy, and on state policies that frame the context in which these strategies are adopted.

The South African economy is dominated by a group of conglomerates, the four largest of which controlled 83 per cent of the companies listed on the Johannesburg Stock

3 These have now been renamed Poverty Reduction Strategies.
Exchange (JSE) prior to the end of apartheid. The investment strategies of these conglomerates are important not only in their own right, but also because the success of small businesses, and hence the potential for substantial job creation, is intimately bound up with them through their control of financing, linkage and demand effects, and technological spillovers. The context for conglomerate strategies is framed largely by state policies, and the context in which they, in turn, are embedded. Whilst much of the recent literature has focused on the role of the country’s major conglomerates in promoting globalisation from within, in South Africa the state has also been a critically important promoter of globalisation.

The State and Globalisation in South Africa

Under globalisation, capital is deregulated through the international regulation of states. While the policy formulation of most developing countries is highly circumscribed, the new post-apartheid South African state seemed to have more freedom to pursue a heterodox development strategy given its relatively low level of external debt. Nonetheless, the South African government adopted an orthodox economic reform programme, Growth, Employment and Redistribution (GEAR) in 1996.

There has been a sustained debate about the reasons behind the rightward shift in economic policy, and the effective abandonment of the social democratic Reconstruction and Development Programme (RDP) in favour of GEAR. For some, the government’s conservatism was related to the externalised nature of the liberation struggle, and the ‘petit bourgeois’ nature of the African National Congress (ANC) leadership. For others it was an outgrowth of domestically embedded structures of economic power, ‘élite pacting’, the influence of the neo-liberal discourse of the ‘transnational managerial class’, and the ‘governamentalising’ of the RDP.

Apartheid was a heavily statist system, and in the minds of many members of the new


government, the economic stagnation of late-apartheid was associated with protectionism.\textsuperscript{16} In addition, soon after the exchange rate was liberalised in 1996, the Rand depreciated rapidly.\textsuperscript{17} The government adopted GEAR in an attempt to stem the fall of the Rand by reassuring international investors of its economic orthodoxy.

While the proximate causes of the ‘run’ on the Rand were a Union Bank of Switzerland report that assessed it to be over-valued, and rumours about President Mandela’s health, it reflected the unwinding of a speculative bubble which had developed as a result of tight Reserve Bank monetary policy, and financial liberalisation, which encouraged inflows of speculative portfolio capital.\textsuperscript{18} Financial liberalisation had begun under late-apartheid, and Reserve Bank ‘independence’ had been enshrined as part of the new political dispensation; largely because this was seen as important in renewing access to private international capital markets.\textsuperscript{19} Thus, ‘insulation’ of monetary policy from democratic politics was one of the structural factors that led to the adoption of more far reaching neo-liberal economic reforms.

The South African state’s attitude towards globalisation has been a seemingly contradictory one. On the one hand it has been ‘hyper-liberal’,\textsuperscript{20} pursuing an extremely tight fiscal policy, exceeding that proposed in GEAR, and cutting tariffs more deeply than required by the World Trade Organisation (WTO).\textsuperscript{21} On the other hand, it initially introduced stricter labour market regulation in the form of the Labour Relations Act.\textsuperscript{22}

President Mbeki has argued that ‘globalisation, liberalisation, deregulation and the information society … all originate from the developed countries of the North [and as such] reflect the imperatives of the economies and levels of development of these countries and therefore … serve the purposes of our rich global neighbours’.\textsuperscript{23} However, he qualified this by stating that under globalisation, development cannot be achieved ‘under conditions of autarky or self-contained development within our national boundaries or regions’. Hence the South African state is trying to negotiate globalisation.\textsuperscript{24}

Several explanations of the government’s highly neo-liberal trade, investment and fiscal strategies have been put forward. The World Bank argued that trade liberalisation would

\textsuperscript{16} Bond, \textit{Elite Transition}.

\textsuperscript{17} V. Pillay, ‘South Africa’s Monetary and Foreign Exchange Rate Policy’, in J. Michie and V. Padayachee (eds), \textit{The Political Economy of South Africa’s Transition} (London, Dryden Press, 1997), pp. 101–125.


\textsuperscript{21} EIU, \textit{Country Report: South Africa}. An official of the Ministry of Finance noted that reduction of the budget deficit was facilitated by higher than expected growth in incomes, and hence tax returns, amongst upper income groups (in conversation, 14 July 1999, Midrand).


facilitate the development of indigenous-owned small and medium-sized enterprises in ‘labour-intensive, light manufacturing industries’. However, within the South African government there is a recognition that ‘trade liberalisation overseen by the WTO is benefiting only a few countries’. Nonetheless, foreign portfolio investors favoured deep tariff cuts, and particularly after the depreciation of the Rand in 1996, it was argued that there was no alternative to adapting to the ‘dictates of the global economy’. Pressure from large domestically-based conglomerates was also important, as big business saw trade liberalisation as a way of ensuring continued supplies of imported inputs and disciplining labour. The Congress of South African Trade Unions had also previously endorsed limited trade liberalisation as a way of raising the real wage, by reducing the price of consumer goods. Once implemented, the logic of trade liberalisation was self-reinforcing as reduced revenues from tariffs were partly offset by the elimination of export subsidies.

In contrast to most developing countries, however, the strategy of trade liberalisation was also a proactive one. Cutting tariffs more deeply than required gave the government more flexibility should they need to be raised again in the future. Thus, tariff reductions were motivated, in part, by the state’s desire to get ahead of globalisation; to try to force industry to restructure to become internationally competitive ahead of the next round of global trade liberalisation, and to create space for some (constrained) autonomy in policy making.

The South African government has also pursued a free trade area with the European Union, despite economists associated with the Department of Trade and Industry warning that this would be deleterious to South Africa’s economy. The adoption of the free trade agreement was partly related to South Africa’s extra-regional trade orientation, with only 4 per cent of exports going to the rest of Africa prior to the end of apartheid, and was also an attempt to try to establish South Africa as an export platform to Europe.

Free trade is meant to attract foreign direct investment (FDI) by enabling inputs to be easily sourced abroad and by improving incentives to export. Tight fiscal policy enables the continuing reduction of corporate taxes on FDI profits. FDI, in turn, is meant to diversify the economy, bring new technology, and create employment.

In 1996, the IMF argued that the end of apartheid and sanctions ‘created the opportunity for external capital flows to return to the role they played in the quarter century before the mid-1980s, when foreign saving averaged more than 5.5 per cent of GDP’. In a similar vein, tripartite alliance press statements argue that ‘much still need(s) to be done for South

26 Department of Foreign Affairs, Republic of South Africa, ‘Preparing for WTO Multilateral Trade Negotiations in 2000: Towards a South African Framework’ (photocopied, 1999), p. 7. South Africa was part of the coalition of developing countries that derailed the Millennium Round of the WTO.
Africa to become part of the capital flow process’.

Given South Africa’s historic dependence on primary exports, in order to diversify the country’s export basket, the government has paid particular attention to attracting FDI in manufacturing. However, the government’s emphasis on foreign investment can be explained, not only by the changing nature of the global economy, but also by the political economy of transition in South Africa.

While Derrick Cogburn argues that the South African state is characterised by substantial autonomy in its policy making, he does not sufficiently specify in relation to which actors or along what dimensions. Alternatively, Adrian Leftwich identifies South Africa as a ‘class-compromise non-developmental democracy’. Given that capitalist development often requires non-consensual measures to mobilise resources to promote capital accumulation, it is in tension with liberal democracy. In South Africa, the negotiated nature of the settlement meant the basic maintenance of the previous economic system, including respect for private property ‘rights’. Thus, rather than enforcing redistribution and resource mobilisation internally, ‘industrialisation by invitation’ – drawing capital from overseas – became an attractive strategy for the South African state.

Given the low rate of private saving in South Africa, fiscal deficit reduction was seen as important by the government in order not to ‘crowd out’ private sector investment. It also enables corporate tax rates to be cut, thereby offsetting firms’ workforce costs of the AIDS/HIV pandemic. In addition to the intense human suffering wrought by the pandemic, the economic costs are substantial, as it is estimated that 3–4 per cent of the workforce will die each year from AIDS after 2003/4, and that this will cost companies in a range between 3.5 and 6.3 per cent of their salary and wage bill in benefits, absenteeism, retraining and other costs.

Neo-liberal reforms have also enabled the South African government to achieve investment grade on its bonds, and thereby reduce its borrowing costs and free up money for other expenditure. Deficit reduction means that the state is less exposed to volatility in financial markets, again giving it some more policy autonomy.

The government’s extreme neo-liberalism in trade, fiscal and investment policy has not been reflected in other elements of policy, however. By going beyond orthodox macro-
economic practice the government may have hoped to gain more ‘running room’ from foreign investors for its more interventionist labour market and ‘supply side’ industrial policies.43

Given the country’s history of brutal labour exploitation under apartheid, the government has opted for ‘regulated flexibility’ in the labour market – that is, minimum wages, combined with a recognition of a two-tier labour market of permanent protected and temporary less protected workers.44 While unemployment has increased since 1994, so too have real wages for those in employment.45 The government’s supply-side industrial strategy is meant to raise productivity and thereby allow higher wages to be supported.46 While there are now moves toward further ‘liberalisation’ and casualisation, to try to attract more FDI and perhaps reduce firms’ AIDS related costs, this more cautious strategy towards the labour market was adopted not to alienate the government’s traditional support base in the labour movement.47

Thus, the South African government is attempting a compromise between globalisation and social democracy.48 However, this is being undermined as the state is increasingly characterised by embedded or institutionalised dependence on global forces.49 This dependence is manifest in ‘negative autonomy’ from domestic social forces. Negative autonomy is where the state appears autonomous from domestic social forces, but that autonomy is the obverse of dependence on global forces, and therefore reflective of their priorities. Thus, the state liberalises the economy to maintain the ‘confidence’ of international investors and uses the global market to discipline productive capital and labour, rather than being able to discipline them on its own to achieve developmental goals.50 In this way, the state uses its power to constrain its power.51 As the state globalises, the

45 Manufacturing wages have risen 46 per cent in real terms since 1995 (calculated from SARB, Economic and Financial Data [available at www.reservebank.co.za] and ‘Consumer Price Index’ [available at www.statssa.gov.za]). However, the rate of growth of real wages for workers in the economy fell from 7.4 per cent in 1998 to 1.9 per cent in 2000 (SARB, Quarterly Bulletin, June 1999 and 2001).
49 For example, the way in which Reserve Bank ‘independence ’ from political oversight and liberalisation of capital controls means that it is very responsive to international capital movements and investors when setting its interest rate policy.
50 Peter Evans has argued that developmental states are characterised by ‘embedded autonomy’, where there are dense networks of interaction between the state and domestic industrial capital, with the state in the dominant position. See P. B. Evans, Embedded Autonomy: States and Industrial Transformation (Princeton, New Jersey, Princeton University Press, 1995).
51 The state also tries to encourage social development and offset the impacts of the global market by other elements of its policy regime, such as increased social service provision. See P. Bond and M. Khosa (eds), An RDP Policy Audit (Pretoria, HSRC, 1999) for an assessment of how well RDP targets have been met.
success of the government’s development strategy increasingly depends on private sector actions and investment.\textsuperscript{52}

The Globalisation and Regionalisation of South African Conglomerates

The large-scale capital requirements for deep-level mining gave rise to conglomerates in South Africa.\textsuperscript{53} In the wake of the Sharpeville massacre of 1960 and subsequent capital flight, overseas investment opportunities were restricted for South African conglomerates by domestic exchange controls, and later by international sanctions.\textsuperscript{54} Consequently, South African conglomerates diversified further from mining into manufacturing and financial and other services. The biggest of these conglomerates, Anglo-American Corporation, is the world’s largest natural resource company, with an annual turnover of over $20 billion. In the mid-1990s, it had 100 subsidiaries in South Africa, and manufacturing accounts for about 30 per cent of its revenues.\textsuperscript{55}

With the decline of the gold price, and the onset of economic recession in the 1980s, conglomerates found that geographical restrictions on their field of accumulation depressed their profits. Some of the conglomerates, such as Anglo-American, had been able partially to circumvent the spatial constraints of apartheid by illegal capital flight and by setting up offshore companies to undertake investment overseas.\textsuperscript{56} However, given stark levels of income inequality in South Africa, these businesses had outgrown the domestic market. Whereas, by the 1990s, US corporations earned 30 per cent of their profits overseas, the equivalent figure for South Africa companies was only 7 per cent.\textsuperscript{57} Consequently, large-scale Anglophone and Afrikaner capital pressed for a negotiated settlement with the ANC, so that they could globalise their activities.\textsuperscript{58} The other way to alleviate the problem of over-accumulation would have been a development strategy that focused on widening and deepening domestic markets, but as this would have required substantial asset redistribution to be effective, the conglomerates preferred globalisation, with little questioning of private property.

Some of the conglomerates, such as Anglo-American, with operations in all six continents, were already global companies. However, with the liberalisation of the economy and the end of sanctions, these conglomerates lost little time in further globalising their operations. At first this primarily took the form of regionalisation.

From 1991 to 1995 South African firms increased their total investment in Sub-Saharan Africa fivefold to account for 25 per cent of the total.\textsuperscript{59} From 1994–1998, Africa received

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\textsuperscript{52} Although the role of embedded institutions is also critically important. See A. Amin, and N. Thrift (eds), \textit{Globalisation, Institutions and Regional Development in Western Europe} (Oxford and New York, Oxford University Press, 1994); J. Rogers Hollingsworth and R. Boyer (eds), \textit{Contemporary Capitalism: The Embeddedness of Institutions} (Cambridge and New York, Cambridge University Press, 1997); M. Storper, \textit{The Regional World: Territorial Development in a Global Economy} (London and New York, Guildford, 1997).


\textsuperscript{54} Pillay, ‘South Africa’s Monetary and Foreign Exchange Rate Policy’.


42 per cent of the outward investments by South African companies, while the European Union received 18 per cent.\(^{60}\) Whereas many mines in South Africa are close to being worked out, this is not the case for new acquisitions in the rest of Africa. As one South African businessman explained in reference to Southern Africa: ‘South African firms want to conquer it before anyone else does and before they themselves move into more competitive markets’.\(^{61}\) Thus, South African companies used their locational advantages in Africa to achieve economies of scale, and boost profits: using the region as a springboard to globalise.\(^{62}\)

Conglomerate regionalisation strategies have also dovetailed with other aspects of globalisation, particularly SAPs. Currency devaluations, as part of SAPs, serve to reduce labour costs for the conglomerates in Africa, and privatisation opens up new investment opportunities. For example, as one of the conditions of its structural adjustment programme, Zambia was forced to sell its state-owned copper mines to Anglo-American for only $90 million, half the original negotiated price.\(^{63}\) In Southern Africa, many such assets were previously owned by South African conglomerates before they were nationalised.\(^{64}\) In this way, former divisions of power are being reinscribed.

The globalisation strategies of South African conglomerates have gone further than those of other transnationals worldwide. Despite an ‘improvement of the business climate’ in South Africa, with liberalisation many of the main business groups, such as Anglo-American, Old Mutual, SA Breweries, Billiton, and Dimension Data, have shifted their primary stock market listings and headquarters to London in recent years. They did this to access cheaper capital and to facilitate their foreign expansion.\(^{65}\) Offshore listing was meant to improve their global competitiveness and facilitate increased investment in the South Africa economy. By 1998, the five largest conglomerates controlled ‘only’ 55 per cent of the shares on the JSE.\(^{66}\)

By moving their headquarters to London, and financially delinking from South Africa, these companies are able to unlock ‘shareholder value’.\(^{67}\) While the stock market capitalisation of many companies in advanced capitalist countries, such as the US, are above their net asset values on the basis of projected future profits, Anglo’s market capitalisation was 22 per cent below its net asset value in 1995.\(^{68}\) By moving to London, these companies’ assets became denominated in more secure hard currency, which increased asset values and consequently share prices. Additionally, those conglomerates that became part of the Financial Times Stock Exchange (FTSE) 100 index, received an additional boost to their

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60 Hesse, ‘Foreign Direct Investment in South Africa’. In part this is because of higher profit margins in Africa in core operations. For example, whereas South African Breweries was involved in many industries under apartheid, including clothing production, its brewing business in South Africa has very high yields or profit margins of around 25 per cent. See J. Lamont, ‘SAB hopes European Alliance will Boost African Fortunes’, *Financial Times*, 20 July 2001, p. 7. Whereas TNCs typically require higher yields to invest in Africa, to offset political and economic risks, the managing director of SAB feels that the company has the operating skills to overcome poor infrastructure and political instability in the continent.


64 Simon, ‘Trading Spaces’.


66 Hesse, ‘Foreign Direct Investment in South Africa’.


68 ‘Not a Golden Titan, More a Pig in a Poke’.
share prices as tracker funds, which mirror movements in such indices, are required to invest in such companies.69 While Anglo’s stock price had been erratic, based on price movements in commodity markets, by early 2001 the value of its shares was 37 per cent above its asset value.70

There are also complementarities between different elements of conglomerate globalisation. In addition to demutualising and listing in London, an increasing proportion of Old Mutual’s (one of the largest financial services companies) operations are now overseas, and consequently its share price has become at least partially delinked from the South African market.71 The core element of Old Mutual’s business is life assurance, and as the prevalence of HIV/AIDS rises in South Africa, it is under pressure from international financial capital to diversify geographically, by buying banks in the US for example.73 The direct workforce costs associated with the HIV/AIDS pandemic also undoubtedly encourage corporate delinking,74 as does the fact that it is one of the few countries in the world where union density is increasing and wages are rising.75

The Political Economy of Conglomerate Restructuring

GEAR assumed that FDI would act as a developmental deus ex machina, and register a ninefold increase to enable its employment targets to be met.76 But South African companies invested $1.6 billion more abroad than came into the country between 1994 and 1999,77 thereby deepening dependence on portfolio capital. Thus, the policy would appear to be self-defeating. However, the strategy of conglomerate globalisation also serves political purposes. It was facilitated by élite pacting, with Anglo-American taking prominent opponents of apartheid such as Mamphela Ramphele and Cyril Ramaphosa on to its board. Also, after coming to power, in order to redress the legacy of racial exclusion, and to consolidate its own power base, the ANC sought the development of a new indigenous entrepreneurial class through ‘black economic empowerment’. In order to achieve this quickly, there was a redistribution of assets from white to emergent black capital through ‘unbundling’ – that is, white dominated conglomerates selling off ‘non-core’ areas of their business to black economic empowerment companies, and also to foreign transnationals. They were keen to unbundle because of falling rates of profit and the desire to pre-empt domestic competition actions,78 gaining political capital in the process. From 1995 to 1998, the proportion of shares on the JSE owned by black economic empowerment companies, and purchased using debt, rose, by some estimates, from 0.5 per cent to almost

70 411 Stocks (available at 411stocks.stockselector.com).
72 Prevalence refers to the proportion of the population infected. Incidence is the new infection rate in a given year.
73 In HSBC Bank’s analysis sterling investors should apply a 20 per cent risk premium to Old Mutual shares in part because of ‘an increased exposure to the Aids risk as sales of protection products increases’ (quoted in ‘Old Mutual – the New Kid on the Block’, Zimbabwe Standard, 11 July, 1999 [available at web7.infotrac.galegroup.com]).
76 Harris and Michie, ‘The Effects of Globalisation on Policy Formation in South Africa’.
78 Nitzan and Bichler, Going Global.
20 per cent. Conglomerates were allowed to use the proceeds from ‘unbundling’ to invest overseas.

At one level, there are similarities between this process and the creation of a large-scale Afrikaner business class, which took place after the Nationalist government came to power in the 1940s. However, the direct beneficiaries of unbundling were very few, numbering roughly 200 individuals. Also, in a globalising political economy, one of the effects of unbundling was to transfer some of the risks associated with South Africa’s semi-peripheral location (as expressed through its currency) from a white conglomerate to emergent black capital, and to labour.

In its first year as a London listed company (1999–2000) Anglo-American posted a 24 per cent increase in its profits. This was largely as a result of the appreciation of the dollar, the currency in which commodities are traded, versus the Rand, the currency in which the bulk of its operating costs are paid. On the other hand, ‘black economic empowerment’ companies had had to borrow heavily to pay for their unbundled assets. In the wake of the East Asian crisis, and given that the economy had already been substantially liberalised to attract international investment, the Reserve Bank pushed interest rates to 25 per cent to try to keep portfolio capital in the country. This effectively transferred income from productive capital, consumers and government to financial investors. Given that ‘black chip’ companies were so highly leveraged, most of them experienced severe financial difficulty. Meanwhile, many of the conglomerates had substantial cash reserves, and had transferred the proceeds from unbundling overseas. In some cases they bought back assets that they had previously sold, at heavily discounted prices. Anglo-American had sold Johannesburg Consolidated Investments (JCI) at R54 per share, but after the dramatic fall in the gold price, Anglo bought back JCI’s ‘best assets’: two gold mines. Consequently, the ‘only smile belong(ed) to Anglo, which … made a handsome profit [R140m] on a sale it had originally declared would be a magnanimous gesture towards wealth sharing’. By early 1998 JCI shares were trading at R21 each.

Afrikaner businessmen with pre-existing capital were less exposed to the consequences of rising interest rates. Consequently, their ownership share of the JSE rose from 24 to 36 per cent from 1996–1999 as large-scale Anglophone capital divested. Thus, paradoxically, one of the objectives of apartheid – raising Afrikaners to a position of economic parity with English-speaking whites – is being furthered by its demise.

Changes in share ownership coincide with other forms of socio-spatial restructuring.

81 Lodge, South African Politics since 1994.
82 Ultimately a currency is a claim on production of goods and services produced within a national territory, and exchange rates reflect that over the long term.
84 Kunnie, Is Apartheid Really Dead?
87 Swarns, ‘For South African Whites, Money Has No Color’.
Nicky Oppenheimer argued that with its move to London, Anglo-American has now taken its ‘rightful place’ among the world’s top corporations. On the other hand, others see it as a form of recolonisation as London is re-established as the dominant command and control centre for the South African economy. Thus, aspects of both South Africa’s colonial and apartheid history are being reinscribed or reinforced by current restructuring.

While South African companies pressed to be able to globalise their activities, they are now also being shaped by globalisation, through direct competition with other TNCs, and through competition for financial capital. In 1995, the chairman of Anglo-American argued that a core operation was one that ‘earns a better rate of return than something else you could do’. However, by 1998 the group stated that its core strategy would be ‘to develop as a global operating mining and natural resource company, with related industrial activities’. This change in orientation is because international financial capital wants the conglomerates to become more tightly focused ‘investment vehicles’ – to focus on their core operations, diversify geographically, and to abolish the pyramid structure of cross-holdings between companies. In Anglo-American’s case, this attempt ‘to create a structure that meets the needs and wishes of today’s investors’, led to the conglomerate being split up into separate business units with different managements.

The new chairman of Anglo-American has also promised to dispose of roughly $4 billion of industrial and financial assets over the course of a year, and has already pulled the company out of sugar production in Zimbabwe, for example. There have also been dramatic reductions in cross-holdings, between De Beers and Anglo-American for example, with De Beers becoming a private company in 2001.

In addition to unbundling, there has also been a process of what has been called ‘rebundling’, as conglomerates merge and acquire new assets in core sectors to try to meet global competition, with Billiton merging with the Australian mining house BHP for example. ‘South African’ conglomerates are also further inter-twinning with international capital to overcome their relative technological backwardness. Sanlam has outsourced all of its information technology infrastructure to Daimler-Chrysler, for example, and Old Mutual, in partnership with Nokia, IBM and Dimension Data, became the first unit trust company in the world to offer online trading via cell phones, in 2000.

Thus, as globalisation from the ‘outside in’ and ‘inside out’ intertwine with one another, South African conglomerates and state élites are being absorbed into a broader transnational capitalist class project where global financial capital, given its greater fungibility and mobility, and hence structural power, sets the agenda.

91 Quoted in ‘Not a Golden Titan, More a Pig in a Poke’. At this point the company’s strategic focus was more internal.
93 Thompson quoted in ‘Deft Juggling Gets Anglo off the Hook’.
97 ‘Sanlam Outsources IT infrastructure’ (available at www.sanlam.co.za).
98 ITWeb, ‘Old Mutual Unit Trusts Go Wireless in World First’ (available at web7.infotrac.galegroup.com).
Globalisation and Economic Restructuring in South Africa

Fine and Rustomjee have argued that South Africa’s political economy has been dominated by a ‘minerals-energy complex’ (MEC), which has blocked economic integration between sectors and the diversification of the economy beyond a focus on mining, mineral processing and the production of energy. Others have disputed this, arguing that economic integration and diversification progressed substantially beyond the MEC. Irrespective of which of these positions was correct, some clear trends on the nature of restructuring are emerging now that policy increasingly responds to global capital, including South African conglomerates, rather than a domestic MEC or manufacturing.

While the government’s emphasis on FDI can be read as a desire to recreate aspects of the ‘economic boom’ years of apartheid, it misreads the current conjuncture. In the 1960s, transnational corporations engaged in ‘tariff jumping’ investment in South Africa to service the market provided by affluent ‘whites’. High rates of profit could be achieved based on the low wages of ‘black’ workers. However, with trade liberalisation, underdevelopment of skills in the workforce, higher wage costs than in most of Asia and Latin America, and the relative insignificance of the South African market, there is little incentive to locate new investments there, as it can be served from other, more cost effective locations. Foreign investment has also been discouraged in the past by the domestic ownership structure, as conglomerates have monopolised markets.

While there have been some successes in attracting new, or expanded, FDI in export-oriented industries – for example all three series BMWs and C class Mercedes are now assembled in South Africa – overall levels of new foreign investment have been low. Much FDI has also taken the form of acquisitions that do not create substantial numbers of new jobs. Furthermore, despite attempts to attract FDI through infrastructural investment in Spatial Development Initiatives (SDIs), inflows started to fall in 1998 as many state enterprises, such as the fixed line telecommunications monopoly, Telkom, were already partially privatised.

There have also been other costs in the attraction of FDI. In the car industry, a study by Nicolau found that vehicle assembly has benefited from trade liberalisation, whereas domestic component manufacturers have been subject to competitive displacement. Final
assembly for export gained from lower tariffs on inputs and the depreciation of the Rand, which have made exports more competitive. However, Nicolau argues that ‘this is a dangerous predicament to be in and will eventually lead to the total eradication of the [domestic] South African motor vehicle industry’. In other cases, previous ‘tariff jumping’ investments, such as a Philips television manufacturing plant, have closed as a result of trade liberalisation. Production of televisions fell 19 per cent from 1995 to 1998. Local firms also find it difficult to meet competition from foreign investors with tax holidays. For example, in Natal a new Chinese investment in refrigerator manufacturing had a tax holiday, whereas the local company, Defy, did not and was consequently downsizing in 1999.

South Africa spends 0.7 per cent of its GDP on research and development, a higher proportion than many developed countries, and there is evidence of innovation amongst South African firms. Surveys have found some South African companies to be operating at the frontiers of ‘international best practice’, and the country has some strengths in non-commodity based manufactured exports. For example, because of very low energy costs and the competitive production of energy-intensive aluminium that allows, the ‘aluminium cluster’ of alloy wheels, catalytic converters and tank-tainers are growing strongly. South Africa is also the world’s largest exporter of leather car seats, related to BMW’s investment. However, several studies have shown the deindustrialising impacts of globalisation on different sub-sectors of industry. A number of industries, such as bicycle and ship production, have been completely eliminated by foreign competition.

Some areas of manufacturing, particularly mineral processing, continue to attract substantial conglomerate investment. For example, conglomerates, catalysed by state capital in the form of the Industrial Development Corporation, are willing to invest in new ‘mega-projects’, such as steel and aluminium processing. Consequently, the South

112 Ibid, p. 52.
119 Interview with Industrial Development Corporation manager, Sandton, 15 July 1999 and IDC and DTI, Sectoral Prospects.
African case is not one of straight deindustrialisation, as in much of the rest of Africa, as industrial output continues to expand slowly in most years. However, ‘reintegration into the world market is … reforc(ing) dependence on resource intensive industries’, with negative implications for sustainability.

Under GEAR, manufactured export volumes have been erratic, rising and falling depending on the value of the currency and global economic conditions, but ‘most of the sub-sectors in which net exports have been improving have experienced decreasing production’. The capital goods and engineering industries, which have historically been critically important in the structural diversification of industrialising economies, have been very hard hit by trade liberalisation. In the metal and engineering industry, employment declined by 9.2 per cent from 1994 to 1999. Thus, rather than the touted labour-absorptive growth pattern emerging, there is evidence of increased capital-intensity in investment, although this represents a deepening of a pre-existing trend.

A recent IMF study found substantial increases in total factor productivity as the capital intensity of investment has increased, and employment has contracted. Thus, although the relationship is denied by the IMF, the current pattern of growth could be described as ‘job destroying’. Given the orthodoxy of macro-economic management, a World Bank funded report attributes massive job losses in South Africa to ‘the hassle factor’ associated with ‘excessive’ labour market regulation and crime, rather than situating them as the results of globalisation and conglomerate restructuring. The substitution of capital for labour is also undoubtedly related to the impacts of HIV/AIDS.

In contrast to the 1980s, South Africa continues to achieve positive economic growth, averaging 1.5 per cent p.a. from 1996 to 2000. This enables the government to reduce corporate tax rates, while maintaining its tax take from them, with Exchequer receipts rising from R146 billion in 1996/7 to R160 billion in 2000/1 in real terms. However, GEAR is implicated in a substantial slowing of economic growth and massive job losses, as very
tight monetary and fiscal policies, combined with trade liberalisation have been deflationary. High real interest rates and job losses increase government expenditure and decrease the tax take from workers, making the state more responsive to capital.

The South African government has identified high technology as a strategic sector of the economy as it attempts to move towards an ‘information society’. South Africa has an advanced telecommunication infrastructure, and there have been examples of successful ‘high-tech’ start-up companies, such as Dimension Data and Thawte, which was sold in 1999 for $575 million. A major new private sector company has also emerged in the form of Telkom, the former state-owned monopoly, which has been partly sold to US and Malaysian investors, and is due to have a stock market flotation shortly. In its policy programmes and focus on high technology, the South African state may be trying to emulate the economic success of high-tech export platforms, such as the Republic of Ireland. However, this would appear to be dependent on the attraction of massive foreign investment, which has not materialised and is unlikely to materialise.

Mirroring trends in the rest of Africa, the financial sector has grown disproportionately under economic liberalisation, as new investment opportunities are opened up, in currency

Figure 1. Percentage contribution to GDP. Calculated from SARB, Quarterly Bulletin, June 1999 and SSA, Statistical Release PO441, February 2001 in constant 1995 Rand.

135 S. W. Wangwe and F. Musonda, ‘The Impact of Globalisation on Africa’, in A. S. Bhalla (ed), Globalisation, Growth and Marginalisation (New York, St. Martin’s Press, 1998), pp. 149–167; ‘Over the Rainbow’, The Economist; A Survey of South Africa, 24 February, 2001, pp. 14–15. DiData was started in the 1980s in response to demand from the South African security state apparatus. These companies have undoubtedly been affected by the recent global recession in information technology industries. The attempt to create an information society included reducing tariffs on telecommunication equipment (a key hard industry) to zero, far below the 20 per cent required by the WTO. See Marais, Limits to Change.
137 President Mbeki has written of the Republic of Ireland’s ‘outstanding economic success’, but South Africa’s location under globalisation is very different. See T. Mbeki, ‘Clamour over Zimbabwe reveals continuing racial prejudice in SA’, ANC Today, 23–29 (March 2001) [available at www.anc.org.za/ancdocs/anctoday].
speculation for example, to the detriment of production (Figure 1). Consequently, there are few examples of new hard industries that would create substantial numbers of jobs, and rebalance the income distribution structure. The (post)apartheid economy is experiencing deepening sectoral disarticulation, or structural dualism, as the conglomerates continue to invest in some major mineral processing projects, but divest from other sub-sectors, and the information economy is confined to the elite.

There are two sets of institutional types that can foster endogenous capitalist industrialisation: diversified business groups, which have synergies across divisions, and regional industrial complexes based on high levels of trust and cooperation between small firms. To date, South African industrialisation has been dominated by large business groups, but these are now specialising and selectively delinking. This in turn has knock-on effects. Given rising unemployment in South Africa and the importance of the wage goods market to small business, since 1994 ‘a substantial number of small, micro and medium enterprises (SMMEs) have not been able to grow’ and ‘the growth that does take place in the SMMEs is, to a large extent, jobless’.

Within government, some recognise that the results of the supply-side industrial strategy have ‘not been that good unless you do something fundamentally different’. This concern is shared by the private sector and trade unions. In the wake of the East Asian crisis, even the major conglomerates are concerned about over-reliance on speculative short-term capital inflows.

Globalisation in South Africa has resulted in a rescaling of the forces driving uneven (economic) development from the national state/market complex to the global market. Neo-liberal globalisation is continuing to widen the development gap between South Africa and the OECD – globalising economic apartheid – and resulting in repeated currency crises. It is also creating new patterns of uneven development within South Africa resulting in a ‘hollowing out’ of South Africa’s traditional industrial heartland in Gauteng and a movement of manufacturing towards the coast, with ISCOR closing its Pretoria steelworks, for example, and investing in a new one at Saldanha Bay.

In terms of the social impacts of restructuring, despite progressive government initiatives such as participatory budgeting with a gender focus, women tend to be disproportionately hurt by economic liberalisation as the costs of adjustment are passed ‘down the line’. In South African manufacturing, women’s employment is more heavily concentrated in labour-intensive sectors, such as clothing, which have been most adversely

140 A. Amsden, Asia’s Next Giant: South Korea and Late Industrialisation (Oxford and New York, Oxford University Press, 1989); Storper, The Regional World.
144 Thompson, ‘South Africa: a reasoned case for optimism’.
affected by trade liberalisation. Those segments of the MEC that have experienced growth are heavily male dominated in terms of employment.\textsuperscript{147} In addition, although inter-racial inequality is falling, South Africa has the first or second highest rate of income inequality in the world, and this is rising.\textsuperscript{148} The deepening of (raced) inequality\textsuperscript{149} gives rise to other patterns of uneven development as neo-apartheid ‘gated communities’ proliferate. While there are other reasons for the extent of crime in South Africa,\textsuperscript{150} increased inequality undoubtedly contributes. Thus, conglomerate (selective) delinking becomes a self-fulfilling prophecy as it contributes to increased inequality, crime, and the narrowing of markets, which further increases incentives to disinvest.

Ultimately, economic liberalisation may undo South Africa’s consociational compact, and in the longer term forebode further social instability, associated economic costs and a shift towards more authoritarian modes of governance.\textsuperscript{151} Given skyrocketing crime rates there are calls amongst business for ‘a return to law and order’ (my emphasis).\textsuperscript{152} However, the increasing informalisation of the economy\textsuperscript{153} means that, in the medium term, tax revenues may be undercut and the South African state weakened.

### Towards a Political Economy of a New South Africa

South Africa’s experience has important implications for globalisation theory, which can inform praxis. In the literature, there has been a debate about whether globalisation is ‘weak’ or ‘strong’ in terms of its economic impacts and the constraints it places on state policies. Held \textit{et al.} have transcended this debate by showing that there are different types of globalisation that vary across space in terms of their extensity, intensity, velocity and impact.\textsuperscript{154} However, globalisation is not just a horizontal-relational phenomenon. It originates within particular places, materialises in national institutions and reshapes hierarchies between places.\textsuperscript{155} As South Africa’s experience shows, globalisation may originate from

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\textsuperscript{149} Although inter-racial inequality is falling, this reflects the creation of a new indigenous entrepreneurial and managerial class and the absorption of indigenous people into paid employment by the state. See N. Nattrass and J. Seekings, ‘“Two Nations”? Race and Economic Inequality in South Africa Today’, \textit{Daedalus} (Winter 2001), pp. 45–70. Inequality remains profoundly gendered and raced in the sense that poverty remains heavily concentrated amongst rural black women and that it is predominantly the black working class that has had to bear the burden of retrenchments, while white conglomerate capital has benefited from globalisation. See J. May, I. Woolard and S. Klasen, ‘The Nature and Measurement of Poverty and Inequality’, in J. May (ed), \textit{Poverty and Inequality in South Africa: Meeting the Challenge} (Claremont and New York, David Philip and Zed Books, 2000), pp. 19–50.


\textsuperscript{151} K. Mengisteab, ‘Global-racial inequality is falling, this reflects the creation of a new indigenous entrepreneurial and managerial class and the absorption of indigenous people into paid employment by the state. See N. Nattrass and J. Seekings, ‘“Two Nations”? Race and Economic Inequality in South Africa Today’, \textit{Daedalus} (Winter 2001), pp. 45–70. Inequality remains profoundly gendered and raced in the sense that poverty remains heavily concentrated amongst rural black women and that it is predominantly the black working class that has had to bear the burden of retrenchments, while white conglomerate capital has benefited from globalisation. See J. May, I. Woolard and S. Klasen, ‘The Nature and Measurement of Poverty and Inequality’, in J. May (ed), \textit{Poverty and Inequality in South Africa: Meeting the Challenge} (Claremont and New York, David Philip and Zed Books, 2000), pp. 19–50.


either the ‘outside in’ or the ‘inside out’. It is generally strongest in its impacts where it is largely driven from outside, and economies are extraverted as in Singapore, Ireland or much of Sub-Saharan Africa. It tends to be weakest in quantitative terms where capital is most developed and trade-to-GDP ratios are low, as in the major industrial countries.

South Africa is unusual in that globalisation was initially largely ‘from the inside out’, but its impacts have been strong in terms of job loss and economic diversification. Typically, where globalisation originates from within, those places are in dominant positions within subsequent networks and benefit from profit repatriation. However, the shift of major conglomerate headquarters to London has negated this in the South African case. Thus, as the nature of globalisation is restructured, South Africa increasingly experiences it from the ‘outside in’ (dependence).

Within South Africa, there has been a continuing debate around what constitutes an appropriate economic development strategy. In 1997, Stephen Gelb argued that South Africa’s development strategy must embody a compromise between capital and labour, given the power of both parties to disrupt a settlement not in their interests through strikes or a refusal to undertake new investment.\(^{156}\) Webster and Adler argue for a deepening of South Africa’s corporatist institutions to facilitate ‘bargained liberalisation’ where efficiency on the shop-floor by labour is matched by redistributive mechanisms at the national level to offset the effects of any economic adjustments.\(^ {157}\) However, they acknowledge that this would require the reintroduction of Keynesian solutions at national and international levels.\(^ {158}\) This is likely to remain elusive given the vested interests of the major industrial powers in the continuance of neo-liberalism.

Nicoli Nattrass has argued that neither Keynesian nor neo-liberal strategies are likely to achieve their goals, but that the neo-liberal ones are more realistic and less damaging.\(^ {159}\) She argues persuasively that a Keynesian-inspired public investment programme would likely result in unsustainably increased public debt and that an investor response would not necessarily be forthcoming. However, her limited endorsement of GEAR is difficult to sustain given the impacts of current neo-liberal restructuring.

President Mbeki has recently called for a ‘Millennium Africa Renaissance Programme’. However, this would appear to be largely a continuation of the current approach to economic development, particularly given its prioritisation of foreign investment.\(^ {160}\) What then is the alternative?

While replicating the Asian experience of industrialisation is not possible, the potential for effective state intervention in the economy remains.\(^ {161}\) In the wake of the East Asian

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158 For a similar argument for Africa, see R. Sandbrook, *Closing the Circle: Democratisation and Development in Africa* (Toronto and London, Between the Lines and Zed, 2000).
crisis, even the IMF acknowledges that capital controls can, under certain circumstances, be beneficial.\textsuperscript{162} Particularly given that the HIV/AIDS pandemic will discourage foreign investment, the state must reassert control over conglomerate and financial capital, through the reintroduction of the system of exchange controls, if the currently deepening inequality in, and marginalisation of, South Africa are to be reversed. Achieving greater autonomy from global financial capital will require the mobilisation of domestic resources through enforced saving, such as that pursued by Chile.\textsuperscript{163}

While James Mittelman argues that new technologies have enabled capital to transcend national regulation, Saskia Sassen has noted that the high level of territorialisation of financial trading, and also its computerisation, have created possibilities for re-regulation.\textsuperscript{164} Reasserting control over the conglomerates remains possible given the extent of their sunk costs in fixed investments in South Africa, with Anglo-American retaining roughly two-thirds of its assets in the country.\textsuperscript{165}

The South African state is trying to resolve some of the problems created by apartheid by up-scaling economic development processes to the level of the global market. However, it has ended up reinforcing many of them. Given changed global conditions, particularly the constraints imposed by the WTO on export-oriented industrialisation, as liberalisation is required for market access, downscaling may be a more appropriate response. This will require reducing the structural power of conglomerate capital to block an alternative development strategy, through the partial redistribution of its assets. While conglomerates may still play a useful, if much reduced, role in the economy, alternative economic institutions, such as co-ops, community-based corporations and small businesses, must be constructed.\textsuperscript{166} This will require the nature of the South African settlement to be revisited. If alternative economic institutions are to be constructed across locales, this will require the development of synergy between the state and civil society, between different levels of government, and the strengthening of state institutions.\textsuperscript{167}

It is ironic that the ‘political capital’ built up by the ANC during the liberation struggle is now being spent to enforce neo-liberal structural reforms. While organising to embed the

Footnote 161 continued


\textsuperscript{163} Enforced saving is where people are required by the government to save a certain proportion of their income, in pension funds for example, in order to finance domestic investment. In Chile, the government required foreign portfolio investors to put some of their investment in non-interest bearing bank accounts. This money was then subject to confiscation if investors engaged in short-term capital flight. On Chile see D. Green, ‘Flexibility and Repression: The Chilean Model’, in F. Rosen and D. McFadyen (eds), \textit{Free Trade and Economic Restructuring in Latin America} (Washington, DC, NACLA Report on the Americas, 1995), pp. 54–61. Whereas Malaysia responded to the global economic crisis of 1997–99 and the outflow of capital from its economy by imposing capital controls, Chile liberalised its controls to try to attract more investment. This implies the necessity of transcending dependence on foreign portfolio investment (Bond, \textit{Against Global Apartheid}).


\textsuperscript{165} Arnold, \textit{New South Africa}.


state and market in society, and to transform them, may be more difficult than organising against apartheid, it is imperative if there is to be development. The impetus for this must come from globalisation’s and (post-) apartheid’s counter-movements in South Africa.

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The ANC & Black Capitalism in South Africa

Roger Southall

The emphasis initially laid by the African National Congress (ANC) on national reconciliation after 1994 meant that its ideas about Black Economic Empowerment (BEE) were non-threatening to white interests. However, the government’s recent strategy is more assertive, having the aim of creating a black capitalist class, which is both ‘patriotic’ and productive, as laid down in the ANC’s guiding theory of the ‘National Democratic Revolution’. Corporate capital is responding with recognition of the inevitability and potential advantages of BEE. However, given the centrality of the state to the deliberate task of creating black capitalism, there are considerable dangers of the latter’s lapse into Asian-style cronyism. The ‘patriotic’ nature of black capitalism is therefore in sharp contestation with its ‘parasitism’.

‘Black economic empowerment’ (BEE) is one of the most contested terms in South Africa today. Some fear that ‘affirmative action’ points to the ANC wanting to ‘take over everything whites have built up’ (De Lange, 2002). In contrast, Moeletsi Mbeki, the President’s brother, has declared BEE a sham, dreamed up by white capital to seduce the ANC away from nationalising the economy and hence to produce a predatory black elite (Msomi, 2003). Between these poles of the argument there is widespread confusion about the justifications and purposes of black empowerment.

The emphasis by the ANC-led government upon national reconciliation after 1994 meant that its initial ideas about BEE were non-threatening to white interests. However, its more recent approach is becoming increasingly assertive with the aim of creating a prosperity-making, ‘patriotic’ bourgeoisie. Yet this project remains immensely more problematic, not least because of the ambivalence with which it is regarded by the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), (the ANC’s partners in the Tripartite Alliance), on the one hand, and domestic and international capital, on the other. The starting point for understanding these developments is the ANC’s conception of the ‘national democratic revolution’ (NDR).

The Ambiguities of the NDR

In government the ANC has adopted policies that are recognisably capitalist. Even so, given the ANC’s historic identification as a liberation movement, it remains necessary for it to maintain a certain ideological, or at least a rhetorical commitment, to the schemas of old. In particular, this requires its formal adherence to the notion that post-apartheid South Africa has embarked upon a ‘national democratic revolution’.
In terms of the old ‘two-stage’ theory of revolution, the NDR was theorised as the precursor to socialism. However, given the collapse of the Soviet-style state socialist model, revisionist thinking emphasised that there was no ‘Chinese wall’ between capitalism and socialism (Cronin, 1996). This assisted the ANC, leading elements of which had always maintained that the movement had a nationalist rather than a socialist character, to quietly abandon the transition to socialism (as opposed to ‘social justice’) as an historical goal. Nonetheless, the NDR continues to frame the official discourse whereby the ANC and its alliance partners discuss South Africa’s long-term strategy, its inherent ambiguities allowing for the papering over of recurrent differences between them.

The theory of the NDR argues that South Africa was incorporated into world capitalism as a mineral producer, but this was based on institutions in which a white settler minority oppressed the majority of people who were black. This allowed for the vast accumulation of wealth for the few at the expense of the many, until, by the late 1980s, growing mass resistance to national oppression paved the way for the negotiated political transition.

Having conceded democracy in 1994, the objective of the white capitalist class is to provide for a limited deracialisation of the economy. In contrast, the objectives of the NDR are to overcome the legacy of racial oppression of the black majority and to thereby forge a united nation; to achieve democratisation; and to transform power relations as a basis for societal equality. Market forces, previously constrained by the requirements of apartheid now play a more important role in the economy. However, the state must assume the critical role of ensuring equitable economic growth and providing for political stability (ANC, 1997:7).

The problem for the ANC is that the very success of the NDR will lead to the development of a black capitalist class and the major growth of intermediate black middle strata. This is far from being unwelcome, as black – notably African – people cannot be denied education, wealth and upward mobility. However, it may easily lend itself to the project of counter-revolutionary elements that are prepared to concede relative privilege to a minority of blacks in order to maintain the principle contours of social inequality. How, then, is this to be avoided? Or at least, if it cannot be avoided, how can it be presented as still consistent with the NDR?

Even under apartheid, capitalism spawned the existence of intermediate black classes, such as teachers and lawyers, petty business operators, and subordinate officials. Frustrated by racial restrictions, such elements provided an important source of recruits to the liberation movement. However, because the size of these strata was very small, and because it was the black majority as a whole who suffered national oppression, the struggle against apartheid was a truly national one, led by ‘the collective of black workers whose class position and social existence placed it at the head of the struggle for freedom’ (ANC, 1997:10).

Democracy has set in motion a rapid mobility whereby propertied and professional sections of the black community gain from advancement. From this perspective, ‘the rising black bourgeoisie and middle strata are objectively important motive forces of transformation whose interests coincide with at least the immediate interests of the majority’ (ANC, 1997:10). However, their relative advantage could easily render such elements antithetical to the interests of the poor. Vigilance is therefore needed to prevent them from becoming the tools of monopoly interests, or parasites that thrive on corruption. According to Pallo Jordan (1997:12), this ‘implies that the ANC’s
engagement with the emergent black bourgeoisie should involve the elaboration of certain standards of conduct that will speed the realisation of the postponed goals of the national liberation movement’. Elements with such standards of conduct are often referred to as a ‘patriotic bourgeoisie’ (Netshitenzhe, 1996).

The task of conscientising this bourgeoisie will fall on the ANC, which is charged not only with mobilising all the classes that stand to gain from social change, but also with winning over those which have previously benefited from inequality. It is the vanguard of the NDR (ANC, 1997:12). In short, the theory of the NDR (1) legitimises the ‘historic’ role of the party in leading South Africa; (2) validates the needs for an interventionist state to radically transform society within the context of a ‘mixed economy’; (3) justifies the existence, expansion, wealth and function of a black bourgeoisie, so long as it plays by the rules laid down by the party; and (4) endorses the need for close co-operation with white capitalists of the old order, whose objective interests (for instance in political stability) may eventually lead to their incorporation into the ‘patriotic bourgeoisie’.

Nonetheless, despite the progressive role mapped out for it, black capitalism in post-apartheid South Africa has only grown by fits and starts.

Black Capitalism Before 1994

Segregation and apartheid demanded that black capitalism should be deliberately inhibited. Whilst this did not fully prevent the development of something of an Indian merchant class in Natal, it had crippling effects upon African capitalism more generally. To be sure, even after white appropriation of the vast majority of land had eliminated the competitive threat posed by African agriculture, there were Africans who survived under immensely difficult conditions by managing their own small businesses in both town and country. However, significant capital accumulation was denied to them by restrictive legislation, job reservation and limited educational opportunity (Southall, 1980).

After 1948, African capitalism was structured by ‘separate development’. Severe restrictions were imposed upon African businessmen in urban areas albeit complemented by the official encouragement of African capitalism in the ethnic homelands. This was achieved via the establishment of development corporations, and limitations imposed upon competition by white business in sectors of bantustan economies where only low levels of technology and finance were required. If in the townships this meant that even the existence of African capitalism hovered at the edge of legality, in the homelands African capitalism became an adjunct of official policy and closely identified with the dependent petty state machineries that it established. In these circumstances, African petty capital responded with the formation of nascent organisations, notably the National African Federated Chambers of Commerce (NAFCOC), which not only sought to protect the fragile monopolies over trade it enjoyed in the urban areas and homelands, but to lobby for the removal of all legal restrictions upon African private enterprise (Southall, 1980).

After the 1976 Soweto uprising, the government cautiously enacted measures to promote African business as a buffer between the white minority and black masses. Alongside more energetic efforts to expand African capitalism to buttress the dependent homeland regimes, it began a steady relaxation of restrictions upon African trade and business in the urban areas, most importantly, the introduction of
freehold ownership rights for Africans in urban areas (Hudson & Sarakinsky, 1986:177-182). Even so, despite these improved conditions for black business, its development was to remain severely inhibited. Just as African capitalists in the homelands became entangled with the latter’s oppressive regimes, so did urban African businessmen become identified with the black urban authorities under which they operated and on which they often participated.

Such capitalists scarcely qualified as a ‘patriotic bourgeoisie’. However, Randall (1996:666) may be premature in suggesting that few of the older generation of apartheid-era black capitalists have survived into democratic times. Indeed, whilst it may well be that many had difficulty in adjusting to the opening up of protected racial zones to post-apartheid competition, it seems intuitively unlikely that they committed class suicide in 1994. Some will undoubtedly have survived in business, even if in the less visible parts of the economy, if only because they had acquired something of a headstart in terms of capital accumulation and experience. Some, too, have managed to ride the political transition with aplomb, the most notable of whom is Sam Motsuenyane, President of NAFCOC from 1968 until the mid-1990s and by 2001 a Director of Corporate Africa, and who in 1993 was appointed by the ANC to head its commission into human rights offences against dissidents which were committed in its camps in exile. A rather different example is Herman Mashaba, who started the hair care and beauty enterprise Black Like Me in Garankuwa in 1985 and sold out to Colgate-Palmolive in 1997 (Sunday Times, 29 November 1998). Most certainly, as Hart and Padayachee (2000) record, the post-apartheid experience of established Indian capitalists has been much more varied, with some failing, but many adjusting successfully to the new order. Even so, Randall (1996) appears to be correct in observing that those who have prospered in big business during the early years of democracy are largely composed of a new generation of black capitalists.

This new generation of black capitalists Randall identifies are composed of five groups. First, there are the ‘Activist Capitalists’, recruited by large corporations and/or appointed to guide parastatals, who are drawn from ex-Robben Islanders and former leaders of internal anti-apartheid groups. Possessing high political standing, they are deemed to be sympathetic to the ANC. Yet few have significant personal capital, financial or technical training, or business experience, so their contribution to companies is largely advisory. This category constitutes archetypal ‘Comrades in Business’ (Adam, Van Zyl Slabbert & Moodley, 1997), veterans of ‘the struggle’ who have overcome whatever past reservations they might have had about capitalism to now making it work for themselves, and in theory at least, for the wider black community.

Second, ‘educated exiles’ are blacks from the post-1976 generation who, although not so well politically connected as the ‘Activists’, have acquired education and experience overseas. Yet few of them obtained training in subjects, which would have provided a formative basis for their development as entrepreneurs, even if many acquired qualifications in relatively ‘soft’ areas such as industrial relations and marketing.

Third, ‘corporate sophisticates’ have been recruited by corporations under ‘equal opportunity’ programmes introduced as a response to increasing international pressure, such as the corporate codes of conduct introduced from the early 1970s. Again, many of them occupy ‘soft’ positions in marketing, personnel and public relations. Nonetheless, many have become sought after by virtue of their knowledge about how business operates as well as for their personal connections.
Fourth, ‘consultants of change’ began to emerge in the 1980s. Combining black skins with silvery tongues, they promote themselves as helping white business to adjust to political change. Similar, fifth, are the ‘conference circuit champions’ who, having emerged from black business organisations such as NAFCOC and the Black Management Forum (BMF), have established strong contacts with the white corporate world (Randall, 1996:666-669).

Randall (1996) characterises the early experiences of the new capitalists as a ‘depressing litany’, noting that African capitalists have no independent base in the economy and that corporations largely employ them in advisory, non-operational positions. Their portfolios are likely to be oriented to promoting the public image of companies as engaging in transformation, whilst many are specifically employed to use their political influence with government. This latter aspect has on occasion caused considerable controversy, as with Thebe Investment Corporation. Founded by Vusi Khanyile, head of finance in the ANC from 1990 until he founded the company in 1992, Thebe was chaired by the ANC-aligned Enos Mabuza, former Chief Minister of the KaNgwane homeland, and included Tokyo Sexwale, fresh from Robben Island, on its board of directors. Anticipating that foreign support for the ANC would dry up as the political situation ‘normalised’, Khanyile persuaded prominent individuals close to the ANC of the need for an investment trust, officially to provide financial support to community projects, but unofficially to provide an alternative source of funding for the party. However, given that the firm was founded without any substantial cash, its efforts to raise capital depended upon promises being made to potential investors of future good access to the incoming government. Whilst this tactic initially worked relatively well, it suffered marked setbacks after 1998, when the value of the rand fell and equity markets crashed. Two high-profile companies in which it had significant investments hit major problems, and then, in 1999, a consortium led by Thebe’s entertainment arm, Moribo Leisure, failed to secure a lucrative contract to run the national lottery. These ‘lean years’ hastened the company’s shift away from reliance upon political influence towards more conventional investment activities (Joubert, 2002; Randall, 1996:669-672).

Although having characterised black business as having no independent base, Randall (1996) argues that the potential exists for the emergence of a significantly empowered black capitalist class, particularly via joint ventures with white companies. He cites as examples Kagiso Trust Investments, joint partners in two successful companies, Kagiso Publishers and Kagiso Khulani Supervision Food Services, and Thebe’s subsidiary, Moribo, and its joint venture with the cinema chain Ster-Kinekor in Ster-Moribo. The distinguishing feature of these enterprises, he argues, is the substantial degree of power, which the black capitalists deploy, as well as the commitment of the white partners to skills transfer and to creating genuine black companies out of their joint ventures. Hence, he concludes, ‘South Africa is witnessing the empowerment of African entrepreneurs who can exert a decisive influence in their business interests’, this a product of four major factors: the political insecurity of white capital, the promotion of black business by a competent policy-making regime, the mobilisation of opinion against whites using black companies as ‘fronts’, and last, the existence of a relatively sophisticated economy, including an active equity market and a well organised financial sector. In contrast to the rest of Africa, where on the whole such conditions do not exist, South Africa seems set to see ‘the development of a viable black capitalist class’ (Randall, 1996:673-686). We may now consider how his prognostication stands up against the experiences of black capitalism during the first ten years of South Africa’s new democracy.
Black Capitalism after 1994

According to one overview, since 1994 corporate South Africa has seen ‘the rapid growth of black corporations in depth, breadth and credibility.’ A few black-owned firms have merged into sizeable players; some large corporations are now black controlled; and black business ‘has grabbed the headlines and initiative in an unprecedented manner’. In 1999, Metlife, the largest black empowerment investment in the financial services sector had an asset base of R11 billion, making it the 26th largest company in the country. The media, forestry and paper, pulp, food and beverages, and fishing sectors have all attracted large-scale black investments (Carter, 1999). However, whatever progress has been made has been both uneven and difficult to quantify.

Following ‘an initial flurry of politically driven deals’, black business reportedly captured about 10% of shares on the Johannesburg Stock Exchange (JSE) between 1994 and 1997 (Jacobs, 2002). Yet most inroads were made into sectors, which were highly vulnerable to fluctuations in the global market, and in 1997, when the JSE crashed, many deals came unstuck. Hence by the end of 1999 or early 2000 the black stake in the JSE had dropped to between 1% (Jacobs, 2002) and 3.8% (Singh, 2001).

The value of BEE ventures dropped sharply in 1999 to R3.4 billion involving 45 empowerment firms compared to R21 billion involving 110 firms in 1998 (Segal, 2000). Meanwhile, in 1999, the single firm of Johnnic accounted for fully 78% of market capitalisation of black-controlled companies on the JSE. Furthermore, BusinessMap’s empowerment index, which monitors ‘empowerment’ from the perspective of corporate influence rather than control, found that all black companies on the JSE, with the exception of Kagiso and Metlife, had recorded shareprice declines of more than 50%, this despite a near 50% recovery in the overall JSE in 1999. The number of BEE deals had dropped significantly, too, with the deal flow in 2000 having been the worst since 1996, with new investments in established blackcontrolled companies amounting to R2.5 billion compared with R3.4 billion in 1999 (Singh, 2001).

In 2001, according to Ernst and Young, some 101 BEE deals were valued at R25.1 billion, but 104 deals in 2002 were valued at only R12.4 billion (Sowetan, 9 April 2003). However, Empowerdex reports that by late 2002 that nearly 10% of the total share value (R143.5 billion) of the top 115 firms listed on the JSE was owned by blacks, ‘five times as much as had been previously thought’ (BBC, 2002), although BusinessMap (which was tracking the JSE’s 20 top black controlled companies) argued that a truer figure was 2%, and that black owned stakes in pension funds and investments which were not ‘actively managed for the benefit of black shareholders’ could not be counted as ‘real empowerment’ (BD, 10 December 2002). With the number of black companies on the JSE dropping from 26 to 21, ‘real black ownership was becoming a mirage’ (City Press, 11 May 2003).

The private sector remains overwhelmingly in white hands: 98% of executive director positions of JSE-listed companies in 2002 were white (and mostly male). Only 64 such directors were black (City Press, 11 May 2003), and only eight of 387 companies surveyed by Empowerdex were headed by a black chief executive (BBC, 2003). Let us unwrap what these types of data means.

First, we clearly need to differentiate the statistics. Simply put, the various indices produced by bodies attempting to quantify ‘black empowerment’ are measuring different things. For instance, there is no firm agreement about what constitutes
ownership’. For its purposes, Empowerdex includes government, municipal and parastatal pension funds, as well as government agencies such as the Industrial Development Corporation (IDC). Hence it could conclude that in 2001 black equity ownership of the top 115 firms on the JSE was just below 10%. In contrast, BusinessMap, which adopts a much narrower definition, tracking the JSE’s top 20 black-controlled companies, settles for only 2% of equity being in black hands. McGregor, meanwhile, proclaims a figure of 3.9% (BD, 10 December 2002). Whilst we may therefore glean a sense of overall direction by comparing figures emanating from different indices, care must be taken with the specifics. There is also the issue that political correctness presently forbids disentangling ‘African’ from ‘Indian’ capitalisms, yet as Hart and Padayachee (2000) suggest, these may have considerably different trajectories.

Second, by far the most important point is that blacks have made extremely limited inroads into the ownership, control and senior management of the private corporate sector. Early initial progress made in the first half of the 1990s was reversed, mainly by the crash of 1997, and the advances since then have been relatively modest. Yet this does not mean that corporate ownership patterns are unchanging: McGregor reports that Afrikaner control of the JSE is increasing sharply in the face of the departure of certain corporations and individual English speakers from South Africa, climbing from 24% in 1996 to 32% in 1998 (English control dropping to 54% from 63%) (Bennet, 2000). Hence the importance to the ANC of appointing blacks to head parastatals like Transnet, Spoornet and Telkom, and of structuring their privatisation for blacks to pick up the pieces.

Third, it would appear that if black capitalists are going to make more rapid inroads into the private sector, then new and innovative ways are going to have to be employed to spur their advance. The basic dilemma, of course, remains the quandary of how black aspirant capitalists without capital can be capitalised. The answer is that they either have to be given it or they have to borrow it. Until 1998, special purpose vehicles (SPVs) were the most widely used mechanism to propel black investors into the ranks of corporate South Africa.

Corporate South Africa sought to facilitate black empowerment by selling businesses to black investors, who in turn were assisted by financial institutions through SPVs. Empowerment groups financed purchases in shares in firms offered to them by, in part, offering preference shares to institutional investors. However, whilst black investors retained voting control of the SPV through ordinary shares, the preference shares held by the institutions were paid a dividend linked to the prime lending rate. Any difference between the dividend income received by the SPV and the dividends payable to the preference shares was rolled over and paid when the preference shares were redeemed. To redeem the preference shares and any accumulated dividends, the SPV would then have to sell off the shares in the underlying business (TIPS, 1999).

This originally appeared to work well, but fell foul of the plunge in share prices, which resulted from the Asian crisis of 1997. Yet in any case, black investor groups typically took up less than 20% in the companies offered to them, which meant that they did not acquire executive control. So in effect, black groups simply became investment trusts and were not operationally involved in the underlying investments. Indeed, because the principal financial risk lay with the institutional investors rather than the BEE group, the latter were not really motivated to add value because they had little to lose. For their part, institutional investors failed to
appreciate that, unlike their other investments, BEE groups often needed specialised support.

A related mechanism was the sale of ‘N’ shares, the principal case in point being New African Investments Limited (Nail), one of the biggest empowerment groups. In pursuit of growth and control, Nail offered two types of shares: ordinary shares, with superior voting rights, were issued to black investors; and N shares with limited voting rights were issued to the general public. Not surprisingly, as more and more of the N shares were issued, the discount between them and ordinary shares widened, as investors became uneasy (TIPS, 1999).

Overall, from 1990, the promotion of black capitalism rested heavily upon blacks obtaining stakes at the apex of corporate pyramids, these being purchased at high share prices against high debt levels, or on special deals crafted for a minority with privileged access. Such strategies proved unable to cope with a turbulent period of dramatic currency volatility, interest rate increases, share price fluctuations, declining per capita GDP growth and the external shocks of 1996 to 1998.

Meanwhile, the state was coming under criticism for failing to back its commitment to black empowerment with effective strategies. For instance, Telkom was partially privatised in 1997. Ten per cent of the shares sold were set aside for black investors, but when the deal was complete, 30% of what had previously been a wholly South African-owned enterprise was now owned by Malaysians and Americans. Again, when the state sold the Airports Company, the empowerment stake was set at 10% of the shares, but due to the high prices that foreign bidders offered and a shortage of finance, only 4.2% of the shares were transferred to black owners. In other words, even small share options require expensive borrowing by black investors who in the past have had limited opportunity to accumulate capital. Again, the attempted sale of the state-owned Aventura Resorts to a union investment company also collapsed due to difficulties in raising finance, and eventually a management contract with a major hotel company was negotiated instead (Promoting Empowerment). In these circumstances, black business could have done with a body competent to express its collective interests and aims to both government and the wider public. However, by this time, NAFCOC was in total disarray, divided by leadership struggles (which appear to reflect tensions between ‘new big’ and ‘older small’ capitalists), and allegations of corruption.

Finally, the most worrying aspect for black capitalism was the perception that black empowerment had worked mainly for the enrichment of a tiny black elite. Inevitably, there was some moral ambivalence with, for instance, former Deputy Minister of Trade and Industry, Ms Phumzile Mlambo-Ngcuka, glorying in the chance for some blacks to become, like whites, ‘filthy rich’. However, when the ordinary mass of blacks continued to live in dire poverty, pride in the achievements of the few easily translated into outrage, especially given various highly publicised instances of greed, as when two of Nail’s black directors were exposed as having awarded themselves massive incentive packages. In these circumstances, a ‘minimalist’ approach which defined BEE as centred around the promotion of black business came by the late 1990s to be rivalled by a ‘maximalist’ position, which emphasised ‘a comprehensive restructuring of institutions and society … rather than the replacement of white individuals with black ones’ (Edigheji, 1999). But how could such an approach be implemented?
The Activist State & the ‘Blackening’ of South African Capitalism

By the early 2000s, BEE was widely deemed to be in crisis (Helen Suzman Foundation, 2000). This was probably an exaggeration. As pointed out by Professor Wiseman Nkuhlu (who held as many as 13 directorships), black ownership on the JSE may have slumped, but there were still a lot of smaller groups listing. ‘They are less complex but show meaningful empowerment, and there are many more which won’t list for the next five year’ (BD, 13 February 2000). Yet whatever the assessment, the severe problems which nascent black capitalism was encountering had already begun to prompt serious thinking. There were some calls for the constitution of a ‘black broederbond’, which would single-mindedly plan black economic advance (BD, 13 February 2000). But more influential were demands that the state begin to assume a more activist role in promoting black empowerment.

The Black Economic Empowerment Commission (BEEC)

The interventionist perspective took shape most significantly in the report of the BEEC presented to President Mbeki in April 2001. Chaired by Cyril Ramaphosa, formerly secretary-general of both the National Union of Mineworkers and the ANC but by now Chairman of media giant Johnnic, this had had its origins in a resolution of the BMF 1997 national conference that blacks should develop a new vision of BEE. The BEEC was formally established in May 1998 under the Black Business Council, an umbrella body of 11 black business organisations, and thereafter engaged in extensive consultation. When it finally reported, it recommended adoption of a wide-ranging, state-driven programme which would create a ‘coordinated, simplified and streamlined set of guidelines and regulations that (would) provide targets and demarcate roles and obligations of the private sector, the public sector and civil society over a period of ten years’ (BEEC, 2001).

Based upon maximalist assumptions, the report noted that neither the numerous initiatives by the post-1994 government to democratise society nor efforts by the private sector to promote empowerment had translated into a ‘meaningful transfer of ownership to the black majority’. Only concerted activity by the state, alongside recognition of its ‘collective responsibility to invest in the country’ by the private sector, would allow for the realisation of development goals (BEEC, 2001). The key components of the national strategy which were recommended were therefore:

- An Investment for Growth Accord should be forged between business, labour and government. Government should commit to: investing 10% of the assets of its employees’ pension fund in areas of national priority over three years; investing a portion of privatisation proceeds in a rural development agency; implement its restructuring of state assets programme to increase levels of foreign direct investment and divert an increased proportion of its budget to capital expenditure. The private sector should: invest a specified percentage of its total assets in productive investments of national priority, commit to participation in rural development; adopt targets for black participation in the economy, including human resource development, and the promotion of small and medium businesses. The trade unions should: design investment guidelines for union trustees on the boards of life assurance companies in which its members have savings; and design projects to which union pensions can be directed.

- A Black Economic Empowerment Act should: provide an unambiguous definition of BEE; set uniform indicators against which the private and public sectors can
measure their performance in achieving BEE; set procurement targets for the public sector at national, provincial and local levels; and require all government departments to submit an annual BEE report.

- A National Procurement Agency should: revamp the national tendering and licensing system to ensure the centrality of empowerment; and set up an accreditation unit to rate companies tendering for government contracts, and other companies, regarding their BEE performance. 50% of public-sector procurement and 30% of private-sector procurement, 30% of public-sector contracts and concessions, and a minimum of 40% of incentives should go to black companies.

- A National Empowerment Funding Agency (NEF) should improve government efforts providing funding for black economic initiatives including community ownership, retail schemes, broad-based share schemes and co-operatives through the creation of four specialised agencies designed to provide ‘appropriate packages’ to different types of entrepreneurs. Blacks should own 25% of the shares of companies listed on the JSE, with at least 40% of executive and non-executive directors being black within ten years. At least 50% of loans from development finance institutions should go to black-owned enterprises.

- An Integrated National Human Resource Development Strategy should increase production of blacks with requisite skills and to enhance black participation in the professions.

- A Rural Development Agency (RDA) should gear up present activities aimed at ensuring the availability of funds for land acquisitions, land use and infrastructural development. 30% of land should be in black hands within ten years.

- An Empowerment Framework for Public Sector Restructuring should restructure the public sector to improve service delivery, protect workers’ rights and achieve BEE. Sales of state assets should help finance the RDA and the NEF should facilitate the sale of shares in privatised assets to black companies, which would otherwise have acquired smaller shareholdings. Black companies should own at least 30% of the equity of restructured state-owned enterprises within ten years.

The banking and financial services sector should be transformed to provide for Community Re-investment in order to counteract the disadvantaging of the black majority, particularly women, by the biased allocation of resources. Equality legislation should end discrimination against blacks in this sector and provide for the monitoring of banks’ activities (BEEC, 2001). When questioned about whether such measures were necessary to avoid ‘another Zimbabwe’, Cyril Ramaphosa answered: ‘If we don’t move quickly now … yes, it could happen. For this reason we want the white private sector … to heed that warning’ (Business.iafrica, 8 August 2001).

The Response to the Report
Avowed liberals decried the report as articulating a race-based preference policy, which negated individual freedoms, and was likely to encourage an over-extended state and endanger employment creation and economic growth. Any BEE measures should therefore be of limited duration and not limited to a small elite (Christianson,
An enabling state should restrict itself to providing freedom and security, combating inflation, providing education and basic health care, and outlawing anticompetitive practices (Kane-Berman, 2002/3).

Government response was cautious, even though President Mbeki, addressing NAFCOC, was to admit that black empowerment had moved at a ‘snail’s pace’ (BD, 25 September 2002). On the one hand, the ANC leadership remained entranced by Malaysia, where since 1970 high economic growth has been combined with a significant redistribution of assets by an interventionist yet investment-friendly state from the minority Chinese to the indigenous Malays (Southall, 1997). On the other, although the government had sought to promote the new black bourgeoisie, it was acutely aware of its failings, and at times, Mbeki himself had roundly criticised black businessmen for having become nothing more than rentier capitalists. Meanwhile, the governing elite remained divided about the wisdom of a heavy hand and wary of too roughly offending corporate sensitivities: ‘if we think the state is going to drive this process we are making a mistake’, argued Reserve Bank Chairman Tito Mboweni (Fast Facts, 5, 2001).

Even so, the government moved swiftly towards a more interventionist posture. Speaking at the ANC’s 51st national conference, Mbeki committed the government to drawing up a ‘Transformation Charter’ that would set BEE benchmarks, timeframes and procedures, and eliminate uncertainty amongst investors (Sowetan, 18 December 2002). This statement was soon to have significant consequences.

**Mining**

The first major initiative to see the light of day, albeit via a leak, was a proposed mining charter introduced by the Department of Mines and Energy in July 2002 which proposed that all mining operations would have to be 51% owned by blacks in ten years, whilst to secure a new mining license a company would have to have an empowerment partner with at least 30% equity stake in existing operations. This brought a dramatically negative response from the mining industry, and shares in South African mining companies immediately slumped, not least because the government had only just emerged from a bruising battle over a mineral and resources development bill.

The intention behind this bill was basically to vest sovereignty over South Africa’s natural resources in the hands of the state, and to impose a ‘use it or lose it’ principle upon mining companies, whilst at the same time making provision for the assistance of historically disadvantaged persons to conduct prospecting or mining activities. Whilst the corporates had fought a vigorous campaign against what they decried as an erosion of property rights, organised labour had criticised the government for doing nothing to challenge the monopoly structure of the industry (BD, 25 June 2002; COSATU/NUM, 2001). Although the bill in final form had made certain concessions to the industry, the latter’s reaction to the proposed charter was that it expressed a conviction that the great mining houses were intent on cheating blacks of their rightful stake in the industry (BD, 29 June 2002). Consequently, following intense negotiations, when the final Charter emerged, it did so in a much milder form. Government had reduced its empowerment targets considerably, requiring all mines to be 15% black owned in five years and 26% in ten years, with the industry agreeing to raise R100 billion to fund the transfer. The Charter also laid down that companies should aspire to achieving a target of 40% of blacks in management within five years, although it promised flexibility in that a scorecard 94
approach to such goals as ownership, employment equity, improved community and rural development, worker housing and living conditions, procurement, and beneficiation could be offset against each other (*BD*, 11 and 12 June 2002).

Even if the government had made major concessions, the problem of how to finance a partial transfer of ownership remained. It soon became apparent that one source would be a loan made to the IDC that would be sourced from the IMF and the World Bank, with other potential participants being the African Development Bank, local commercial institutions and the mining companies themselves (*M&G*, 18-24 October 2002). A resultant ‘New African Mining Fund’ (which would be separate from the R100 billion pledged by the mining companies) would grow from R500 million to R2 billion over ten years and be aimed at ‘green field’ projects to be undertaken by black entrants to the industry (*Sunday Independent*, 24 November 2002). Meanwhile, a queue of black aspirant participants in the industry began to be matched by established mining houses positioning themselves to find black partners who would boost their empowerment credentials. Vuka Alliance, a black consortium led by former Mpumalanga premier Mathews Phosa, acquired a 50% stake in a R100 million a year contract mining company, Rosslyn Mining and Plant Hire (*Sowetan*, 24 November 2003). Similarly, De Beers was preparing to sell a quarter of its local operations to one or more of the more established empowerment companies (*Sunday Independent*, 9 March 2003).

However, the major move was made by Harmony Gold, which announced a R4.9 billion merger with African Rainbow Minerals Gold (ARMgold), less than a year after the latter had become the first black-owned gold company to list on the JSE. This new company then announced that it would buy Anglo-American’s stake in Anglovaal Mining for R1.77 billion. In effect, ARMgold chairman Patrice Motsepe converted his personal control of a small gold company (built up through acquisition of mining operations that major companies had come to consider as marginal) into a significant stake (14%) in a major industrial player, for under the deal, the new company not only became the fifth largest gold producer in the world, but immediately achieved the level of black ownership it needed to comply with the charter, as well as teaming up with a small group of black shareholders who were extremely well politically connected. (One of Motsepe’s sisters is married to Public Enterprises Minister Jeff Radebe, another to Cyril Ramaphosa), whilst Motsepe himself is now chairman of NAFCOC (*BD*, 5 and 6 May 2003; interviews, Gule and Simelane).

Gold Fields South Africa rapidly followed suit with the sale of 15% of its shares to Mvelaphanda Resources, a company chaired by former Gauteng premier Tokyo Sexwale. Mvelaphanda incurred a debt of R2.8 billion in funding this purchase, with some R300 million coming from Gold Fields while the further inflow was intended to come from a R1 billion plus share issue (*M&G*, 13-19 June 2003). This was followed by the announcement that mining magnate Roger Kebble’s Randgold & Exploration was to link Phikoloso Mining, an empowerment group made up of some ten black companies including Leswikeng (headed by *Black Like Me*’s Herman Mashaba), Dyambu (headed by former ANC underground operative and Western Cape provincial representative Hilda Nduwe), New Line Investments (led by Chris Nissen, a former Western Cape ANC chairperson), Ituseng Mining (led by Lunga Ncwana, a former ANC Youth League leader), and Ikamva (headed by Sharif Pandor, husband of National Council of Provinces Chairperson Naledi Pandor). In return for R.8 million shares in Randgold, valued at about R268 million, Phikoloso agreed to exchange its mining assets (which included 7.3 million shares in gold-
mining company Afrikander Lease, interests in platinum and other mineral rights) 
(BD, Sowetan, 29 June 2003).

Financial Services

Alarmed by the prospect of direct state intervention, the financial service sector had by July 2003 drawn up its own, pre-emptive draft charter. Like the mining charter, this adopted a ‘scorecard’ approach to empowerment with regard to categories such as access to financial services, management and procurement, employment equity and so on, yet ownership targets – in contrast to the DTI’s recommended 25% in ten years – were rumoured as being pegged at 10% by 2008 and 20% by 2014 (M&G, 4-10 July 2003). Resistance to higher ownership targets reflected the huge amounts of finance involved. For instance, there was much noise made about the completion, by Investec, South Africa’s fifth largest bank, of a R810 million deal whereby black empowerment partners acquired 25% of its equity (6.8% by Tiso and Peu Investments, 6.8% by an entrepreneurship trust and 4.7% by a trust for Investec black staff), this being financed through an 8-year loan from the Public Investment Commission. However, it had only been made possible by Investec’s local share price having plummeted from R160 at the time when it was listed on the UK stock market (as well as remaining on the JSE) in July 2002 to R90 at the time of the deal. However, the purchase of 25% in any of the four larger banks (Absa, FirstRand, Nedcor and Standard) would cost up to R10 billion, well beyond the reach of black companies (BD, Sowetan, 16 May 2003). Standard had earlier announced that it was selling business valued at R60 million to establish a new venture, Andisa Capital, which would be 49% owned by the Bank and 51% owned by a consortium led by Saki Macozoma (the Chair of media group Nail), Safika Holdings, Nduna Trust, Simeka and an empowerment trust (Sowetan, 4 April 2003).

An Empowerdex survey indicated that the asset managers – responsible for investing R1.24 trillion (three times SA’s GDP) annually – were well ahead of their counterparts in banking, more than half of the top 28 companies having black ownership of more than 25%. This presumably reflected black inroads having been made into purchase of shares at the apex of financial pyramids, as well as the significant assets owned by companies managing union pension funds. Yet it was also a response to expectations that the government was about to put out a significant amount of its R400-500 billion pension funds to the private sector to manage. This was instrumental in Stanlib (a 2002 merger of Liberty’s and Standard’s asset management arms) taking on a consortium led by Safika Holdings as a 25% empowerment shareholder, this financed by a loan to be repaid to Liberty and Standard over five to seven years (BD, 6 March, 19 June 2003).

Other Sectors

Other industries also began to respond to the challenge being laid down by government. A key deal was announced by SABMiller, which in December 2002 announced a R1.9 billion deal with Tsogo Investments. Both would transfer their interests within the hotel and gaming sectors into a new company, Tsogo Sun Holdings, which would be controlled by Tsogo Investments. Meanwhile, Sol Kerzner, the man who had founded Sun (before offloading his interest and moving to London amidst controversy in the late 1980s), announced his forthcoming return to South Africa, where he would team up with Moss Mashishi’s Matemeku Investments to develop hotels and game lodges. Matemeku is a partner of RAI Amsterdam, the global communications group which holds the contract for the new
Cape Town International Convention Centre, whilst Mashishi shares a 20% holding with Graca Machel and Wendy Luhabe in O&M Rightford, an advertising agency which had the contract to conduct public relations for the ANC during the 2004 election campaign (Sunday Times, 25 March 2003; RAI/ Matemeku Press Release, 5 February 2003). Meanwhile, Bidvest, a diversified industrial group, has announced sale of a 15% stake in an ‘innovative’ deal whereby Dinatla Investments (a black consortium) will pay between R42 and c.R60 a share in three years’ time, depending on performance (BD, 10 July 2003). These, and numerous other similar ventures, indicate that the corporate sector is beginning to take black empowerment seriously.

The ANC, the State & Black Capitalism

Having acquired political power, the ANC has now embarked up a more assertive approach to BEE with the objective of promoting a ‘patriotic’ capitalist bourgeoisie. Three issues immediately present themselves.

The first relates to the nature of the class project that is involved. The theory of the NDR validates the creations of a black bourgeoisie, whose historic function will be to not merely challenge white economic domination but to raise productive forces, thereby providing for redistribution of wealth to the black working class, and the urban and rural poor. Stripped of its marxist jargon, this is an essentially neoclassical argument, which elevates the importance of private entrepreneurs, in this case black ones, in the creation of wealth. On the other hand, the marked ambiguity of the theory of the NDR towards black capitalism, as – indeed – reflected in the tensions between the ANC and its partners within the Tripartite Alliance, stresses the necessity of the black bourgeoisie being socially responsible at the same time as they become ‘filthy rich’.

The ANC, black capitalists and the unions alike have come to straddle this contradiction by adopting an increasingly ‘maximalist’ stance towards BEE. Emphasis upon companies and institutions achieving targets concerning equity employment, skills training, procurement and community development as well as black ownership not only deepens empowerment, but extends the benefits to the ANC’s wider political constituency. Meanwhile, to fend off the allegations that they are merely constructing a self-serving black elite, many empowerment consortia (themselves often trusts to benefit women, rural communities, or former political prisoners and so on) are deliberately attempting to construct their deals so that they can demonstrate benefits to the wider, black community in terms of partial share ownership, rural- development projects, or whatever. Indeed, it would seem that their very political exposure requires of the relatively small number of significant black capitalists some indication that they are being ‘patriotic’.

The second issue concerns the role of the state. The ANC has been widely criticised for having embraced a neo-liberal, capitalist strategy entailing a minimalist state. Yet this is wrong, for the ANC is rather leaning towards construction of a procapitalist, interventionist state prepared to use its power, influence and divestment of assets to create a black bourgeoisie, expand the black middle class, and to generally produce a seismic transfer of wealth from white to black over a ten to twenty year period. Inevitably, with the state being so centrally involved in the task of class creation, the political connections enjoyed by individual capitalists become crucial in pulling down official loans, decisions and favours, with outright corruption a not uncommon outcome. Not surprisingly, therefore, there is already considerable evidence of Asian style, ‘crony capitalism’. In short, there is often a very
thin line between patriotism and parasitism. Nonetheless, the number and magnitude of the empowerment deals presently being enacted suggests that Randall may be correct in arguing that the complexity and size of the economy foreshadows nonstate opportunities which will make for the development of a relatively independent black capitalist class, although his more recent argument is that this can only be achieved via espousal of a maximalist strategy which focuses upon small and medium enterprises, so that ‘hundreds and thousands of blacks own their own businesses that in turn employ other blacks’ (Randall, 2003).

Finally, white capital is beginning to wake up to black empowerment as a political and economic imperative. The growing fear of a Zimbabwe-style expropriation of assets is combining with a more strategic awareness of how black empowerment can be re-shaped to provide advantages to large corporations, with the Oppenheimer family having recently announced a ‘Brenthurst Initiative’ whose basic idea is that government should provide tax breaks to companies which are demonstrably committed to ‘transformation’. To be sure, the choices are easiest for the transnationals and corporate giants, for their ambitions are commonly global and continental, so that, in effect, loans extended to black partners can, ironically, provide them with the opportunity of moving their assets outside South Africa. Meanwhile, changes in ownership patterns on the JSE appear to foreshadow potential partnership between expanding Afrikaner and black capitals.

Yet even as these changes take place, macroeconomic data demonstrates that demographic growth is overtaking the rate of economic expansion, and that informal employment and unemployment are growing rapidly apace. At least one of the ANC’s major motives for the rapid expansion of black capitalism is the presumed political stability to be attained through the containment of class conflict via a dramatic economic redistribution. However, continued slow growth of the economy is likely to test the patriotism of any bourgeoisie, and is likely to place class conflict at the centre of the political arena.

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South Africa’s foreign policy: hegemonic aspirations, neoliberal orientations and global transformation

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South Africa’s contemporary foreign policy cannot be understood outside an explanation of its post-apartheid political transition. Its actors, the ideas they express, the interests they represent and the institutions they craft are all crucially influenced and impacted upon by the democratic transition and how it has evolved. This democratic transition is defined by two foundational characteristics. First, as one of the last of the ‘anti-colonial’ transitions led by an African nationalist leadership, it is driven with a focus on achieving racial equality in both the domestic and global context. Second, the transition has occurred when a particular configuration of power prevailed in the global order that not only established the parameters which governed its evolution, but also determined which interests prevailed within it. The former’s imprint on the foreign policy agenda is manifested in South Africa’s prioritisation of Africa, its almost messianic zeal to modernise the continent through a focus on political stability and economic growth, and its desire to reform the global order so as to create an enabling environment for African development. It is also reflected in South Africa’s insistence not to be seen to be dictated to by the West, especially in the fashioning of its economic policies and its approach to addressing the Zimbabwean question. The latter manifests itself not only in how corporate interests take centre stage in South Africa’s foreign policy interactions, but also in how transnational alliances like India–Brazil–South Africa (IBSA) are being fashioned to challenge big powers and their interests in global forums and in the international system. These thematic concerns are the subject of investigation in this paper.

Keywords: South Africa; foreign policy; post-apartheid; regional power; African development; IBSA

Introduction

It was in 2007 that South Africa first ascended to a two year temporary rotational seat in the Security Council of the United Nations. It was a well received ascension with many anticipating that South Africa would play a positive role advocating a human rights agenda, and generally behave in a manner that would befit a responsible and democratic member of the world community. Yet after two years, many in the international human rights community were happy to see the end of the country’s tenure. Human rights activists had become demoralised by South Africa’s defence of ‘rogue powers’ and its refusal to support resolutions in the Security Council condemning and imposing sanctions on Iran, Myanmar, Sudan, and Zimbabwe. In effect, the human rights community saw these decisions as a betrayal

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of the spirit of South Africa’s own democratic transition and the international support that had facilitated it.

But is this labelling of betrayal not too simplistic a portrayal of South Africa’s decision-making in this regard? And is not the suggestion that this was an example of simple appeasement of the Russians and Chinese also too lazy an explanation of South Africa’s foreign policy behaviour? Neither thesis engages sufficiently with South African government officials’ explanations of their decision-making, which expressed concern with the abuse of multilateral institutions by big and great powers, their lack of even handedness and their hypocritical posturing. But in the desire to avoid being unwitting agents of great power manoeuvrings one must be careful not to fall prey to elite rationalisations of undemocratic behaviour, even if such elites are from the South. In order to avoid both scenarios, it is necessary to investigate and decode South Africa’s foreign policy, understand its philosophical and strategic underpinnings, and locate the analysis in comparative reflections.

There have of course been a number of attempts to do this over the last decade. Many of the first generation studies offered polarised assessments of South African foreign policy. On the one hand, African National Congress (ANC) aligned intellectuals and activists portrayed South African foreign engagements as progressive and reflective of a human rights agenda. On the other, Liberal and Marxist critiques concluded that South African foreign policy reflected realist calculations and sub-imperialist ambitions respectively. While both sets of analyses spoke to part of a reality, they did not provide persuasive explanations of South Africa’s comprehensive foreign policy practice.

The second generation of studies was less ideologically oriented and more useful in enabling an understanding of South Africa’s foreign policy engagements. Following some of the work on middle powers undertaken on other parts of the world these scholars advanced the thesis that South Africa’s middle power status predisposed it to multilateralism and partnerships at global and continental levels. But these same studies also described South Africa as a pivotal state, as distinct from a regional or hegemonic power. Regarding this as positive, they suggested that South Africa’s pivotal status reinforced partnership impulses within its foreign policy elite, and they concluded that on balance the country has performed admirably on the continent. The only black spot on South Africa’s foreign policy record, some of them argued, is Zimbabwe where many who advocate partnership suddenly recommend a robust and aggressive approach.

Nthakeng Selinyane and I have elsewhere criticised these approaches, suggesting that they suffer from ‘the ideologically constraining effects of progressive orthodoxy’. We argued that South Africa was not simply another middle power or pivotal state on the continent. Rather, its aggregate capabilities in terms of economic, diplomatic and military capacities, in relation to other African nations, automatically defined it, at least for now, as a regional power or hegemon. This status imparted to it a set of privileges, obligations and responsibilities that separate it both from its African counterparts and other middle powers like Canada and Norway. Just as importantly, it progressively defined South Africa’s foreign policy agenda and practice.

But what is a regional power? A substantial body of literature has emerged to define and operationalise the concept since Osterud’s pioneering intervention in 1992. There is a considerable degree of overlap in the definitions of all of these studies enabling Detlef Nolte to integrate these into a single comprehensive
definition. This definition describes a regional power as a state which is part of a delineated region, is connected to it culturally, economically and politically, influences its identity and affairs, defines its security, and aspires to provide it with leadership including through its governance structures, and acts as a representative and is recognised as such in regional and international quarters.\textsuperscript{11} Scholarly understandings of South Africa’s foreign policy, then, are weakened by a lack of analytical work conceptually applying this understanding to the country’s engagement with the continent and outside world.

This article tries to address this deficit. It proceeds to an analysis of the character, aspirations and strategic orientations of South Africa’s post-apartheid political elite. Thereafter, it demonstrates how these aspirations and strategic orientations influenced the country’s foreign policy behaviour, decisions and practice. The paper concludes by both reflecting on whether this behaviour is going to change with the emergence of a new political leadership in the ANC at the end of 2007, and in the state after 2009, and how the South African case study speaks to the broader theory building agenda on regional powers and their foreign policy practice.

**Foreign policies of nationalism’s second generation**

Classical and neo-realist perspectives explain foreign policy as the product of national interests and nations’ structural location in the international system respectively.\textsuperscript{12} Their nemesis, liberal institutionalism, argues that other variables, including business and political actors, need to be considered as playing a crucial role in configuring foreign policy agendas.\textsuperscript{13} While the former’s strength is that it points to systemic constraints and the conditioning effects of the balance of power, it is unable to persuasively account for foreign policy behaviour in transitional societies because it ignores the impact of changing domestic values and the entrance of new political elites within the political system. As Moravscik\textsuperscript{14} would argue, foreign policy cannot be coherently interpreted outside an understanding of how domestic preferences get formulated through an analysis of interest groups, political parties, the legislature and executive.

But context matters. Which of these groups has its interests predominate would differ from society to society and from one historical period to another. In South Africa’s case, it has been through the most profound political and socio-economic transformation in its history. This has introduced new social actors into the political mainstream and there is of course no more powerful or significant an institutional actor than the ANC. But this fact should not be interpreted to deny the intellectual relevance of the neo-realist paradigm. The latter’s explanatory depth can also be demonstrated particularly in terms of the systemic conditioning of the South African political elite’s foreign policy behaviour. Both perspectives then, can find vindication in the story of South Africa’s foreign policy transformation.

As indicated earlier, the key actor in this story is of course the ANC and in particular its post-Mandela leadership which was personified in the character of Thabo Mbeki. The political elite are defined by two essential characteristics. First, like their predecessors of an earlier generation, they are nationalists whose overriding desire is to overthrow the yoke of colonialism. This anti-colonial agenda is reflected both in a desire for racial equality at the domestic level, and the goal of a more equitably structured and just global order. As Mbeki put it to the 61st Session of the
United Nations General Assembly in his capacity as chairperson of the G77 and China:

Poverty and underdevelopment remain the biggest threats to progress that has been achieved, and the equality among the nations, big and small, is central to the survival, relevance and credibility of this global organization . . . . Madam President, when you correctly urge us to implement a global partnership for development, we the members of the G77 and China, who represent the poor people of the world, understand . . . this common commitment for a global partnership for development cannot be transformed into a reality when the rich and powerful insist on an unequal relationship with the poor. A global partnership for development is impossible in the absence of a pact of mutual responsibility between the giver and the recipient. It is impossible when the rich demand the right, unilaterally, to set the agenda and conditions for the implementation of commonly agreed programmes.15

In this sense Mbeki is no different from an Nkrumah, a Nyerere, a Nasser, or even a Nehru.

In another sense, however, he is fundamentally different. The second generation nationalists, of whom Mbeki is one of the more articulate exponents, were witness to the unravelling of the anti-colonial experiments. While some acknowledge the mistakes of the earlier nationalist leadership,16 they also primarily see this unravelling as a product of the machinations of the imperial or ex-colonial powers, and the consequences of a cold war between the United States and Soviet Union.17 This second generation nationalist leadership is thus acutely aware of their country’s relative weakness and that their anti-colonial agendas will not materialise outside the transformation of the balance of power in the global order.

Three responses have emerged from this group of second generation nationalists. First is an appeasement strategy. The best exemplars of this are Musharraf and even the new political leadership in Pakistan, Meles Zenawi in Ethiopia, Ellen Johnson-Sirleaf in Liberia, and perhaps even Ian Khama in Botswana. Obviously this is a widely divergent group with very different democratic credentials. But their foreign policy strategic orientation, at least to the international system, is similar: reconcile with existing power holders and win significant political and economic concessions for doing so, including aid. In a sense, they hope to emulate the successes of the Asian tigers (even if in many cases their economic policies are very different) by entering into an alliance with the United States and other Western countries in exchange for significant economic and political benefits.18 Sometimes, in exchange for these preferential benefits, these countries take on a variety of obligations either in the domestic or regional contexts.19 This strategic orientation is effectively about reconciling with existing power holders and getting the best deal under present global circumstances.

Second, is a militant, aggressive, anti-imperial posture accompanied by an anti-American or anti-Western rhetoric. The best exponents of this are perhaps Hugo Chavez in Venezuela or the theocratic leadership in Iran. Obviously those who subscribe to such a posture do not qualify as a second generation leader. As leader of one of the last anti-colonial transitions in Southern Africa, he is very much a first generation nationalist. But the economic meltdown in Zimbabwe and its internal conflict has led him and Zanu-PF to adopt a similarly aggressive anti-West posture reflected both in his attack on the Movement for Democratic Change (MDC) as ‘British stooges’, and
his accusation that Zimbabwe’s economic and political crisis is a result of an imperial assault on their freedom. 20

The final response can also be best explained through a focus on Zimbabwe, but this time articulated not by its leadership, but by the Southern African Development Community’s mediator, Thabo Mbeki, who is mandated with finding a political settlement between Zanu-PF and the MDC. In contrast to the dominant perception in Western media circles, Mbeki is not enamoured with Mugabe. Indeed, Mbeki, while sharing the broad nationalist vision espoused by Mugabe, is nevertheless quite critical of the Zimbabwean president’s conduct both at the domestic and the international level. This is most clearly reflected in a paper he authored on Zimbabwe in mid-2001. Arguing that the Zimbabwean crisis has its roots in Zanu-PF’s decision to finance delivery on the basis of high deficits and borrowed money, which made it dependent on the International Monetary Fund (IMF), he insists that anti-imperialist rhetoric will not resolve the crisis. Rather, he recommends a more strategically engaged orientation that involves Zimbabwe softening its stance on both the IMF and the United Kingdom, both of whose assistance he deems necessary for addressing the economic crisis. 21

Mbeki’s critique of the ZANU-PF leadership is perhaps the clearest exposition of the third response of the second generation of nationalists. Reflecting a mix of principle and pragmatism, this response takes as its starting point the need to reform the global order, but recognises that such an outcome will not just happen from either appeasement as in the first option, or delinking from the international system as is advanced in the second. Instead this third response recognises the need to engage the global order with a view to reforming it, understand the power relations within the international system with a view to subverting it. This second generation response also focuses on developing mechanisms and alliances that enhance the leverage of the post-colonial powers with this agenda. 22 It is in a sense the application of a neo-realist paradigm from the South; recognising the importance of power for configuring international and transnational outcomes, but recognising that power is always relational, and therefore open to the establishment of mechanisms that could subvert or transform that very structure of power over the long term.

The regional power literature refers to this strategic orientation as balancing. 23 But this label of course does not always capture the complexity and nuance of the foreign policy practice. Balancing would involve both engagement and subversion. But there is a fine line between engagement and appeasement and for that matter subversion and marginalisation. Where engagement ends and appeasement begins is a hotly contested issue particularly on economic matters. The practice of the Mbeki administration betrays characteristics of both appeasement and subversive engagement as is demonstrated in the next section. Nevertheless, whatever the contradictions of actual practice, the ANC government’s foreign policy behaviour is best explained through the conceptual lens of the strategic orientation explained above.

This strategic orientation is, as was earlier explained, informed by the fact that it is both nationalist and second generation. The former identifies the goals and vision of the Mbeki administration. The latter defines its methodology; the route through which it hopes to realise its ambitions. It is only through an understanding of these characteristics that one can make sense of the foreign policy practice of the Mbeki administration. Often this practice is misunderstood and perceived as arbitrary, unprincipled, and incoherent. Yet, if one ensconces it within the conceptual underpinning of an analysis of its architects and practitioners, this foreign policy
behaviour takes on a meaning and a coherence, which even if one disagrees with it, nevertheless has to be applauded for its level of sophistication and nuance.

South Africa’s foreign policy: 1994–2008

1994 ushered in a fundamental transformation in South Africa’s foreign policy. At its most basic level, it moved from an isolated, politically belligerent, regionally militaristic, globally defensive agenda to one that is supportive of multilateralism and involves political partnerships, regional leadership, and global engagement. Yet this description masks the evolution of South Africa’s foreign policy to its present strategic orientation. In the initial years under Nelson Mandela, the foreign policy took on a naïve almost crusading human rights flavour that reached its zenith when the president led the opposition to Nigeria’s Sani Abacha at the Conference of Commonwealth Heads of Government in 1995, and when in 1997 he negotiated with Mobutu Sese Seko on a South African navy ship off the coast of the Democratic Republic of Congo. The low point came when the country failed in its attempt to isolate Nigeria for the hanging of Ken Saro-Wiwa and his compatriots. Since then, Thabo Mbeki took charge, slowly but surely crafting South Africa’s foreign policy credentials and evolving its strategic thrusts into its present form.

The ANC leadership’s nationalistic impulse has led it to prioritise Africa. This prioritisation involves four distinct elements. First, an enormous amount of South Africa’s diplomatic and military energy is deployed in stabilising the continent. This involves peace building initiatives directed at facilitating negotiations between political and military adversaries. In the last 14 years South Africa has been involved in initiatives aimed at brokering negotiations in Angola, Burundi, Lesotho, Kenya, Mozambique, Sierra Leone, Sudan and Zimbabwe. Its troops have been stationed in peace missions in multiple countries including among others Burundi, DRC, Comoros, Eritrea-Ethiopia, Central African Republic and Sudan. While many of these initiatives have yielded positive gains, South Africa did sometimes overstretch itself, resulting in its efforts not always being appreciated. The case in point was Cote d’Ivoire where Mbeki was humiliated when his bona fides were questioned by Ivorian rebels. Similarly in Zimbabwe, the MDC has routinely questioned his neutrality and even tried to get him replaced as the official mediator of the Southern African Development Community (SADC). Nevertheless, even the Afro-pessimist Economist recognised the huge gains made in stabilising Africa in the last decade and a half, and acknowledged the central role that South Africa has played in this regard.24

Second, South Africa has partnered with Nigeria in reconstructing Africa’s institutional architecture. It has played a leading role with Nigeria in establishing the African Union, and is the host to the African Parliament. Mbeki and Olusegun Obasanjo, together with Senegal’s Abdoulaye Wade, were the architects of NEPAD including its peer review mechanism,25 and the former two played a central role in selling the continental mechanism to the international community including the G8, the World Bank and the IMF. South Africa has also played a leading role in revitalising the SADC. McGowan and Ahwireng-Obeng26 have of course noted the unequal and acrimonious engagements between South Africa and its immediate neighbours in the first few years of the post-apartheid period, reflected for instance in its refusal to renegotiate the unequal Southern African Customs Union (SACU) agreement in 1998, its trade battles with Zimbabwe between 1994 and 1997, and its stalemate with the latter over the Organ on Politics, Defense and Security. But the
political stalemate has in recent years been replaced with greater co-operation and willingness to undertake regional interventions under SADC auspices. Moreover, the more outlandish of the economic arrangements and terms have also been addressed in recent years enabling the launch of the Southern African free trade area at the 28th SADC Summit in August 2008. Nevertheless, South Africa’s neo-liberal economic orientation in regional and continental matters, a matter deliberated further below, is of concern, especially given its potential to undermine a developmental agenda from emerging in Africa.

Third, South Africa has played a leading role in popularising the African agenda in the international community. It has insisted that the development of Africa be placed as the centrepiece on the mantle listing the priorities of the G8, the United Nations, the IMF, World Bank, and the World Trade Organisation (WTO). South Africa also used its chair role of the UN Security Council to prioritise African conflicts and their solutions. It has played a leading role in demanding the cancellation of debt for the poorest and most marginalised of nations. Through NEPAD, it has enhanced Africa’s investment environment and played a role in attracting new foreign direct investment in the continent. This, together with the global boom in the resource sector, ensured that foreign direct investment in Africa increased to $31 billion in 2005 from between $2 to $3 billion per annum a mere 15 years ago. In the first four years of the new millennium, Africa’s average investment rate, as a proportion of gross domestic product (GDP), was 20.7%, while that of Sub-Saharan Africa was 18.1%, having virtually doubled within the decade. Moreover, all indications are that the figures have got even better for 2006 and 2007. As a result, by 2006, the growth rate of the continent touched 5.7%, up from 5.3% and 5.2% in 2005 and 2004 respectively.

South Africa has also led by example with regards to investment in the continent. Its corporate footprint has expanded exponentially in the post-apartheid era. By the turn of the millennium, it was active in 20 countries, in sectors ranging from among others, mining, manufacturing, energy, aviation, telecommunications, and research and development. In the first six years of post-apartheid South Africa, the country’s investment in SADC totalled $5.4 billion, outstripping the total British and American investment. Corporate involvement was also supplemented by state investment. Almost all of South Africa’s parastatals have been expanding their footprint on the continent. Perhaps the scale of this involvement is best captured in the activities of South Africa’s state owned Industrial Development Corporation (IDC), which, by early 2003, had 60 projects being implemented or under consideration in 21 countries on the African continent, including as far north as Egypt, as strategically important as Nigeria, and in small neighbouring states like Swaziland.

But this market activity also has a dark side. It betrays South African (and other African) political elites neo-liberal economic predispositions reflected at both the domestic and continental levels. For much of the first decade of South Africa’s democratic transition, its macroeconomic agenda, captured in the policy programme of the Growth, Employment and Redistribution Strategy (GEAR), was defined by conservative neo-liberal principles that emphasised containing government expenditure, low fiscal deficits, low inflation, privatisation, deregulation, minimal state intervention, and a stress on the importance of foreign capital inflows for development. These principles were also the fundamental assumptions that underpinned the continental economic agenda encapsulated in NEPAD. And, while the neo-liberal economic agenda came under attack in South Africa, forcing shifts in economic policy in a more developmental direction from about 2003, this did not translate to the
continental level. The result is that there has been much concern expressed about the consequences of the unregulated march of South African corporates on the continent.\textsuperscript{34} This, together with the more general neo-liberal economic orientation of NEPAD, does suggest that developmental outcomes cannot be automatically assumed from existing patterns of investment, and corporate and economic activity in Africa.

South Africa’s engagement in Africa has also provoked a robust debate within the country’s diplomatic corps and academy about its existing and future role. As indicated earlier, some describe South Africa as a pivotal state, as distinct from a regional power, and suggest that its modus operandi on the continent has been and should continue to be one of partnership.\textsuperscript{35} Others, this author included, believe that the country by virtue of its aggregate capabilities defined in economic, diplomatic, and military terms, is a regional power, should be recognised as such, and therefore allocated the responsibility of stabilising and underwriting the development of the continent.\textsuperscript{36} It should be noted that there is a serious misrepresentation in South African ‘pivotal state’ understandings of what hegemonic leadership involves. Hegemonic leadership is not about militaristic adventurism, as is often assumed, and need not be hostile to partnerships. Indeed, any careful study of hegemonic behaviour, in both global and regional contexts, would demonstrate that partnership is as much a modality of engagement as are other more aggressive interventions. Elsewhere I have with Nthakeng Selinyane described the role of a regional hegemon or power:

Every hegemon is a pivotal state. But it has to be more. Hegemons not only aspire to leadership, and are not only endowed with military, economic, and other resources. They also have — necessarily — a political and socio-economic vision of their transnational environments, and a political willingness to implement such a vision. If that vision is one of security, stability, and development, as is often the case, then the hegemon undertakes to underwrite the implementation of these goals. Again, that does not mean that a hegemon does not have partners in this enterprise. It often does, but it takes responsibility in the last instance to ensure that the features of its vision are operationalised in the region it sees as its sphere of influence. More importantly, a hegemon should be prepared to compromise its own dominance in respect of market share, balance of trade, and military overlordship should that be in the interests of fulfilling this vision.\textsuperscript{37}

In many senses South Africa has begun to play this role. Sometimes it does so hesitantly, but it is increasingly being forced by circumstances to take on a leadership role in resolving national or regional crises, and once addressed, subsequently assisting in managing the consequent development challenges. This is effectivley the role it has played in Mozambique, the DRC and now Sudan and Zimbabwe.\textsuperscript{38} Moreover, as it is compelled by circumstances to continue to play this role, South Africa’s confidence grows. This should be welcomed for it facilitates for the first time the emergence of an African power to take the leadership in resolving African problems. But as Alden and Le Pere\textsuperscript{39} persuasively demonstrate, South Africa’s ability to play this role is severely compromised by its failure to transform its economy and society, which not only generates pressures that force it to pursue its own narrow national interests, but also does not make available the resources for the provision of regional public goods that would enable it to advance a ‘consensual hegemony’. Addressing this challenge then is the single most important task if South Africa is to consolidate its regional hegemony in Africa.
The nationalism of the Mbeki administration also conditioned it into a broader South–South solidarity. Again this is reflected at multiple levels. At the most basic level it is reflected in support for national liberation struggles and what has been perceived by some as ‘rogue powers’. South Africa is one of the most ardent supporters of the Palestinian struggle, much to the chagrin of Israel and the United States. It has also retained strong relationships with Cuba and with Libya when it was isolated.\textsuperscript{40} Indeed, South Africa was instrumental in facilitating the negotiations between Libya and Britain that ultimately led to the lifting of sanctions on the former and its rehabilitation in the eyes of the West. Similar solidarity behaviour is currently demonstrated with Iran, especially around its nuclear ambitions. South Africa also has played a role in engaging and building the African diaspora. Not only has this entailed retaining strong relationships with the Black congressional caucus and the African-American lobby in the United States, but South Africa has also underwritten and hosted at least two African diaspora conferences in Jamaica since the new millennium. The Mbeki administration also provided the ousted Haitian leader, Jean-Bertrand Aristide, with asylum in South Africa, against the wishes of Western powers and even the domestic human rights lobby.\textsuperscript{41}

These actions suggest not only South Africa’s solidarity with other national liberation struggles and countries of the developing world, but also its desire to act as a bridge between the North and the South. This is motivated by the broader nationalist belief that a more equitable world is necessary for the full realisation of citizen rights in the South, and during the Mbeki administration by a more narrowly shared strategic calculation that this could only be achieved, not through de-linking, but through a fuller engagement with the global order. South Africa has as a result dramatically increased its institutional participation in both the mainstream official multilateral organisations and in those of the South. In the latter case, for instance, it played a leading role in the re-emergence and revitalisation of the Non-Aligned Movement. It has also played an instrumental role in the establishment of the India–Brazil–South Africa Forum, and in the unofficial Group of Twenty (G20) that emerged around the talks in the world trade negotiations. Yet, simultaneously it has enhanced its participation in the mainstream forums like the United Nations, the United Nations Development Program (UNDP), UNCTAD, the IMF, the World Bank and many others. This dual engagement in the worlds of the South and North enables South Africa to both fulfil its broader nationalist agenda and its narrower strategic orientation to engage with the intention of subverting existing structures of power so as to permit the emergence of a more equitable global order.

The Mbeki administration’s impulse to transform structures of power was reflected in its international diplomacy, institutional alliances, and its involvement in global reform initiatives. An early indication of the importance of power as a variable in conditioning foreign policy emerged when South Africa jettisoned its strategic relationship with Taiwan in favour of one with China. Taiwan’s relationship with South Africa predated the transition and in the last few years of apartheid rule it invested heavily in wooing the ANC so this relationship could continue.\textsuperscript{42} But soon after the 1994 election, Thabo Mbeki led an institutional assault on this relationship suggesting that it was in the national interest for South Africa to establish a strategic partnership with a rising China. He succeeded, and while he was initially criticised for this by some liberal and left-leaning academics, many of whom had compromisingly close relations with the local Taiwanese Embassy,\textsuperscript{43} nobody can today seriously question the wisdom of that decision.
In any case, since then, South Africa’s relationship with China has gone from strength to strength. Essentially the Mbeki administration, as have many other African nations, used a rising China as a counterweight to both the United States and Europe, trying as a result to wring political, economic and diplomatic concessions from all parties. Some within or close to the Mbeki administration would of course have liked South Africa to join the Chinese camp. But it should be noted that Mbeki himself resisted this. In fact he was at times quite critical of Chinese engagement on the continent suggesting that it was akin to the colonial and neo-colonial relationships established by the European countries and the United States. This unsettled the Chinese and it did seem to have had its intended effect. The Mbeki administration was uncomfortable with being the junior partner in both camps, preferring instead to retain its independence, play the powers off against each other, and thereby maximise the development concessions both for South Africa and the continent.

This counterbalancing diplomatic game with China, the United States and Europe, or soft balancing as it has come to be known in the regional power literature, is supplemented with two more formal alliances. The first is with India and Brazil which emerged after the failure of the 2003 trade talks in Cancun and involves annual meetings deliberating on trade, investment, energy, security, transport, partnerships on higher education, and other common interests in global affairs and in trilateral and South–South co-operation. Obviously the three sets of political elites hope to use this engagement to develop a more substantive collaborative global political agenda believing that this would greatly enhance their respective leverages. Like Huntington, they realise that as regional powers they may have significant influence in their immediate geographic spheres, but do not have the capacity to project their interests globally. Collectively, however, their ability to project globally would be significantly enhanced provided they can develop a common strategic agenda.

Alden and Vieira, however, criticise the India–Brazil–South Africa (IBSA) alliance for not having a clear strategy. Daniel Flemes, in contrast, suggests that the Forum has had a significant impact in pursuing what he terms milieu goals which reflect ‘global responsibility’ and ‘shape the environment in which the state operates’. This is translated into their pledge to co-ordinate their activities and jointly promote in international forums the agendas of global peace, human rights, collective security and sustainable social and economic development. But Flemes recognises that IBSA’s lack of institutionalisation is a weakness and recommends that consideration be given to enlarging the trilateral coalition either to include Russia and China, or Germany and Japan.

IBSA’s collective commitment dramatically manifested itself in the WTO negotiations when its participants formed the kernel of the G20 lobby to enhance the developing world’s leverage and negotiating capacities. Emerging around the WTO negotiations, the G20 involves an alliance of developing countries intent on ensuring that an unpalatable agreement is not forced through by Europe and the United Nations. Three rounds of trade talks in the Doha Development cycle have as a result ended without substantive agreement, imperilling the WTO and undermining the legitimacy of the global trading system. The sticking point remains the concession on agricultural subsidies offered by the United States and Europe, with the G20 believing it is far below the acceptable minimum to warrant further substantive concessions on their part. This is a significant development because for the first time developing nations have been seen to use their collective muscle to thwart the agenda and ambitions of today’s existing powers.
This challenge to existing structures of power also emanates from attempts to reform the multilateral system. Again South Africa has played a leading role in this initiative. With different sets of alliances including the African Union and IBSA, it advocated through the persona of its then-Minister of Finance Trevor Manuel for reforms not only of the quotas and therefore the board representation of the IMF and World Bank, but also in the manner in which their leaderships are chosen. South Africa is also strident in its criticisms of the powers of the UN Security Council, and has again pushed, in alliance with others, for reform of and more equitable representation on this structure. This has involved a demand for the expansion of the Security Council to include developing countries from Africa, Asia and Latin America. In the run-up to the negotiations around the UN’s reform, however, South Africa, unlike its Indian and Brazilian counterparts in IBSA, did not join the G4 (including Germany and Japan) to mutually support each others candidacy for Security Council representation. Instead it stood by the African Union’s guidelines which focused on equitable continental representation.

But perhaps the most controversial attempts to force reforms onto the multilateral system emanated from South Africa’s decisions in the UN Security Council in its capacity as chair and temporary member. In four controversial decisions that alienated the international and domestic human rights lobby, South Africa worked with China and Russia among others to prevent the adoption of Security Council resolutions condemning and imposing sanctions on the military leadership in Myanmar and the Mugabe regime in Zimbabwe, the condemnation of states using rape as a political and military weapon, and the imposition of sanctions on Iran for violations of the Nuclear Non-Proliferation Treaty (NNPT). Its decisions in all four cases were motivated on the grounds that the United States and European countries were either violating existing rules of the UN system by tabling issues in inappropriate structures, or were selectively targeting countries that they were hostile to. The decisions outraged the human rights community which accused South Africa of betraying its own rich legacy of human rights struggle by opposing the very traditions and strategies that allowed it to become free.

Obviously there is merit in this criticism. South Africa in its desire to get the United Nations system to function equitably and fairly was in these actions sacrificing the human rights of victims in Myanmar, Zimbabwe and Darfur. Elsewhere I have argued that for South Africa’s position on Myanmar to have been politically tenable, it would have had to take the lead in calling for the isolation of the country’s military rulers in the Human Rights Commission which it of course did not do. Nevertheless, it must also be said that the human rights lobby was being disingenuous by either not recognising or being complacent about South Africa’s complaints of the manipulation of the UN system by the ‘big five’ permanent members of the Security Council.

After all, while the United States wanted action to be taken against Myanmar, Sudan and Zimbabwe, it remained in bed with Musharaf and Mubarak, condoned the actions of Israel, and had strategic relationships with countless other regimes with dubious human rights records. Similar inconsistent actions typified the behaviour of all five veto wielding powers. The most dramatic example of this is the action taken against Iran. The latter, as a signatory of the NNPT, while being denied the right to develop nuclear military capacities, is nevertheless entitled to develop a civilian nuclear industry. The big five and other European powers, distrustful of Iran’s intentions, have objected suggesting that its civilian nuclear programme is merely a pretext to develop
military nuclear capability. Initially South Africa defended Iran citing its rights under the NNPT. Subsequently when Iran's military intentions became more evident, South Africa tried to serve as a bridge between Iran and other powers in the hope of facilitating a political solution.\textsuperscript{56} South Africa’s behaviour in this regard betrays disillusionment with the big five’s track record on nuclear disarmament. It should be noted that the country played a crucial role in brokering developing world support for the extension of the NNPT in 1995. But the big five, South Africa believes, did not fulfil their end of this bargain which required of them the reduction of their nuclear stockpiles and the beginning of a phased disarmament. Indeed, South Africa has, together with its IBSA partners, expressed concern about the failure of the Conference on Disarmament, and has demanded the progressive elimination of nuclear weapons in a non-discriminatory manner.\textsuperscript{57} Instead, however, the spirit if not the legal precepts of the NNPT were violated when the United States, France, and China tested nuclear weapons, and almost all of them, including Britain have or are modernising their nuclear arsenal.

This kind of systemic hypocrisy has not only imperilled the nuclear non-proliferation regime, but it has also alienated countries like South Africa and undergirds its international engagement on the Iran nuclear case. South Africa believes that as long as this pattern of behaviour prevails the inequities and inconsistencies of the multilateral system will continue to be reinforced. But South Africa and the human rights lobby must recognise that the struggle for such rights is indivisible and cannot be engaged on a selective basis. The rights of human rights victims must be advanced simultaneously as must the reform of the multilateral system. Trading off one for the other delegitimises the system, thereby retarding the struggle for both the protection and full realisation of the human rights of the entire world’s people.

In any case, whatever the merits of the individual decisions, what is evident is that South Africa’s foreign policy decisions and behaviour has been determined by the mix of traditional nationalist goals and a second generation desire to subvert existing structures of power. Only such a nuanced strategy, the Mbeki administration believed, would ensure the realisation of a more equitable global order on which the development prospects of both South Africa and the continent is so dependent. South Africa’s contemporary foreign policy can therefore not be understood outside this desire and strategic orientation of the post-apartheid government.

\textbf{Conclusion}

Two further questions remain to be addressed. First, is this foreign policy likely to be fundamentally changed now that a new political leadership has taken over the ANC? There will of course be some minor changes. But there is unlikely to be any fundamental change in South Africa’s foreign policy. It is worth bearing in mind that Jacob Zuma and many of those likely to be in his administration are second generation African nationalists. Also, many in the Zuma camp were integral to the foreign policy apparatus of the Mbeki administration.\textsuperscript{58} So there is unlikely to be a fundamental rupture in the foreign policy apparatus even though there may be some change of faces on the top. Also it is worth noting that South Africa’s foreign policy agenda and practice has been a product of traditional nationalist aspirations, a second generation nationalist predisposition to engage and transform structures of power, and pressures, responsibilities and obligations that emanate from its structural
location on the African continent. Under the new leadership, this mix of causal variables is unlikely to change dramatically. This was clearly evident when Jacob Zuma attended the G8 plus 5/6 summit in L’Aquila, Italy, on 8–10 July 2009. Implicit in all of Zuma’s statements and engagements was the message that South Africa’s strategic orientation in foreign policy is not going to change. Continuity in foreign policy must thus be expected.

Second, what does the South African case say to the theory building project on regional powers? At the most obvious level it dramatically demonstrates the role of actors in configuring the foreign policy agenda. Post-apartheid foreign policy cannot be understood outside an analysis of the ANC, its character, the hopes and political aspirations of its leadership, and ultimately their strategic orientations. In this sense it seems to support liberal theories that carve out a role for domestic actors like political parties and interest groups. But it must also be noted that South Africa is a transitional society that enabled new actors to enter the political mainstream. Perhaps then, liberal assumptions about the influence of domestic actors hold a particular analytical saliency in transitional contexts. But under normal conditions, more neo-realist assumptions about the constraining effects of international structures and their ability to constitute the interests of states may prevail. Again this is reflected in this case study in global powers’ anticipation of South Africa’s role in resolving and addressing regional disputes. It is also the reason why continuity is anticipated in foreign policy even though there has been a changing of the guard within the ANC.

The South African case study also holds lessons for theories on foreign policy strategies. The existing literature suggests that regional powers adopt a number of different strategies — balancing (both hard and soft), bandwagoning, buffering, binding, and niche diplomacy — to contain or influence the impacts of global hegemons and/or external great powers. This case study demonstrates that regional powers’ strategies cannot be defined in such simple categorisations. South Africa simultaneously exhibits elements of both bandwagoning and soft balancing. On economic issues, South Africa’s neo-liberal orientations suggest that it has preferred a bandwagoning strategy. Yet on other more political matters, particularly in its attempts to play off China and the United States, soft balancing seems to be the preferred strategy of the country. The theory building project must then recognise the ability of states to pursue two or more strategic orientations simultaneously.

But perhaps the most important lesson to be learnt is that selected developing nations are beginning to play on the international plane in order to structure a global order more in tune to their collective interests. No longer are they satisfied merely to play in their regional backyards, or to live through decisions made elsewhere by others simply because the structured balance of power is to their disadvantage. Instead these nations have begun to contest this structure of power not through the traditional means of appeasement to dominant powers or de-linking from the system as a whole. Rather, they have begun to engage with a view to subvert existing structures of power. For a global community used to challenge by authoritarian states outside the paradigm of democracy and rights, this is a story not entirely understood. Yet it is a story profoundly more democratic and developmental, and therefore far more humanistic than any other including those offered by the global hegemon and other great powers. In this sense, the South African story is one among many still to be told and understood.
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Notes
2. For instance, Dumisani Kumalo, South Africa’s ambassador to the UN, argued that the United States resolution to the United Nations General Assembly condemning rape used for political and military purposes, should have rather condemned all forms of this scourge. Yet, he maintains, the United States refused to broaden this definition for political reasons. Kumalo, 2007.
6. By contrast, Chase et al., 1999, p. 35, from whom the South African authors drew the term ‘pivotal state’, use the term synonymously with regional power which is seen to have the responsibility for maintaining stability in the region and whose economic success or failure is likely to have consequences for the immediate transnational environment.
16. The African Union, for instance, has taken an explicit decision not to recognise countries in which civilian governments have been overthrown by their militaries. Also, the peer review mechanism of the New Economic Partnership for Development (NEPAD) has as its explicit rationale the strengthening of democracies and the accountability mechanisms within it.
18. The economic benefits took the form of both trade concessions and aid. The United States, for instance, provided all of its Asian allies with preferential access to its markets without demanding reciprocity. Also, the United Nations Conference on Trade and Development’s (UNCTAD) Economic Development in Africa reports that the United States gave Japan $500 million per annum between 1950 and 1970, and $13 billion and $5.6 billion to South Korea and Taiwan between 1946 and 1978 respectively. Arrighi, 2002, pp. 30–1; UNCTAD, 2007, pp. 80–1.
19. In Pakistan’s case, it plays a strategic frontline role in the War against Terror, whereas Ethiopia has taken the responsibility of being lead proxy in Somalia. As Ali Mazrui, 2007, p. 44, notes, ‘The Ethiopian people have allowed themselves to be more or less bought by the Americans, to be mercenaries in Somalia’.
20. For alternative accounts of Zimbabwe’s political crisis and economic meltdown, see Moyo and Yeros, 2007; Bond, 2005; and Phimister and Raftopoulos, 2004.
22. PRAU, 2005, pp. 13, 16.
23. This literature distinguishes between hard (Waltz, 1979) and soft balancing (Pape, 2005; Paul, 2005). The former is about building military capabilities and forming alternative military coalitions, whereas the latter involves non-military means and especially diplomatic coalitions to contain hegemonic or great powers.
24. See ‘African optimism’, 2006, p. 11; also Greg Mills, 2008, p. 227, for instance, reports that the number of major wars on the continent has reduced by two thirds from 12 to four, between 1990 and 2005.
25. They were of course supported by other countries like Algeria, Ethiopia and Mali, all of whom were key drivers of the initiative.
27. UNCTAD, 2007, p. 3.
31. Ibid.
32. Melber, n.d.
37. Ibid, p. 181; also, Gilpin, 2001, and Krasner, 1982, demonstrate how the United States was willing to countenance Japanese trade and investment discrimination, forgo the right to an optimum tariff, and include opt-out clauses in the NATO treaty, as all these concessions were in the interests of cobbled together a global liberal alliance.
38. Note that South Africa is the chair of the AU Ministerial Committee on Post-Conflict Reconstruction and Development in the Sudan.
40. When Clinton expressed disquiet about this on a state visit to South Africa, Mandela publicly admonished him arguing the ‘The United States as the leader of the world should set an example to all of us to help eliminate tensions throughout the world. And the best way of doing so is to call upon its enemies to say “Let’s sit down and talk peace”’. Quoted in Shogren, 1998, p. 1.
41. A number of domestic stakeholders, including the official opposition, were quite critical of this decision.
42. Taiwan, for instance, made a sizable contribution to the ANC’s election coffers in 1994.
43. A number of South African academics critical of this decision had their research and travels supported by the Taiwanese Embassy.
44. Le Pere and Shelton, 2007; also, for a critique of this perspective, see Habib, 2008b.
47. Huntington, 1999, p. 36.
49. Flemes, 2007b, p. 9. Flemes of course draws on the distinction between ‘milieu’ and ‘possession’ goals, the latter advancing the national interest, first proposed by Arnold Wolfers, 1962, pp. 73–6.
52. Flemes, 2007b, pp. 12–13. Another arena that the three have been very critical of is the intellectual property rights on biological resources and indigenous knowledge. It should be noted that in recent years, the G21 has intervened to significantly transform the regime of patents as and when it pertains to public health crises like AIDS.
53. Flemes, 2007b, p. 12, argues that ‘IBSA’s global justice discourse is doubtful, since the expansion of the UNSC would privilege only a few players. In order to achieve a lasting democratization of the organization the General assembly would have to be strengthened’.
58. Many of them resided in the Department of Foreign Affairs which, at times, felt left out on foreign policy initiatives driven from the Presidency, mainly by Mbeki himself, his advisor Mojanku Gumbi, and his Minister of Provincial and Constitutional Development, Sydney Mafumadi.
60. Waltz, 1979.
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South Africa as an emerging power: from label to ‘status consistency’?

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South Africa proudly wears the label ‘emerging power’, with its membership of the BRICS and G20 probably the most visible signs of this conferred status. This paper explores the concept of the emerging powers within the context of current global power shifts and locates South Africa within this group. It discusses the criteria for and characteristics of emerging powers, and then turns to some of the constraints and challenges faced by these states. Specific attention is paid to the ‘how’ of these states’ recognition and inclusion in global institutions and the impact of domestic conditions and regional politics on their positions, focusing particularly on South Africa. It concludes that these factors will continue to challenge South Africa’s ability to rise above the semblance of importance conferred by its inclusion in the category of emerging powers to a position in which it exercises this status to its own advantage, including its idealistic objectives of promoting greater global equality and recognition for Africa and the global South. Although other emerging powers face similar challenges, South Africa’s domestic constraints and related lack of regional and global reach, politically and economically, threaten its ‘status consistency’ as an emerging power.

Keywords: South Africa; emerging powers; global institutions; power shift; status consistency

Introduction

The Twenty Year Review: South Africa 1994–2014, issued by the Presidency,1 claims that ‘South Africa’s standing in BRICS and other groupings indicates that the country is regarded as a significant emerging power, worthy of attention in global decision-making’. Internationally, too, South Africa is generally perceived, and referred to, as an emerging power – a description and classification, as far as these typologies go, that denotes something closer to a future big power than to the more traditional second tier of powers in the international system classified as ‘middle powers’. As will be demonstrated below, the label of emerging power rather than middle power conveys more overt status and potential for influence internationally, and is therefore a more attractive and prestigious role conception. Such a description is but one side of the coin, though: within the harsh realities of a current ‘age of disorder’2 in which space is opening up for new powers at the high table of international politics and global governance, the key question from the perspective of a ‘rising’ great power (or ‘emerging power’), such as South Africa has been deemed, is how to utilise the space afforded by this status in a way that would serve the interests of the state. Further, what are the constraints, domestically and internationally, that hamper the

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‘exercising’ of South Africa’s emerging power status? Are these of such a nature that the prefix ‘emerging’ will remain the operative word within the term, reminiscent of the expression ‘Brazil is the country of the future … and it always will be’?3

The purpose of this article is to explore whether South Africa’s inclusion in the group of emerging powers and its self-identification as an emerging power has remained largely a mere ascribed position in the global hierarchy of power with little substance in terms of the country’s role in the international system, or whether it actually reflects a greater degree of influence for South Africa’s foreign policy in terms of the country’s conduct and the achievement of its goals and objectives.

The paper is divided into three sections. The first section serves to set the scene by describing the way in which the structure of the international system is changing in terms of a power shift that allows for the rise of new powers with an impact on global governance. The second section explores the criteria and characteristics that identify emerging powers as a category of states operating with increasing confidence and influence in the international system, and assesses the extent to which South Africa meets these. The third section turns to the constraints and challenges faced by emerging powers, focusing specifically on South Africa’s domestic concerns and its efforts to represent the continent internationally.

The analysis will aim to provide a means of distinguishing between mere description or flat categorisation (‘South Africa is an emerging power’) on the one hand, and the ways in which the country’s foreign policy reflects, at a deeper level, the expectations implied by this categorisation. For the purpose of this article, ‘label’ refers to the ascribed status that South Africa enjoys on the basis of its inclusion in various international and global governance institutions, such as BRICS and the Group of 20 (G20), and the recognition that it enjoys as a regional power. The discussion will consider the extent to which the country’s conduct internationally exhibits growing great power conduct, in accord with what authors such as Volgy et al.4 refer to as ‘status inconsistency’ – the state may enjoy ‘ascribed’ status as a (rising) major power, but this may not be warranted, as opposed to ‘status consistency’, in which the status attribution is ‘in sync with the capabilities and/or foreign policy pursuits of the state in question’.5

**Setting the scene: shifting power relations and the rise of new powers**

The current shift in global power relations is analysed and explained broadly from two perspectives in contemporary scholarship. The first is liberal internationalism, which tends to theorise the shift in a top-down manner by focusing mainly on the international system and the extent to which global governance – the networks of rules, standards and acceptable conduct internationally6 – is affected by this shift. The second is a perspective relying more on a political economy approach embedded in a macro-sociological analysis of the globalising capitalist system that understands global shifts from, simplistically put, the bottom up, by focusing on state–society complexes, usually from a ‘long historical’ perspective.7 Both perspectives provide important insights and allow for explaining state behaviour and the opportunities and challenges facing those states ascending to leadership positions in the global system. Both view the power shift as part of the expansion of capitalism that has become a thoroughly globalised system in the aftermath of the Cold War.

For liberal internationalists the power shift is not so much a ‘shift’ as a process of expansion where the opportunity, as well as the need, arises for ‘new powers’ to
participate in setting the rules within which the system functions. The purpose is to sustain what Ikenberry refers to as the ‘liberal international project’ in an era that sees the relative decline of the US’s ability to act unilaterally in the global arena. The central question, or uncertainty, for liberal internationalists is whether the rising powers will support and sustain this project or whether they will opt for different values and rules. Already in 1997 Jeffrey Garten identified ten ‘big emerging markets’ holding ‘pivotal positions’ in the post-Cold War era. In contrast to Jim O’Neill’s BRICs concept, which focused exclusively on economic heft, Garten also emphasised the growing political influence of these countries. From a global perspective therefore, the reproduction of the liberal order is dependent on the inclusion of powers that have the ability or potential to influence outcomes and the behaviour of weaker states.

Scholars working broadly in a world systems approach, such as Matthew Stephen, who uses a historical materialist approach to what he terms the ‘BRICs challenge’, do not necessarily theorise the power shift as such but are more interested in accounting for the behaviour of rising powers in the liberal global governance order and particularly within the changing nature of global capitalism and the extent to which such change impacts the type of state operating in this system and its ability to control and guide socio-economic relations. For Golub the ‘systemic shift’ allows the major global South actors to realise their objectives of ‘upward mobility and greater international equality through a redistribution of world power at economic and political levels’. But, he points out, it also endangers the emancipatory ideals of the global South as encapsulated in the 1970s quest for a ‘new international economic order’ in that the rising states are driving a ‘new phase of capitalist globalisation’, thereby becoming part of this system, rather than agents of change.

Within this changing landscape, there is general agreement among scholars that the global power shift that is ushering in a multipolar world order is affording space for new powers, alongside ‘older’ or traditional powers, to participate meaningfully and in leadership positions in global governance. Specifically, these rising powers are from the global South (confirming the ‘full’ globalisation of capitalism as one of the most salient features of the post-Cold War era). It is in this regard that the rising powers differ markedly from middle powers – those traditional powers, such as Australia, Canada and South Korea (accepted, as is Japan, as part of the ‘West’ in terms of ideological and economic orientation) that served in positions of support of the global system dominated by the US and its great power allies, such as France and the UK. The rising powers were not incorporated into the post-Second World War international system to the extent and in the way that the middle powers had been included. Middle powers, according to Alden and Vieira, are ‘situated ideologically and materially within the dominant hegemonic paradigm’; in contrast, the emerging powers come to the high table with different objectives, chief among which is to engender a ‘flatter and less hierarchical international order’, to borrow a phrase from Ikenberry. In sharp contrast to the traditional middle powers, the emerging powers carry the potential to act as rule-makers and to set new norms and patterns of what is considered ‘acceptable behaviour’. Their role, therefore, is fundamentally different from that of the traditional middle powers, although this opens up the question of whether emerging powers are co-opted and therefore become part of the status quo or whether these powers will use this status in order to promote alternative governance structures and practices, as will be discussed below.
Emerging powers: Characteristics and expectations

The potential power capabilities of emerging powers are relatively obvious: to refer to China as an emerging (super) power is not merely the product of imagination or wishful thinking. The country’s phenomenal rise, over a period of two decades, to become the world’s second largest economy, together with its territorial and population size and its position as a permanent member of the UN Security Council, provides plenty of evidence and justification for its status as an emerging power. Much the same goes for Brazil and India. They are aspiring big powers in terms of tangible aspects (size of population, territory, economy and military strength and capabilities).

In the case of South Africa, its status as an emerging power is not as clear-cut in comparison to its BRICS partners, although one could argue that its relative size within Africa (economically and militarily), and the kudos gained through its remarkable transition away from apartheid, does lend some credibility to its elevation to the group of ‘eminent’ emerging powers. Clearly, though, other aspects and considerations also count – after all, Nigeria is now the biggest economy in Africa; its economic growth is much more vibrant than that of South Africa, its population size far overshadows that of South Africa (177 million as opposed to South Africa’s approximately 50 million) and it is the undisputed leader of West Africa. Yet, it is South Africa that wears the label ‘emerging power’, not Nigeria. Being an emerging power in the eyes of the world seems to entail more than adding up traditional hard power resources and capabilities. Part of the explanation for South Africa’s inclusion in this group can be ascribed to its ‘moral authority’, political stability, democratic character and (at least domestic) commitment to human rights. In terms of global responsibilities as a hallmark of big power status, South Africa, although not the biggest African troop-contributing country to UN peace missions, does contribute significantly more to the regular UN budget than Nigeria (0.29% compared with Nigeria’s 0.048%) and 0.06% to the UN peacekeeping budget, compared with Nigeria’s 0.0096%.

Andrew Hurrell identifies three core criteria that characterise emerging powers, viz., expanding economic dominance and prowess, a high level of political power and military potential and, thirdly, the capability to exert influence in global politics. South Africa, on the face of things, complies with these criteria, although, as already alluded to, more in relative than absolute terms. There is little doubt that the country dominates its region, Southern Africa, and to some extent, the continent, economically, owing largely to the fact that it is the most advanced and industrialised economy in Africa. Over the past two decades it has increased its economic footprint on the continent significantly, be this through increased volumes of exports – mainly manufactured products – or the presence of big South African corporations across the continent and in terms of direct investment. Compared with most African countries it does possess a high level of political power and military potential. The country’s role in the founding of the African Union and its continued support to the organisation, its intellectual leadership in the creation of the New Partnership for Africa’s Development (NEPAD), its active involvement in peace operations (peacekeeping, peacemaking and peacebuilding) and its quest to redefine the relationship between the UN Security Council and the African Union, especially during its two terms as an elected member of the council (2007/2008 and 2011/2012), all point to its regional eminence. South Africa’s membership of the BRICS and G20, its co-hosting, with China, of the 2015 Forum on China–Africa Cooperation, its chairing of the G77 + China (also in 2015), its involvement in the BASIC – Brazil, South Africa, India and...
China – group during the COP meetings of United Nations Framework Convention on Climate Change negotiations (particularly in Copenhagen in 2009 and Durban in 2011) and a host of other leadership positions in international organisations point, at the very least, to a potential for exerting influence in global politics. Add to this its track record as a donor on the continent and its extensive bilateral reach as far as diplomatic ties are concerned and one could make an argument that it complies loosely with Hurrell’s criteria.

Of course, a strong counter-argument could be made on each of these criteria. The country compares rather poorly with some of its BRICS partners when it comes to economic growth and the level of diversity of its economy. Its export basket to Southern African Development Community (SADC) countries may consist of 65% manufactured goods, but in world export terms 57% of its total exports are minerals and raw materials, and 79% of its exports to Asia are minerals and raw materials, indicating, still, a rather limited economic power base that is highly dependent on international price fluctuations and an export profile that does not compare well with that of other BRICS economies. Its African footprint, with reference to exports, is also largely limited to its immediate neighbourhood, with 86% of its exports going to SADC and only 14% to the rest of the continent.

Aside from Hurrell’s criteria of what constitutes an emerging power, there are a number of characteristics that also come into play in the identification and definition of emerging powers. A first is that these powers are from the global South, thereby distinguishing them from the traditional middle or second tier powers, as discussed in the previous section. The emergence of global South powers is an indication of a trend towards a global diffusion of power that balances power or attempts to balance power vis-à-vis the US and its big power allies. In fact, this diffusion of power is as much a product of the relative economic decline of the US as of its loss of legitimacy in the wake of the financial meltdown of 2008, the US military incursions in Afghanistan and Iraq in support of regime change, and its propensity for unilateralism during the George W Bush era. This (relative) loss of economic power and the erosion of US, and more broadly Western, political legitimacy, created space and voice for new and aspiring big powers to manoeuvre on the basis of their own agendas. A key characteristic of emerging powers is therefore that, although they can fulfil some of the traditional middle power functions in the international system, the emphasis is on their aspiration to ‘first tier’ status. At the same time, they do not necessarily support the status quo; they are emerging powers exactly because they bring reformist/revisionist ideas and values, and the ability to project and promote these. On the one hand, these powers share a commitment to what Cooper and Flemes refer to as a ‘Neo-Westphalian commitment to state sovereignty and non-intervention’; on the other hand, they join in calls for a restructuring of the UN Security Council and other global institutions (a reformist approach to global governance).

A further characteristic is that emerging powers are regional powers, although their leadership is often contested. Not all regional powers, though, are perceived to be emerging powers. Nigeria is not part of the G20, nor of the BRICS. The Goldman Sachs-identified ‘Next 11’ includes the Philippines, Bangladesh, Vietnam, Nigeria and Egypt, but in contrast to the BRICS, these states are perceived to be emerging economies; not emerging powers; that is, the scope of their (potential) influence globally does not include a marked political dimension. Emerging powers, in short, are states that are rising to global political prominence largely, but not solely, on the basis of their position and status within their neighbourhoods. It is this
decidedly political character of their power that explains the interest in these states (on
the part of scholars and practitioners): what kind of global order will emerge with
them (also) at the helm? What distinguishes regional powers such as the BRICS
from other regional powers (in the case of South Africa from Kenya, Egypt and
Nigeria), is the recognition that these states enjoy being influential beyond their neigh-
bourhoods, possessing the capability, even if largely ascribed, to influence the global
agenda or, at the very least, to sit at the high table of global politics. South Africa’s
position within the international power hierarchy as a regional power has never
been in doubt, despite, at times, a lack of evidence that it could turn this label into
status (as will be discussed below). It has also used this position as one of the
means to elevate itself into an emerging power, emphasising its role as a spokesperson
for and representative of Africa, a bridge into the continent and a regional institution
builder.

A last characteristic that needs mention is acceptance of the label, and self-defi-
nition as an emerging power, based both on external ascription and an element of
national identity. South Africa enjoys emerging power recognition, as described
above, largely on the basis of the ‘normative legitimacy’ that grew from its anti-apar-
theid history and its peaceful transition to democracy under the leadership of Nelson
Mandela. Early post-apartheid South Africa was everything to everyone. To those who
had steadfastly supported the liberation struggle, the transition was one to freedom
and a victory over colonialism (‘of a special type’). To Western states – the big
powers in particular – the transition was one to democracy and the reign of human
rights, values that coincided perfectly with the elevation of Western values into
global values. The recognition of South Africa as an emerging power, included in
the slowly evolving global power transition, found its clearest expression during the
presidency of Thabo Mbeki, with Mbeki’s role in the African Renaissance and his
‘outreach activities’ aimed at positioning South Africa as continental leader in the
global arena. The country’s lobbying for membership of BRICS sent a clear
message of an identity as a regional powerhouse with global ambitions.

South Africa: reaching for ‘status consistency’?
The very criteria and characteristics of emerging powers also account for the con-
straints and challenges that these states experience and the opportunities that they
have for living up to this status. Emerging powers are expected to prove their worth
in shouldering at least some of the responsibilities that big powers carry in the inter-
national system in providing global public goods, while navigating a course through
the rather choppy waters of the changing global order. In ‘exercising’ the role of an
emerging power, these states face a number of challenges and constraints, be these
at home or in their external environment.

Add-in, add-on or alternative?
The first challenge has to do with the manoeuvring space for these powers to exert
influence through agenda setting and rule making – the hallmarks of great power
status. There is an inherent tension in the label ‘emerging power’: the history of how
these powers came to be recognised as important or potentially important power
players in the global arena, as recounted by Cooper and Thakur, highlights a
growing apprehension among traditional big powers about the future global order
and anxiety that non-inclusion of other role players could see the establishment of alternative institutions with different rules.

Initially, through what by 2007 had become known as the Heiligendamm process, the ‘old’ powers (G7/8) tried through ‘outreach’ to draw rising powers into their regular meetings for the purpose of dialogue, but over time it became clear that ‘G reform’ was required – global problems had to be tackled from within in a more egalitarian and representative structure to ensure cooperation and action. In essence therefore, ‘recognition’ of a number of global South states as emerging powers is an attempt on the part of the established big powers to co-opt in order to prevent competing power bases which could, in the long term, alter the global order. On the part of the emerging powers, there seems to be uncertainty: will co-optation in the longer term turn out to be little more than a strategy on the part of the established powers to shore up their privileged positions and reproduce the existing rules, or does it offer an opportunity for reform of the global governance institutions in order to reflect the concerns and values of these states and their followers? This question is crucial as it denotes the difference between merely being labelled as an emerging power and the actual status of being an influential global player – a status that implies power diffusion (opportunities for agenda setting) rather than ‘merely’ joining the club and supporting the agendas of those who hold real power (in which case ‘emerging powers’ would be little more than traditional ‘middle powers’).

At its core, the position of emerging powers in the international system has to do with whether the existing great powers (the G7/8) perceive the emerging powers’ involvement at the highest levels of global governance as being an ‘add on’, or an ‘add in’, that is, an attempt to get buy-in and support from these countries through some form of association with the ‘old’ powers, or full incorporation into this system in order to prevent a third outcome, viz, the creation of alternative governance institutions, which could undermine the reigning global normative framework developed and dominated by the traditional, Western great powers. Initially the ‘add on’ approach was used, with some countries – emerging powers, but also some of the emerging markets – being invited to join parts of the G8 summits, starting with the 2000 Okinawa summit at which Mbeki and his Nigerian and Algerian counterparts (Olusegun Obasanjo and Abdelaziz Bouteflika) argued the case for debt relief for highly indebted South countries. Two years later, at the Kananaskis Summit, the G8 African Action Plan was adopted in support of NEPAD, again with Mbeki having played a leading role. By this time the inclusion of a number of global South countries as summit guests had become a regular occasion, with Mbeki using these opportunities to further promote various strategies for Africa’s development, entrenching, no doubt, the view of South Africa as a continental leader.

It turned out in practice that the ‘add on’ option was not acceptable to the emerging powers and it was Mbeki who made this clear when he commented, according to Heine, that the Outreach Five (O5 – Brazil, India, China, South Africa and Mexico) had ‘only been asked to join in the dessert and miss the main meal’. At the level of the so-called informals, such as the G20, the result was full inclusion of the O5 and a number of other developing/global South countries when the organisation was changed from a meeting of finance ministers to one of national leaders. The fear or apprehension, though, of what the result of an ‘add in’ approach could be and the aim (hope?) of building legitimacy through expansion are deeply ingrained in the Western big powers, especially the US. In this regard, it is useful to quote rather
Will such countries [new permanent members] embrace global responsibilities and adopt policies broadly consistent with the US worldview, or will they import bloc agendas and pursue narrow national interests? An optimistic view imagines that the most likely candidates – Germany, Japan, Brazil, India and perhaps South Africa – would tend to align with the United States as democracies, inclining the UNSC’s balance of power in Washington’s direction. A more sceptical assessment predicts that India, Brazil, and South Africa – three leaders of the nonaligned and G77 voting bloc – would use their newfound status to ramp up anti-U.S. discourse in the UNSC, diverging from Western ideals on critical issues like human rights and non-proliferation… Today, India, like Brazil and South Africa, has the opportunity to criticize without real global responsibilities.

Yet neither, it seems, is it a choice between the ‘add in’ and ‘alternative’ options. Rather, and following the South African approach to the issue of global governance, a complex two-level game of involvement in both ‘traditional’ governance structures and in the establishment of alternative structures is being played. Mandela, as first president of the ‘new’ South Africa, made it clear that South Africa would fully cooperate and participate in the international system, accepting and recognising the primacy of the United Nations (and this has remained a firm principle of the country’s foreign policy as is evident in all its foreign policy documents over the past two decades). Mandela, however, noted that:

the United Nations has a pivotal role to play in fostering global security and order. But to achieve this, serious attention must be paid to a restructuring of the organization. South Africa intends to play a vigorous role in the debate on this issue.

And so it has, and continues to do so. Restructuring of the UN Security Council remains central to the country’s foreign policy objectives, and it has formally expressed its interest in becoming a permanent member of the council. If the Mandela era was one in which support for rule-based global governance with an emphasis on the need for ‘fairness and justice’ was the focus of South Africa’s foreign policy, the Mbeki era saw a growing involvement in advocacy for reform and inclusion. Mbeki built African structures and used South Africa’s emerging power status to promote the continent’s interests globally: for him it was a case of building the continent with the support of the traditional Western powers, while also demanding a seat for the developing world at the centre of global politics.

Simultaneously, and especially through its leadership position in the Non-Aligned Movement and the Group of 77, and its membership of BRICS, there is a thrust towards the creation of alternative forums and institutions – an approach increasingly characterising the Zuma era. Participation in the UN system is still important, as is membership of the G20, but increasingly South Africa seems to be leaning towards the creation of, at the very least, parallel global South governance institutions, of which the BRICS New Development Bank is a good example. In an interview at the World Economic Forum in Davos in January 2015, Zuma commented, with reference to the new bank: ‘For the first time the developing countries are beginning to say there is a bank that is going to be doing things differently’. The creation of the bank, although it will be rather small compared with the resources at the disposal of existing international financial institutions, is an important indication that the emerging
powers, including South Africa, are searching for ‘genuine’ power in the international system, and not only for inclusion in existing structures that are resistant to changes that would reflect the aims and objectives of the newcomers. The creation of alternative institutions may be their choice in dealing with what they perceive to be an international order that is not conducive to their interests.

Regional politics … and national interests

Emerging powers are expected to be regional powers and to act as regional stabilisers. Much of the scholarship dealing with emerging powers argues that one of the main challenges to these powers is the fact that they do not enjoy undisputed regional leadership positions, although one should be careful not to equate ‘regional power’ with ‘regional leadership’ if the latter carries the meaning of acceptance as a leader, rather than recognition. Geopolitics and strategic concerns tend to show that several emerging powers, and specifically Russia, China and India, do not fulfil the role of ‘accepted leader’ in their regions. Apart from the fact that these countries (Russia–China and India–China) have competing geostrategic aims and objectives, one must consider China’s role in East Asia, particularly its maritime ambitions, India’s tense relationship with Pakistan and Russia’s aggressive behaviour in parts of the former Soviet Union (most notably Georgia and the Ukraine). When one adds the fear that these policies engender in their respective regions, it would not be accurate to term these countries accepted ‘regional leaders’. Yet these countries are recognised regional powers, clearly able to dominate their regions economically and militarily. They do not have to rely on ‘leadership’ positions in the sense of acceptance in order to shore up their status as emerging powers and they do not hesitate to use their emerging power status in pursuit of their national interests.

South Africa, on the other hand, is not in the same position as these countries and to a large extent this is its own doing. As is the case with Russia, India and China, South Africa is not readily accepted as a leader by its continental peers, as is evidenced in its rather fraught relationship with Nigeria and even Zimbabwe, and the controversial way in which Nkosazana Dlamini-Zuma was elected to the position of chairperson of the African Union Commission in 2012. In addition, the continuing xenophobia in the country has deeply undermined the country’s relations with the rest of the continent. Yet it stakes its claim on emerging power status mainly on the ‘fact’ that it represents Africa and that it ‘speaks on behalf of’ the continent, and its foreign policy conduct over the past two decades shows a very strong commitment in this sphere. There is little doubt that the emerging powers’ claims to big power status are first and foremost based on the tangible indices of size and the fact that the size of their economies and militaries in many instances surpasses that of the traditional big powers. South Africa’s initial inclusion in the group of emerging powers (the O5) was largely based on its normative legitimacy, as argued earlier, yet increasingly, in its own role conception, it relies on its representative role in order to cement its emerging power status. Apart from its draft foreign policy document of 2011, which is suffused with references to its leadership role on the African continent, its efforts during the hosting of the 2013 BRICS Summit in Durban to include its African peers in deliberations point to this conception of a regional leader and representative. This does not mean that South Africa does not promote international justice, but it promotes it on behalf of Africa and on the basis of an unjust international governance order. Little wonder then that scholars such as Olivier criticise
the country’s foreign policy as being driven by a revisionist ideology rather than by careful attention to its national interests.

The fact of the matter is that the country’s emerging power status may be too dependent on the claims of African solidarity with very little else to strengthen these claims. To some extent this is understandable. South Africa does not have the geopolitical fears and ambitions of a China or a Russia or an India who use their status to pursue their national interests, yet national interests are not only related to the realm of security and territorial ambitions, but also to economic needs and ambitions. This is where South Africa often finds it difficult to move from the label of emerging power to the actual status of being an emerging power. It promotes the values of fairness and justice in global governance, it contributes solidly to the promotion and maintenance of peace and security on the continent and to continental institution building, yet it fails through its foreign policy to address its domestic vulnerabilities. Not a single big power has attained this status without also being able to utilise it to its own advantage, and very often this started with greater economic interaction within its own region. South Africa has not reached this point yet, despite an impressive increase in exports (especially service and manufactures) to the rest of the continent. It suffers the drawback of competition within Africa from other emerging powers like China, Brazil and India, but it may also be a case of not exploiting opportunities sufficiently. In this sense South Africa may have to seriously re-think the role and the training of its diplomatic corps.

**Domestic constraints**

In his analysis of the Heiligendamm process, Vickers argues that costs, capacity and external constraints play a key role in the extent to which South Africa can participate in global governance. Schweller notes that the ‘key to realizing their [emerging powers’] potential power will be internal growth and consolidation’. If ‘emerging power’ points to a trajectory towards ‘great power’ status, resources are required: great powers have duties and responsibilities transcending their narrow national interests which routinely inform and determine foreign policy. As discussed earlier, the very reach and scope of an emerging power’s foreign policy go beyond those of ‘lesser’ powers. Niblett asks the question, ‘how powerful are the emerging powers?’ and refers to the ‘major domestic challenges’ facing each of these powers. These challenges seriously constrain the ability of the emerging powers to utilise resources in the service of their quest for great power status. A distinction should be drawn, though, between ‘resources’, ‘capabilities’ and ‘instruments’. Resources refer to those advantages and disadvantages derived from a country’s location, climate, geography, size (of population and of its economy), education, tradition and level of development, which form a critical factor in foreign policy choices. Yet, as pointed out by Brighi and Hill, resources alone do not account for options and decisions. Rather, it is capabilities – ‘resources made operational’ – that are crucial to a country’s ability to implement policy and exercise influence. The challenge to policymakers is therefore to continuously strive to improve capabilities in order to ensure the credibility and viability (including the appropriateness) of those instruments available to them in the implementation of policy. It is in this realm of resources and capabilities that South Africa finds it difficult to act, in a sustainable manner, as an emerging power.

Domestically, after more than two decades of freedom and democracy, the country is battling deep divisions within its society, especially along racial lines. These divisions
are exacerbated by the triple challenge of addressing poverty, inequality and unemployment in the face of lacklustre economic growth. During the period 1994–2014, unemployment (narrowly defined) increased from 20 to 26% (a broad definition of unemployment indicates a 36% unemployment rate), with the proportion of unemployed youth (15–34 years in age) at almost 50%. The percentage of black Africans living in poverty increased by 10% between 1994 and 2014, while the wage share of gross domestic product decreased from 56% in 1994 to 50.6% by 2010. In 1996 the ratio of white per capita income to that of other races was 3.9 to 1; by 2012 it had increased to 4.5 to 1, resulting in frustration and tension along racial lines. Poverty remains pervasive. About 16 million South Africans are dependent on social grants – this out of a total population of more than 50 million – while the country is faced with a dwindling tax base: in 2013 the country had 15.4 million registered taxpayers (this number increased to 16.8 million in 2014) with approximately 6.5 million of these submitting tax returns. As is the case for Brazil, India and China, these challenges will increasingly inhibit the country’s ability to play a leading role internationally, as leadership attention, resources and energy will have to be expended at home, and not abroad. At least part of the Zuma administration’s courting of Russia and China can be explained as attempts to access resources for local development in what is perceived by many to be an increasingly harsh battle for the governing party to retain its position in the face of a disintegrating tripartite alliance and the rise of radical opposition, such as the Economic Freedom Fighters and new trade union movements.

Of equally serious concern is the deterioration of the country’s defence force and its military capabilities – crucial building blocks in the projection of power and status and fulfilling the responsibilities that come with emerging power status. The result is described as follows in the country’s 2014 Defence Review:

The Defence Force is in a critical state of decline, characterised by: force imbalance between capabilities; block obsolescence and unaffordability of many of its main operating systems; a disproportionate tooth-to-tail ratio; the inability to meet current standing defence commitments; and the lack of critical mobility. The current balance of expenditure between personnel, operating and capital is both severely dispirited and institutionally crippling.

Analysts and commentators have for a considerable time been pointing to the lack of sufficient resources for the defence force (specifically for the army which bears the brunt of peacekeeping deployments) and point to the ‘total mismatch between operational commitments and funding’. Esterhuyse asserts that current South African National Defence Force (SANDF) peacekeeping deployments are ‘almost three times’ what had originally been envisaged in the 1990s. One needs only to read through recent defence budget vote speeches to get a sense of the extent of the resource and capacity problems confronting the SANDF in the face of the demands of the military as a ‘leading foreign policy instrument’. Such shortcomings indicate that South Africa’s comprehensive involvement in peace operations is not sustainable. Using the military as an instrument of foreign policy in a credible and efficient manner demands a rethinking on the part of the government as to resource allocations. Yet, whether the necessary resources can be found is doubtful: the country’s domestic needs preclude a rapid and drastic increase in defence spending. In turn, this might in the longer term force policymakers to rethink the way in which the military can serve as a ‘leading’ foreign policy instrument.
Added to the woes of the SANDF is the rather harsh critique of South Africa’s diplomatic service (a vital instrument of the country’s quest for power status in the international arena) in the National Development Plan (NDP). The NDP comments that the country’s foreign relations are becoming ‘ineffective and the country is sliding down the scale of global competitiveness and overall normative standing’. Gerrit Olivier, long-standing critic of what he believes to be an inept foreign policy bureaucracy – ‘an elaborate façade but lacking in substance’, is how he puts it – places much of the blame on the government’s tendency to use senior diplomatic postings as a reward for party cadres who have little, if any, understanding of the field, rather than focusing on specialist training of highly professional senior people to fill the upper echelons of the Department of International Relations and Cooperation. In addition, he points to an inability to implement plans, strategies and agreements – again ascribing this failure to a lack of professionalism, training, knowledge and initiative on the part of the country’s most senior (but non-career) appointees. In the tough world of international negotiations, the country’s tendency to fill senior positions with ‘generalists’ may in the long run exact the price of being side-lined: in the current international environment ideational leadership is a strong requirement and those who bring leading ideas and vision to the evolving global governance architecture will be the great powers of the future order.

Encompassing the above problems is a widely perceived deterioration in the quality and fabric of South Africa’s democracy. A recent collection of essays and articles on the ‘state of the nation’ by veteran anti-apartheid activist Raymond Suttner chronicles the loss of trust in key state institutions, the lack of good leadership (especially so in the Zuma era) exacerbated by the vast powers of appointment vested in the central executive authority, pervasive corruption and a ‘violent displacement of politics through reasoning’, all of which may over the longer term result in the erosion of confidence in and acceptance of South Africa as an international leader. Great powers, whether emerging or established, come and go: South Africa’s domestic challenges – the toughest of all in the search and struggle for international status and recognition – may see the country’s international prestige not surviving its third decade of freedom and democracy.

Conclusion

How to serve South Africa’s national interests by turning its emerging power label into status consistency, both in the international arena and at home, remains the biggest challenge to the country. The Zuma government seems to believe that the answer lies in ever closer ties with other emerging powers, especially the BRICs, and the creation of alternative institutions that might generate the much needed investment to grow the country’s economy. A cursory glance at the BRICs shows that none of them built their power bases solely on relations with other developing countries. To become a big power requires that the global reach that the status implies be utilised to generate benefits for the country. This is not mere selfishness, but a way of reproducing and growing in status as a big power and ensuring that resources and capabilities for undertaking global responsibilities are continuously available.

In some respects South Africa does not fit the label ‘emerging power’, especially if measured in traditional ‘hard power’ terms. However, in relative terms, when compared with the rest of the continent, and given the increasing need for and acceptance of the principle of representivity in global governance in order to address the high
level of interdependence so starkly illustrated by the global financial crisis of 2008, and
given its normative legitimacy, the country clearly belongs in this category and the
label fits. To the extent that emerging powers are expected to share the burden of
global responsibilities, South Africa is not a ‘shirker’, but has invested greatly in pro-
moting international values and norms, not least, as already mentioned, in contrib-
ting to peace and security on the continent and also through its efforts to strengthen the
relationship between the UN Security Council and the African Union.

The next few years will be crucial for South Africa and for other emerging powers
from the global South as they grapple with the two-level game of attempting to reform
global governance institutions, whether formal (the UN and the Bretton Woods insti-
tutions) or informal (the G20), and attempting to build alternative institutions (such as
the BRICS New Development Bank) to reflect their own preferences and priorities.
Whether they will become ‘status quo’ big powers or big powers in an order charac-
terised by new or alternative norms and values remains to be seen, but for South
Africa an added uncertainty will be whether it can turn this label into a status that
will reflect an ability to follow policies that will go beyond responsibility to the conti-
nent and the global South to address its own pressing socio-economic needs.

Notes on contributor

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Notes

2. ‘An age of disorder’ is how Randall Schweller describes the current international system; it is, according to him, a time during which world politics needs ‘a fundamental rethinking’, in efforts to answer the question, ‘(w)hat sort of global order will emerge on the other side of the transition from unipolarity to multipolarity?’ See Schweller R, ‘Emerging powers in an age of disorder’, Global Governance, 17, 2011, pp. 285–97.
5. Ibid., pp. 10–11.


12. See Hart F & B Jones, ‘How do rising powers rise?’, Survival: Global Politics and Strategy, 52.6, 2010, pp. 63–88. The authors use as example the case of the failure internationally to deal with the Zimbabwe crisis in the early 2000s: ‘The effort was largely confounded by South Africa’s unwillingness to take a tough stance’ (p. 74).


27. This information is based on 2013 figures, obtained from Ms Cleo Rose-Innis, Chief Director in Treasury, on 3 December 2014.

28. This information is based on 2013 figures, obtained from Ms Cleo Rose-Innis, Chief Director in Treasury, on 3 December 2014.

29. See e.g. the contributions in MacDonald D, R Patman & B Mason-Parker (eds), The Ethics of Foreign Policy. Aldershot: Ashgate, 2007; as well as Niblett R, ‘The economic crisis and the emerging powers: towards a New International Order?’, Real Instituto Elcano, 2012, p. 3. http://www.realinstitutioneloano.org/wps/wcm/connect/c30ccd804a3bd9bd8c15bf3b1240dd34/00053_Niblett_Economic_crisis_emerging_


If leadership is defined to imply voluntary compliance and acceptance, all the BRICS countries, though Brazil perhaps to a lesser extent, are at most ‘contested’ leaders in their respective regions.


It was the Heiligendamm Process that elevated South Africa’s status ‘up to a level on par with the BRICs’. Shaw T, Cooper A & G Chin, ‘Emerging powers and Africa: Implications for/from global governance?’, Politikon, 36.1, 2009, p. 36.


A permanent seat on the Security Council will arguably be the ultimate evidence of the much-touted global power shift.


73. Cooper and Thakur refer to a ‘governance gap’ that opened up towards the late 1990s in the face of the emergence of new economic powers, the impact of globalisation and in the increasing prominence of the social and developmental arenas. Cooper A & R Thakur, The Group of Twenty (G20). London: Routledge, 2013, p. 53.
Africa's Quest for Developmental States: ‘renaissance’ for whom?

Timothy M Shaw


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Africa’s Quest for Developmental States: ‘renaissance’ for whom?

TIMOTHY M SHAW

ABSTRACT After a generally disappointing half-century since recapturing formal independence, at the turn of the second decade of the 21st century, Africa(s) may now be able to seize unanticipated emerging opportunities to move from ‘fragile’ or ‘failed’ towards ‘developmental’ political economies. The continent displays innovations in terms of sources of finance, new regionalisms & transnational governance leading to distinctive insights for analysis & policy, both state & non-state. Its potential for renaissance is reinforced by South Africa’s accession as the fifth of the BRICS at the dawn of the decade.

Over the next five years . . . the average African economy will outpace its Asian counterpart . . . Africa’s economy will grow at an average annual rate of 7% over the next 20 years, slightly faster than China’s . . . Africa’s changing fortunes have largely been driven by China’s surging demand . . . but other factors have also counted . . . Without reforms, Africa will not be able to sustain faster growth. But its lion economies are earning a place alongside Asia’s tigers.1

Sub-Saharan Africa in 2011 has an unprecedented opportunity for transformation and sustained growth. Until the outset of the global economic crisis, economic growth had averaged 5 percent a year for a decade. Even though growth declined as a consequence of the global financial crisis, it has rebounded in 2010 thanks to prudent macroeconomic policies and financial support from multilateral agencies.2

‘Africa rising’ faces an unanticipated ‘second chance’ at the start of the second decade of the 21st century, as indicated above in The Economist’s revisionist reporting on McKinsey’s mid-2010 report on the African ‘lion’ economies.3 No longer ‘hopeless’;4 instead, the continent’s ‘economic resurgence’ features more than half the top 10 global economies from 2001 to 2010—Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda—in contrast to the last two decades of the previous century, when only Uganda so ranked.5 Encouraged, emboldened even, by burgeoning links with China—policy development/directions as well as economic gains—the

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continent may redefine its development path at the start of its second 50. As South-South is revived and redefined – South-East⁶ – so considering ‘Africa on the Centre Stage’ is no longer fanciful or foolish.⁷

In its *Economic Report* on the continent in 2011, the United Nations Economic Commission for Africa (UNECA) abandoned inherited market liberalisation—‘the observed inability of previous development approaches to assist African countries in diversifying and transforming their economies’⁸—in favour of a ‘developmental state approach’ in which burgeoning growth would be advanced though sustained infrastructural, institutional and social development based on lessons from East Asia, including Malaysia and Singapore, but also Brazil and Chile:

... a ‘developmental state’ is central to the process of accelerated economic growth and social transformation of any country. A developmental state may be defined as ‘a state that puts economic development as the top priority of government policy, and is able to design effective instruments to promote such a goal.’⁹

Furthermore, before the end of 2010, South Africa was invited to become the fifth of the emerging BRIC markets (Brazil, Russia, India and China, making it BRICS)—the only one in Africa, reflecting its overlapping roles in Brazil–South Africa–India–China (BASIC) and India, Brazil, South Africa (IBSA), foreign investment activities and franchises, etc. The Center for Global Dialogue (CGD) has also identified the 17 economies which were contributing to the continent’s ‘renaissance’.¹⁰ And the Boston Consulting Group (BCG) has highlighted 40 African corporations which are expanding in the global economy.¹¹ Thus, Antje Vetterlein has edited a special Forum for the *Journal of International Relations & Development* on rethinking contemporary ‘Development issues in Africa’ with a focus on entrepreneurship, corporate social responsibility (CSR) and inter-regional relations rather than on dependency or vulnerability.¹²

The UNECA report on the African economy for 2011 suggested that:

African economies have recovered from the crisis better than expected. Their aggregate GDP growth is forecast to rise to 5.0 per cent in 2011 up from 4.7 in 2010... However... the pace of recovery was uneven among groups of countries and subregions... West Africa and East Africa were the two best-performing subregions in 2010.¹³

In 1985 I coedited a collection with the late Olajide Aluko on Africa futures called *Africa Projected*, whose subtitle suggested going ‘from recession to renaissance by the year 2000’;¹⁴ maybe we misjudged by a decade? Symbolically, in March 2011, Canada’s *Financial Post* had a special issue on ‘SSA’S [sub-Saharan Africa]: big move up’ with a subheading: ‘The region is shaking off economic chaos to become one of the success stories of the global economy’.¹⁵ So the 2005 Commission for Africa report for Tony Blair’s G8 Summit at Gleneagles looks increasingly dated and ‘Live Aid’ even more so, despite its celebrity billing and the continued popular advocacy of
Bob Geldof and Bono. Contemporary stars for the continent are its soccer players in Europe, not ageing rockers heading South. And the World Bank’s recent reflection on African redirections in the second decade is premised on the disappointments of shortfalls in G8 contributions since the mid-2000s and the imperative to find novel sources and partnerships (see below) for development design and finances. Its projection is based on continued competitiveness and good governance, with the Bank coming to support ‘development models that allow different mixes of government and market interventions’. The Bank expects enhanced prospects for growth, despite the continuing global regression, if not recession, reflected in the failure of the G8 to generate anticipated, adequate new funds.

As indicated below, not all African countries or communities will enjoy a renaissance this decade; the continent has more failed states than others and is the least likely region to meet the Millennium Development Goals (MDGs) by mid-decade. The continuing attractions of migration, despite its risks, suggest that human development and security may remain elusive for many, especially in failed states; hence the growing recognition and salience of remittances. Nevertheless, as in BRICS, its burgeoning middle classes, both intra-continental and diasporic, have begun to attract appropriate attention: rising from 100 to 300 million over three decades.

Meanwhile, the international political economy (IPE) of the continent presents some telling contrasts, as indicated in subsequent sections. First, the economies of the minority of countries—‘developmental states’ (the Bank’s middle income countries)—diverge from the majority of failed or fragile states and economies such as Somalia, Chad, Congo, Eritrea and Zimbabwe. The ranks of the former are coming to include Ghana and Uganda as they anticipate energy booms. Second, Africa hosts a burgeoning set of companies with global profiles, especially in the South: from Dangote, Ecobank, Orascom and UBA to (South Africa’s) MTN, Old Mutual, SAB Miller, Sappi, Sasol & Vodacom. Third, African civil societies and media are increasingly vocal and visible, from Civicus to Nollywood, born-again churches to biodiversity. And finally, a handful of African cities are increasingly world-class in terms of size, scale and role as hubs for various forms of communication: Cairo, Lagos, Kinshasa, Johannesburg, Abidjan, Nairobi, etc. In turn, Africa is of growing import in global sectors like cellular communications, food/land/water, remittances, supply-chains . . . and drugs/gangs/guns. Thus the continent’s place in novel global coalitions around blood diamonds, climate change, ethical trade, extractive industries/natural resources, forestry certification, Product Red, supply chains, etc is not insignificant (see below); this extends onto global, private, transnational governance involving a wide variety of actors.

In addition to UNECA’s current advocacy of ‘developmental states’, the World Bank’s (second) decade-long strategy for the continent suggests a possible future in which competitiveness and employment, governance and public sector capacity will come to contain vulnerability and enhance resilience. It emphasises flexible partnerships and regionalisms—‘game changers’—in part as previous grand schemes like G8 promises have fallen short.
Varieties of insights out of Africa?

This article draws attention to a half-dozen features of this emerging renaissance with relevance for comparative studies of development and IPE, to which we return at the end, i.e., varieties of insights out of Africa to inform and situate other varieties of regionalisms, transnational governance, etc., in order to advance critical, global political economy:

- The shifting balance between developmental versus fragile or failed states (the later now including South Sudan?) on the continent;
- varieties of capitalisms/corporations both African and from the four non-African BRICS countries;
- emerging markets, donors, economies, states, partners, powers, societies, again both intra- and extra-continental: how similar or compatible are they?
- BRICS and the Next-11 (N-11), especially BRICS from 2011 onwards after South Africa’s accession, despite not being recognised as one of the N-11;
- uneven regional incidence and impacts of the latest ‘global’ financial crisis with the old North Atlantic losing out to the ebullient global South of Asia, Africa and Latin America, including rebalancing within the continent (i.e., West and East Africa outpacing the continent’s other regions);
- emerging conflicts over energy, land, mineral, water and other resources, exacerbated by climate change and leading to a variety of governance responses;
- African contributions through public diplomacy to transnational governance and to related innovative sources of finance which are rarely recognised, such as the African Capacity Building Foundation, African Capacity Building Indicators, African Peer Review Mechanism and the Ibrahim Index/Prize.

Historically Africa had been the continent where notions of dependency had most salience or resonance, in part reflective of the lost decades and generations in the last quarter of the past century. But by early 2011 UNECA was calling for ‘developmental states’ to advance development in the new decade:

Developmental states in Africa should be inclusive and operate through a democratic governance framework. Five major elements are crucial... purposeful leadership and a developmentalist coalition; transformative institutions; focused industrial policy; investment in research; and enhanced social policy.

In brief, among the questions I pose around African IPE is: how many ‘developmental’ versus ‘fragile’ states will there be by 2020? The interrelated prospects for both BRICS and the continent overall are being transformed by the current global financial crisis: as the South expands and the North contracts, what South–North, even East–South, relations will exist in future? The EU of
27 members now includes Portugal, Ireland, Italy, Greece and Spain: a disincentive to African regions to sign Economic Partnership Agreements (EPAs) unlike in the Caribbean? And SSA may become increasingly ambivalent about South Africa as a regional power, recognised not so much by its neighbours as by the original four emerging (BRIC) markets, whose emerging status is at best debatable. Interestingly, Goldman Sachs did not recognise South Africa as either an emerging market, as a BRIC in 2003 or as one of the (N-11) in 2005. African political economies are now located in second, third and fourth worlds: will they identify with the G20 and/or the G192 (G193 since Southern Sudan formally became independent in mid-2011) and/or BRICS? Half of the dozen fastest growing countries identified in The Economist’s World in 2011 are African: from Ghana to Liberia. And, as noted above, the CGD in DC now suggests that 17 African countries, including Botswana, Ethiopia, Ghana, Mozambique, Rwanda, Tanzania, Uganda and Zambia, are ‘leading the way’; McKinsey, in lauding the continent’s ‘lion kings’, highlights growing consumer spending, especially by more than 300 million new mobile phone subscribers since 2000 concentrated in the burgeoning ‘middle class’, and the BCG includes Anglo American, Aspen Pharmacare, Dangote, Ecobank, Egyptair, MTN, Old Mutual, Orascom, SAB Miller, Sasol, Shoprite, Standard Bank, UBA and Vodacom among its 40 African corporations identified as global ‘challengers’. These constitute the core in the annual rankings of Africa’s top 250 companies from African Business:24

But the continent is still over-represented in the UNDP Low Human Development category (35/41) (Zimbabwe (bottom at 169), Congo, Niger, Burundi, among others), the World Bank’s listing of Lower Income Countries and the annual Foreign Policy index of failed states (Somalia, Chad, Sudan, Congo, Zimbabwe).

Despite Africa’s middle class expanding in the first decade of the new century to some third of the population, only a half-dozen economies are categorised as Upper Middle Income by the World Bank—Botswana, Gabon, Mauritius, Namibia, Seychelles and South Africa; most are lower income, with a few lower middle. And in terms of human development the UNDP ranks Mauritius (72), Botswana (98), Namibia, South Africa, Equatorial Guinea and Cape Verde (118) as high. Not all of these would qualify as African democratic developmental states, although, as already noted above, UNECA has revived the term as a developmental desideratum in 2011.

The Ibrahim Index of African Governance is based on safety and the rule of law, participation and human rights, sustainable economic opportunity and human development. It ranks Mauritius, Seychelles, Botswana, Cape Verde and South Africa (1–5) highly and puts Zimbabwe, Eritrea, Congo, Chad and Somalia at the bottom (49–53).

The burgeoning African diaspora concentrated in North America and the EU plays a growing role in effecting human development through remittances: US$20 billion per annum at century’s turn, not counting informal, unrecorded flows, approaching foreign direct investment (FDI) and much larger than either Official Development Assistance (ODA) or private equity this century. The Bank came to the diasporas as a source of development finance late, but has since
advocated an African Diaspora Program, African diasporic bonds, an African Institute for Remittances and a Migration and Remittances Unit, symbolised by an edited collection by Plaza & Ritha. The leading recipients of remittance flows are the larger countries such as Nigeria ($10 billion per annum), Sudan ($3 billion), Kenya ($2 billion), Senegal, South Africa, Uganda (+/− $1 billion), Lesotho ($500 million), Ethiopia, Mali and Togo. But the primary beneficiaries in terms of percentage of GDP are smaller countries: Lesotho (25%), Togo, Cape Verde, Guinea-Bissau, Senegal (+/− 10%), Gambia, Liberia, Sudan, Nigeria and Kenya (+/− 5%). Reinvestments back home tend to be concentrated in services like communications and housing: onto housing and industrial estates where diasporic property can be well-managed? In its 2011 Economic Report, UNECA noted that:

The flow of remittances to Africa did not fall as much as expected but its projected growth of 4.5% over 2010–11 is much lower than pre-crisis rates. For foreign direct investment, although total inflows declined in 2010, inflows to Africa’s extractive industries increased. Official development assistance rose in 2010.

In addition to dynamic and heterogeneous varieties of private and transnational governance, ‘new regionalisms’ at several levels, whether more formal or informal, are serving as catalysts for the continent’s renaissance by advancing its capacity to transcend fragility. To maximise its development and security, Africa also needs to advance ‘network’ or ‘public’ rather than traditional ‘club’ diplomacy, involving civil society, including diasporas, and private companies as well as states and intergovernmental agencies. But climate change may yet emerge as the spoiler, hence the importance of the Conference of the Parties (COP17) climate change conference in Durban at the end of 2011 where the BRICS’ related BASIC group was even more active than at COP15 and 16.

Varieties of PE directions out of Africa?

The rest of this article has four interrelated parts which stake out possible paths to a brighter future for the continent centred on its regional innovations, including its myriad diasporas. First, post-Washington Consensus, symbolised by UNECA’s rediscovery and advocacy of the possibilities of developmental states, ODA from the OECD is of declining importance or attraction. Rather, a range of ‘innovative sources of finance’ is being identified, encouraged by the ‘Leading Group’: global solidarity fund, currency transaction tax, carbon taxes/trading, climate change funds, controls on money laundering and remittance taxes etc. In addition, there are emerging donors like BRICS and the Gulf states, some with Sovereign Wealth Funds; faith-based organisations (FBOs); and new private foundations like those set up by Gates, Clinton and Ibrahim, leading to the Global Alliance for Vaccines and Immunization (GAVI).

Second, Africa has generated an innovative range of ‘new regionalisms’ involving non-state actors from the Maputo Corridor and Kgalagadi trans-frontier peace-park to the Nile Basin Initiative/Dialogue; and from the
International Conference on the Great Lakes Region (ICGLR) to standards for corporate supply chains from conflict areas in automotive, electronics and jewellery sectors in particular. In turn, Alex Warleigh-Lack et al have begun to recognise the relevance of such new regional relationships for comparative studies of the EU, especially as it confronts its own financial crisis around the euro.\(^{29}\)

Third, ‘new multilateralisms’ or ‘transnational governance’ with African dimensions, from the International Campaign to Ban Land Mines (ICBL), the Ottawa Process and Partnership Africa–Canada/Global Witness, the Kimberley Process and now the Diamond Development Initiative, including standards to end the trade in conflict minerals, to the Extractive Industries Transparency Initiative (EITI), Forestry and Marine Stewardship Councils (FSC and MSC) to the International Action Network on Small Arms (IANSA) and the Arms Trade Treaty (ATT). Yet coalitions over small arms and light weapons and children’s and women’s security are stalled because of US vetoes.

Finally, what are the implications of this trio of novel directions and players for our analyses and policies, state and non-state, with the World Bank now calling for flexible ‘mixes of government and market interventions’: who are the ‘drivers’, innovators and animators? How to transit from dependency and neoliberalism towards a Beijing Consensus? In short, how can one maximise regional cooperation and minimize regional conflict?

Informed by contemporary international relations and development studies perspectives in particular, this article identifies emerging opportunities as well as challenges for Africa at the start of the second decade of the 21st century. It especially focuses on whether the emergence of BRICS or the ‘second world’ presents unanticipated possibilities or threats to a heterogeneous continent, one which includes burgeoning ‘developmental’ or ‘middle income’ as well as ‘fragile’ or ‘failed’ states. Now arguably qualifying for the adjective/accolade ‘miracle’ at the start of its second half-centenary, can Africa grow through the next decade, given its quite stellar performance in the first?\(^{30}\)

And South Africa’s accession to BRICS presents questions not only about whether these countries can become a bloc but also whether they are better cast as emerging powers rather than emerging economies or emerging markets? Certainly for Nel and Nolte South Africa is a regional power rather than an emerging economy, let alone emerging society or emerging donor/partner.\(^{31}\) But is its recognition and elevation here occurring with or without the support of its region, whether more narrowly (SACU/SADI) or broadly (SSA) defined? As Pieterse asks: what are the relations or rankings around emerging powers, emerging markets, emerging economies and/or emerging societies?\(^{32}\)

As the latest UNECA report indicates: ‘global developments have significant implications for African countries, though the direction and magnitude of impact naturally vary among countries. On the whole, African economies have recovered from the crisis better than expected.’\(^{33}\) Such a welcome prospect poses challenges for public policy and diplomacy: can Africa bring its non-state—civil society and private sector—as well as state resources to bear in a focused and sustained inclusive ‘new’ ‘network’ rather than traditional exclusive ‘club’ diplomacy?\(^{34}\) As suggested in the final section below, this is the
welcome challenge or opportunity facing the continent at the start of its second 50 year period: what has it learned and can it adapt after its first half century since colonialism, given the significantly transformed global context at the turn of the decade: divergent regional incidences of and responses to the ‘global’ financial crisis with the global South being much less negatively affected than the established transatlantic core in both ‘old’ and ‘new’ worlds?

Varieties of innovative sources of finance

Even before the end-of-decade ‘global’ financial crisis there was a looming gap in funding for African development if it was to even aspire to realising the MDGs in 2015, as recognised by the increasingly overshadowed International Bank for Reconstruction and Development (IBRD). In response to such deficiencies, as well as to the slowness of the ‘Monterrey Consensus’ to influence ODA effectiveness—from Accra and Paris and onto Busan at the end of 2011—France animated a ‘Leading Group’ of states to suggest other means to advance ‘global public goods’. In association with major INGOs in a ‘Forum on the Future of Aid’, a ‘Taskforce on International Financial Transactions and Development’ came to advance the notion of ‘taxation for the governing of globalisation’ at decade’s end. Such directions reinforce the claim of Patrick Develtere & Tom De Bruyn that there is a ‘fourth pillar’ emerging in the worlds of development of non-traditional, non-epistemic state and non-state donors: migrant organisations, new private foundations, social movements, celebrities, etc, already including 25 non-OECD Development Assistance Committee (DAC) state donors.

Other alternatives included ODA from new members of the EU of 27, plus BRICS as ‘emerging donors’, the latter reflected in the Forum on China–Africa Cooperation (FOCAC), for example. And new private foundations have emerged around the turn of the century to parallel established ones like Carnegie, Ford and Rockefeller, notably the Bill & Melinda Gates Foundation but now also the Blair, Clinton and Ibrahim Foundations. Similarly, FBOs increasingly span many religions, particularly the more pragmatic, mainstream denominations (eg Aga Khan Foundation, Catholic Relief Services, Islamic Relief, Lutheran World Relief and World Vision). With new as well as established private foundations, they are increasingly partnering with international organisations, despite the latter tending to become the more junior partners as global health governance evolves, with, for example, the establishment of GAVI. Further examples of such novel forms of transnational global governance are found in below.

Among the dozen or so global levies, embryonic forms of ‘global taxation’, mainly on ubiquitous financial flows, proposed by the Taskforce to advance global public goods or global public–private partnerships were:

- a Global Solidarity Fund for global public goods;
- a Currency Transaction Tax (along the lines of the original Tobin Tax) (NB some EU states are already proposing such a levy on financial flows among their members);
an airline ticket levy already being implemented by some governments in the North like Spain and Korea, with revenues going to AIDS, tuberculosis and malaria (ATM) vaccines in association with the Clinton and Gates Foundations;

- carbon taxes/trading, a not uncontroversial set of measures encouraged by the UN Intergovernmental Panel on Climate Change and set of climate change summits, such as those in Copenhagen, Cancun and Durban, related to the Clean Development Mechanism;

- climate change funds such as the IBRD Global Environmental Facility and UN agencies’ Reducing Emissions from Deforestation and Forest Degradation (REDD) in developing countries;

- a Digital Solidarity Fund already established in Geneva;

- UNITAID, an international drug purchase facility to advance access to ATM treatments, now with broad inter- and non-state participation;

- controls on money-laundering encouraged by the OECD and G8—capital flight per annum now some $500 billion?—including Financial Action Task Force[FATF]/Caribbean FATF on offshore financial centres over two decades (leading to Publish What You Pay [PWYP] and Extractive Industries Transparency Initiative [EITI]);

- remittance taxes on North–South flows which have blossomed to over $300 billion per annum, larger for some states like Nigeria or Lesotho than ODA (note the discussions on African diasporas above).

And to this list we could add some controls, including taxes on hedge funds, pension funds, Sovereign Wealth Funds [SWFs], etc. But getting from conceptualisation to policies and politics is problematic, which is where varieties of regionalisms come in to engage in such public, open diplomacy. Hence the imperative of animating a timely, extensive coalition to redefine and revive the continent’s direction towards developmentalism at the turn of the decade as suggested in below.

**Varieties of ‘new regionalisms’**

Reflective of its more than 50 states (now including South Sudan as well as Eritrea), Africa has been the leading region in the South to advance regional innovations and institutions. In the initial, one-party nationalist period, reflective of jealousy surrounding newly realised independence, these were typically ‘old’ inter-governmental arrangements. But in the post-bipolar era, such regionalisms have become less exclusively state and economic and more inclusive around emerging issues like ecology, energy, land, security, water, etc. Nevertheless, because of overlapping memberships and mandates and insufficient resources, macro- to micro-regionalisms have typically lacked both capacity and commitment.

Nevertheless, first, the revived, redefined East African Community is emblematic: five rather than the initial trio of members (and on to a half-dozen with South Sudan in 2012?), with innovative civil society, parliamentary and security dimensions, qualifying as an instance of ‘new
regionalism’. Given the scale and resilience of regional conflict on the continent, several attempts have been made at regional peace-building, from Darfur to Côte d’Ivoire, especially around the Economic Community of West African States (ECOWAS), Great Lakes Region, Horn of Africa, such as the ongoing process around the International Conference on the Great Lakes Region (www.icglr.org). These increasingly involve a range of actors in a heterogeneous coalition, from INGOs to MNCs, as such conflicts are always about greed as well as grievance. So resource extraction and accumulation are proceeding in tandem with violence, all too often targeting women and children as successive UN reports on the Congo have revealed. And as security is increasingly privatised, so such coalitions become ever more problematic. This is particularly so around energy and mineral extraction and supply-chains as their products attract the attention of transnational as well as local criminal networks. Shorter-term peace making is typically tied to longer-term norm-creation to advance sustainable development by regulating the flow of conflict minerals like coltan, diamonds and gold as indicated in the next section (eg Canadian-based but Afro-centric Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development). To sustain its resilience and contain its vulnerability, Africa needs ATT talks to proceed and succeed as advocated by IANSA.

Second, in the new century, regionalisms on the continent have come to cover the spectrum of levels—macro/meso/micro—and sectors—civil society, corporate networks, ecology, energy, security, etc. While Export Processing Zones (EPZs) are associated with Asia and gas pipelines with Central Europe, development corridors and peace-parks are largely a function of Southern Africa’s distinctive political economy. Similarly, Africa has its share of river valley organisations and other cross-border more or less formal micro-regions. The Maputo Corridor has advanced growth in Southern Mozambique as well as the eastern Witwatersrand, reinforcing the cross-border dimensions of the Lesotho highlands water project for electricity and water; the latter was informed by the only global commission (the World Commission on Dams) to be based outside the North—in Cape Town—which also included MNCs as well as NGOs and states in its membership. Reflective of growing concern for the environment, Southern Africa is the centre of the trans-frontier peace-parks movement which has led to the recognition of several such cross-border parks in the region.

Third, encouraged by growing recognition of climate change, the continent’s river basins are beginning to receive exponential attention as centres of biodiversity, energy, food and water as well as conflict: Congo, Zambezi, the Nile Basin Initiative and the Dialogue are arguably the most advanced to date. Symptomatic of emerging tensions is the discovery of oil around the rift valley lakes in northwest Uganda along the border with Congo; such oil production may propel Uganda into the ranks of the developmental states but it may endanger some of its environment and wildlife, let alone local communities.

Fourth, the continent’s pattern of inter-regional relationships is in flux, from classic, inherited North–South dependencies towards a novel South–
East axis around China and India but also Japan and Korea. Symbolically, Africa’s regions’ reluctance to sign EPAs with the EU at the turn of the decade, despite a mix of pressures and incentives, may mark a turning point as global rebalancing continues: Europe of the eurozone crisis around Greece, Ireland and Spain, and China and India of BRICS, transforms policy options and calculations for the continent. The tone of annual FOCAC palavers can be contrasted to that at the third EU–Africa summit in Tunis in November 2010.

Fifth, given its numerous land-locked states, Africa has always experienced informal cross-border migration and trade, some now in illegal goods like drugs and small arms. And, as MNCs, now from China and India as well as South Africa, have increased their investments in energy and minerals, franchises and shopping malls, so their logistics and supply chains have come to define their own regional networks. Exponential infrastructural development will further new regionalisms on the continent in the second decade of the 21st century, symbolised by the mobile-phone revolution and the roles of MTN, Celtel/Bharti and the Mo Ibrahim Foundation.

Finally, ‘Nollywood’ has begun to redefine the continent as its overwhelming production of DVDs reaches remote villages and myriad diasporas, just as soccer’s African Cup now plays on mainstream TV in the global North. As The Economist indicated at the end of 2010:

Film is now Africa’s dominant medium, replacing music and dance. It links distant societies, fosters the exchange of ideas and drives fashion trends . . . Film also profoundly shapes how Africans see their own continent. 37

**Varieties of ‘transnational’ governance**

In a post-bipolar era the mix of fragile or failed states, proliferating ‘global’ issues and pressures for democratisation has generated some innovative forms of ‘transnational’ or ‘private’ governance around the continent, symbolised by the early Ottawa and Kimberley Processes, and now augmented by the FSC, MSC, REDD and EITI along with the iconic, Bono-advocated or -endorsed Product Red. These may not yet be authoritative and their scope still fails to reach continuing scourges like small arms and light weapons but they are changing the governance landscape. When combined with innovative sources of finance, they begin to transform the regional policy terrain. They have served to encourage inter-state international law towards the recognition of varieties of global governance, which may reflect varieties of sources of pressure.

Part of the unwelcome legacy of the Cold War was fields of landmines. The comprehensive, heterogeneous ICBL led to the Ottawa Process, advanced by the ‘celebrity diplomacy’ of Princess Diana. By contrast, the subsequent Kimberley Process on conflict diamonds resulted from animation by a major and minor NGOs: Global Witness (London) and Partnership Africa–Canada (Ottawa), respectively. It has since spawned the Diamond Development Initiative to improve artisanal working conditions in the mines through
formalisation of labour, a process which the World Bank has also encouraged through its network for Communities, Artisanal and Small-scale Mining Initiative (CASM). And, through the ICGLR, the Kimberley Process ‘plus’ has promoted the OECD’s concern to advance due diligence over ‘responsible’ supply chains for high-tech automotive and electronic goods from conflict zones such as the Great Lakes Region; likewise the Global Centre for Responsibility to Protect [R2P] has called for R2P to be applied in the case of the Democratic Republic of Congo.

More recent, comprehensive innovations include the industry-supported Forestry Certification Scheme, the World Bank-endorsed Natural Resource Charter [NRC] and the G8-supported EITI, the latter being particularly timely given the dangers of ‘resource curse’ and windfall profits in BRICS, if not BRICS’ demand for energy and minerals. Meanwhile, despite the US constitution, an ATT is slowly being negotiated through the UN, along with ISO 26 000 on CSR. And UN Programmes of Action, such as the decade-old #1325 on women, peace and security and #1540 on small arms and light weapons do at least serve to keep sensitive issues on the agenda. But, despite the scourges of small arms and of violence against women and children, progress on small arms and child soldiers remains problematic notwithstanding advocacy through IANSA. Each of these governance processes includes African regional programmes, including diasporas.

Finally, the continent might follow Central America and the Caribbean in advancing beyond not only national security but also human security towards ‘citizen security’ as articulated in a series of Inter-American Development Bank projects in the region in the current century and now adopted by the World Bank in its 2011 World Development Report, *Conflict, Security and Development*. This contemporary notion seeks to combine freedom from want with issues around small arms: how to keep citizens both safe and developing in sustainable ways. At the turn of the decade the UNDP in the Caribbean and Central America has begun to explore such prospects in its regional human development research and reporting.

**Onto varieties of innovative analyses/policies?**

Africa has outgrown the gloom and doom…Africa, in fact, is now one of the world’s fastest-growing regions…revenue from natural resources, the old foundation of Africa’s economy, directly accounted for just 24 percent of growth during the last decade; the rest came from other booming sectors, such as finance, retail, agriculture, telecommunications. Not every country in Africa is resource rich, yet GDP growth accelerated almost everywhere.

Burgeoning varieties of finance, governance and regionalisms put pressure on public policy in and around the continent, exacerbated by the various global crises and regressions, if not recession. They also present challenges to African and related analyses as they demand ‘innovative’ perspectives and policies, both state and non-state (civil societies, private companies, media etc). They come together in the quest for more developmental and fewer failed states on the continent in the current decade.
This article has introduced a set of overlapping analytic and policy debates with relevance for IR/IPE, as well as development and security studies and policies, especially around a set of overlapping notions:

- developmental versus fragile/failed states, especially as UNECA is now advocating the former while the DAC and IBRD have tended to focus on the latter;
- varieties of capitalisms/corporations, especially from outside the OECD with BRICS advancing different state–non-state relations and the World Bank now encouraging flexible mixes;
- emerging markets/donors/economies/partners/states/powers/societies? How similar or different? Defined by which discipline(s) or perspective(s)?
- International financial institutions to moderate the centrality of the Washington Consensus while advancing myriad other partnerships?
- BRICS and the N-11: the core of the emerging intermediary ‘second world’?
- emerging conflicts over land and water and other resources, exacerbated by climate change: Africa as a focus of land-grabs? Water wars? Energy conflicts: can EITI and/or NRC contain such threats?
- African contributions to transnational governance and innovative sources of finance: from the Kimberley Process and Ibrahim Prize to remittances and diaspora bonds?

At the turn of the second decade of the 21st century, Africa is at a crossroads in terms of growth, development, governance, regionalisms and sustainability: can it seize its second chance and transcend its somewhat lacklustre first half-century; in other words, can it create more developmental and fewer fragile or failed states? Further, can African regions advance inclusive public or network diplomacy of non-state as well as state actors for the most marginalised continent in the global South? Africa’s place at the centre of innovative sources of finance and styles of governance leads to optimism, while the number of conflicts and fragile or failed states leads to scepticism, even pessimism: what balance by 2015/2020?41

In short: how to maximise gains from any renaissance and minimise the costs of expanding the middle class and reducing poverty? Mobile telecommunications including banking in Africa can be a lesson to other continents and sectors; its 600 million mobile-phone users put the North in the shadows, leading to a burgeoning middle class concentrated in a handful of global cities;42 and as we saw at the start, The Economist is now apologetic about having labelled Africa ‘hopeless’. At least Jan Nederveen Pieterse remains positive, in part as the established North–South axis is being superseded by an East–South one through which Africa can gain:

the rise of emerging societies is a major turn in globalization and holds significant emancipatory potential. North–South relations have been dominant for 200 years and now an East–South turn is taking shape. The 2008 economic crisis is part of a global rebalancing process.43
Notes

1 ‘Africa rising’, *The Economist*, 3 December 2011, p 73.
9 Ibid, p 95.
20 See www2.goldmansachs.com/ideas/global.
25 See www.moibrahimfoundation.org.
34 Heine, *On the Manner of Practising the New Diplomacy*.

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42 See Africa’s Future and the World Bank’s Support to It.

Notes on contributor

Timothy M Shaw is Visiting Professor in CGS at the University of Aalborg, moving to help launch a new PhD in Global Governance & Human Security at the University of Massachusetts Boston this summer; he recently directed the Institute of International Relations at the University of the West Indies in Trinidad & Tobago. Dr Shaw has just coedited Africa & IR in the 21st Century, Inter-American Cooperation at a Crossroads, Rethinking Development Challenges for Public Policy and The Ashgate Research Companion to Regionalisms.
A South African Variety of Capitalism?

Nicoli Nattrass

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A South African Variety of Capitalism?

NICOLI NATTRASS

This paper explores the South African political economy through the lens of a variety of capitalism (VoC) approach. It argues that attempts were made in the early post-apartheid period to forge a more social-democratic and co-ordinated variety of capitalism, but that this floundered as the government adopted neoliberal macroeconomic policies against the wishes of organised labour, and as black economic empowerment policies further undermined an already racially-fraught business sector. Organised labour was able to push for, and maintain, protective labour market policies – but this came at the cost of growing policy inconsistency notably with regard to trade liberalisation which, in the presence of growing labour-market protection, has exacerbated South Africa’s unemployment crisis. Unemployment remains intractable (and with it inequality) and corruption/patrimonialism appears to be a growing problem.

Keywords: post-apartheid, capitalism, economic policy, unemployment, black economic empowerment, organised labour, profitability

Introduction

This paper argues that as South Africa began the transition to democracy, attempts were made to forge a more social-democratic and co-ordinated form of capitalism but that this floundered as the post-apartheid government adopted neoliberal macroeconomic policies. Black economic empowerment (BEE) policies subsequently undermined an already racially-fraught business sector and opened the door for growing patrimonialism and corruption. Organised labour achieved gains in terms of improved labour standards and the extension of industrial-level wage bargaining – but this came at the cost of growing policy inconsistency. Notably, trade liberalisation in the presence of strong labour-market protection and rising real wages exacerbated South Africa’s unemployment crisis.

The problem of policy inconsistency is highlighted by the varieties of capitalism (VoC) approach, its key insight being that economic growth is shaped by the institutional/policy context and promoted most effectively when these are consistent with either liberal-market or co-ordinated ideal-type ‘varieties’ of capitalism. We argue that South Africa has elements of both ideal types and is plagued by
policy inconsistencies at the heart of the state. Although many of the ideas and practices during South Africa’s democratic transition suggested the possibility of a post-apartheid political economy shaped by social accords/tripartite negotiation, this impetus floundered because the state preferred to act unilaterally with regard to macroeconomic policy, business was divided and preferred bilateral engagement with government and organised labour had a strong ideological preference for managing capitalism through a developmental state tasked with promoting wage and productivity growth.

Varieties of capitalism: South Africa in comparative context

The VoC approach draws a key distinction between two ideal types: ‘liberal market economies’ (LMEs) and ‘co-ordinated market economies’ (CMEs) (see Hall and Soskice 2001; Hall and Gingerich 2009). In LMEs, seen as approximated most closely by North America, the United Kingdom, Australia and New Zealand, firm strategies are mediated by competitive markets: large stock markets and regulatory regimes facilitate hostile take-overs, thus encouraging managers to be particularly sensitive to current profitability; whilst fluid labour-markets with limited employment protection incentivise workers to invest in general skills that can be transported to other jobs. By contrast, firms in CMEs (seen as approximated most closely by Germany and the Scandinavian social democracies) operate in an institutional environment which provides greater ‘voice’ for organised labour and favours incremental innovation and strategic collaboration between firms. Generous welfare and retraining policies on the part of government incentivise workers to make the necessary investments in firm-specific skills. The key insight of the firm-centred VoC approach is that business in CMEs accepts higher labour costs (and taxation) so long as the system delivers the necessary skills, productivity growth and long-term finance needed to operate profitably in this institutional and policy context. Where these synergies are not evident, as in the more ‘mixed market economies’ (MMEs), economic growth has been slower than in either the CMEs or LMEs (Hall and Gingerich 2009).

The strong policy implication of VoC analysis is that institutions matter for the type and pace of economic growth. As Hall and Soskice note, firms face a set of institutions which are not ‘fully under their control’ and that companies can be expected to gravitate towards strategies that take advantage of the opportunities provided by these institutions (2001: 15). This raises the tantalising prospect of government being able to affect the national VoC by changing the institutional environment. For example, in the 1950s when Germany introduced legislation to enhance worker’s rights on the shop floor, employers expressed strong opposition – but once these institutions were in place, they developed production strategies oriented towards high-value added production which made a virtue out of the necessity of greater worker voice (Streeck 1992). As discussed below, this idea, that governments can create such a ‘win-win’ situation through institutional design, is powerfully evident in South Africa today.

The VoC approach has been criticised for its tendency towards static and functionalist analysis (see Boyer 2005; Schmidt 2009; Becker 2012). One way to avoid
active support for a specific mode of co-ordination must be mobilised on a relatively continuous basis from actors who are conscious of the limitations as well as the advantages of any particular course of action. Achieving and maintaining coordination usually involves the exercise of power, because forging and maintaining particular institutional arrangements creates winners and losers, notably on both sides of the class divide. (2009: 13)

But politics is shaped not only by conflicts of interest and accordant mobilisation. The way these interests are framed in ideas and discourse by economic and state actors is of central importance, especially at critical junctures where policymakers and stakeholders are not sure how best to understand and pursue their interests. In this regard, discursive institutionalism is useful in that it ‘calls attention to the ways in which political actors’ ideas serve to (re)conceptualize interests and values as well as (re)shape institutions’ (Schmidt 2009: 530). These ideas are, in turn, embedded in different discourses – notably ‘communicative discourse’ between the state and the general public, and ‘coordinative discourse’ within the state between policy actors (Schmidt 2008: 309–11). We touch on these issues below with reference to the South African policy debate in the post-apartheid period.

The usefulness of the VoC approach has also been challenged by the substantial institutional convergence – notably falling levels of wage bargaining – that has taken place in Europe since the mid-1990s. However, in a recent review of collective bargaining arrangements, Hayter et al. observe, with the exception of Germany, Spain and Greece, European wage bargaining systems are adapting rather than weakening (2011: 235). Even where the dominant level of wage bargaining has fallen in the CMEs, multi-level bargaining is the norm and this has been consistent with fairly stable levels of coverage of collective bargained agreements. In other words, bargains at industry- or firm-level often take place within a floor or framework set at higher levels, or through national initiatives. This is evidenced in Table 1 by typically higher levels of wage co-ordination than suggested by the dominant level of wage bargaining.

Table 1 shows the persistence of some of the economic and institutional characteristics highlighted by VoC analysis in countries typically classified as LMEs or CMEs: CMEs still have more generous labour-market policies (as proxied by the cost of firing in terms of weeks of wages), greater trade union coverage, higher levels of wage co-ordination and wage bargaining, lower inequality, a higher share of government in the economy (as proxied by tax as per cent of GDP), lower levels of stock market capitalisation, higher levels of product-market regulation and a generally more complex regulatory environment in which government and business organisations play a greater role than is the case in the LMEs. Like the LME’s, South Africa has relatively high levels of market capitalisation and inequality. But as discussed below, it also shares some characteristics with
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**Notes:** amember of the Eurozone; b2005 estimate; cRI = routine involvement of unions and employers in government decisions on social and economic policy (1 = irregular, 2 = often); W-coord: 1 = fragmented, mostly firm; 2 = mixed firm + industry weak enforceability; 3 = industry; 4 = industry with central guideline and pattern bargaining; 5 = national bargain or govt imposition; level = level of collective bargaining (4 is central + industrial, 3 = industrial, 2 = industrial + firm, 1 = firm; trade union density = % salary and wage workers that are unionised; coverage = % workers covered by collective agreements in sectors where there is the right to bargain.)
CMEs (labour regulation) and is more like a MME with its attendant problems of policy incoherence.

The South African case

South Africa clearly approximates neither an ideal type CME nor LME. Schneider (2009) suggests that South Africa is more like a Latin American ‘hierarchical market economy’ characterised by vertically integrated dominant firms, multinational enterprises and weak trade unions. But while this may have been so under apartheid, the post-apartheid political-economy is characterised by politically and institutionally powerful trade unions and much lower levels of vertical integration. In 1994, the gold-mining giant Anglo American controlled 43 per cent of the entire Johannesburg Securities Exchange (JSE) capitalisation – and the top five groups controlled 84 per cent through complex cross-holdings and preferential shares. This Apartheid-era concentration had been driven by exchange controls which prevented firms from divesting abroad so, when exchange controls were liberalised in the mid-1990s, it had a dramatic impact on economic concentration. By 1998 Anglo’s share had plummeted to 17 per cent as it ‘unbundled’ (selling off part of the business to a BEE consortium), listed on the London Stock Exchange and moved its head office to London.

One of the consequences of such unbundling and deregulation has been increased investment volatility. As can be seen in Figure 1, portfolio investment has come to play the dominant role in financing South Africa’s current account deficit – and these flows are easily reversed. The only significant inflow of foreign direct investment in the post-apartheid period was in 2001 when De

![Figure 1. Increasingly volatile investment flows](source: Data from the South African Reserve Bank (www.resbank.co.za)).
Beers mining company was sold to a foreign financial holding company causing both a spike in foreign direct investment and an outflow of portfolio investment capital. Increased reliance on volatile portfolio capital flows, privatisation of state assets and the abolition of apartheid-era agricultural marketing boards has fundamentally transformed the South African business environment in the direction of a LME. But economic collusion remains a problem (Competition Commission 2008) and South Africa’s labour-market regime looks more like a CME.

South Africa is an interesting case for scholars of VoC because there was significant impetus from above (institutional formation at national level) and below (regional accord processes) to create a more co-ordinated and social democratic post-apartheid political-economy. As argued below, this CME-like vision was subsequently undermined by government when it unilaterally adopted orthodox macroeconomic policies and divided the business sector through BEE and other preferential procurement policies. It was also undermined at the ideological level by an alternative vision put forward by organised labour in favour of a developmental state and which down-played class compromise.

South Africa today contains elements of LMEs and CMEs. Macroeconomic, trade and investment policy is economically liberal, but while it is relatively easy to retrench workers for economic reasons, labour legislation is protective in other respects, raising costs to employers (Barker 1999: 19; Bhorat and van der Westhuizen 2009). South Africa’s welfare system is also more akin to the CMEs: In 1994 the post-apartheid government inherited a system of social grants which reached 2.9 million recipients (seven per cent of the population) at a cost of 2.1 per cent of GDP; as of 2010, it now reaches 14 million people (28 per cent of the population) at a cost of 3.3 per cent of GDP. But unlike the ideal-type CME, no significant or sustained support is provided for the unemployed.

Compared to the other middle-income and developing countries in Table 1, South Africa has a relatively high coverage of collective bargaining and routine involvement of trade unions and business in government policy. It also has by far the highest unemployment rate. Between a quarter and a third (depending on the measure) of the labour force is unemployed and less than half of working age adults have jobs (Nattrass 2011). This is partly because the state has strong regulatory capacity – particularly with regard to tax and labour legislation – and there is thus no significant informal sector to provide jobs for those who cannot find work in the formal sector. This is the crucial difference between South Africa and other middle income countries – especially in Latin America – where informal employment provides a safety net of sorts.

Unemployment is the central economic dilemma facing the country – and one which poses different challenges for economic policy and wage-setting institutions than is evident in the Euro-centric CME/LME paths to growth. In the European CMEs, labour-market protection is associated with lower inequality because the wage distribution is compressed and because the unemployed get generous welfare assistance. In South Africa, however, where so many working age adults are without work or government grants, inequality is driven primarily by the gap between those with some work, and those with none (Seekings and Nattrass 2005). Creating jobs, even at low wages, thus would have a positive
impact in terms of poverty alleviation and narrowing inequality. However, for the trade union movement, the priority is protecting and raising real wages, boosting productivity and advocating for ‘decent work’ for the employed.

Figure 2 shows that employment growth was positive in the mid-2000s but that it has been typically lower than that of real output, resulting in a trend increase in aggregate labour productivity. Rising labour productivity is a positive sign in so far as it indicates the economy is becoming more efficient. But the serious downside of rising labour-productivity for a labour-surplus economy like South Africa is that ever fewer jobs are being created for each additional unit of output.

South Africa’s employment problem has strong historical roots. Mining and agriculture were the major employers of unskilled labour under apartheid, but their relative and absolute contribution to employment has fallen over the past four decades. As the manufacturing and services sectors expanded, the apartheid institutional infrastructure was revealed to be a major fetter on development. Business responded to shortages of skilled labour and to the incentives provided by government (for example, tax-breaks for capital-investment and negative real interest rates) by becoming more capital-intensive. The tragedy of this growth path is that just as the economy switched from labour shortage to labour surplus in the 1970s, economic growth became steadily less labour-demanding. High and rising unemployment was the inevitable result (Seekings and Nattrass 2005).

The democratic transition: the rise and fall of a CME vision in South Africa

When South Africa made the transition to democracy, it did so under the long shadow of apartheid. Racial discriminatory policies had left the economy with persistent skills shortages and a business community divided on sectoral, cultural and racial lines (Nattrass 1997b). Some labour-market reforms had been undertaken in the 1970s, notably the ending of job reservation for whites only, and from 1979 the
system of collective bargaining was deracialised. This effectively legalised black trade unions, allowing black workers to participate in industry-level bargaining – and this system persists, fundamentally unchanged, today.

Representative employer organisations and trade unions set wages in bargaining councils and these are typically extended to non-parties on request by the Minister of Labour. Where no bargaining council exists, the government’s Employment Conditions Commission sets minimum wages. This amounts to a relatively strong level of wage co-ordination. As can be seen in Table 1, South Africa is classified as a level 3 on a scale ranging from national agreement (5) to firm-level agreements only (1).

As political opposition to, and protests against, apartheid mounted during the 1980s, key figures within South Africa’s business elite held secret meetings with the African National Congress (ANC) in exile, and started engaging with opposition leaders inside the country (Handley 2008: 53–4; Van Wyk 2009: 9–10). These consultations continued after 1990 when the ANC was allowed to operate legally in the country and South Africa began the transition to democracy. Nelson Mandela, who became South Africa’s first President, received regular briefings from the business leaders and often dined with Anglo American patriarch Harry Oppenheimer (Waldmeier 1997: 256–7).

When Mandela was released from prison in 1990, his first speech called for nationalisation of the mines and monopoly industry. This was a long-standing demand of the anti-apartheid movement – as embodied in the 1955 Freedom Charter. However, ANC economic policy changed sharply during the early 1990s. In 1991, Mandela attended the Davos conference where he met with Li Peng, the new premier of China, who said to him: ‘I don’t understand why you are talking about nationalisation. You’re not even a communist party. I am the leader of the communist party in China and I’m talking privatisation’. Mandela subsequently repeated this conversation at every ANC discussion on the economy and sought to assure investors that their investments would not be endangered by nationalisation (Green 2008: 345–6). Davos proved to be a pivotal moment, laden with different meanings and interpretation. According to Pallo Jordan, an ANC cabinet minister from 1994 to 1999, ‘those who wield power in the West told Nelson Mandela in no uncertain terms that any actions that threatened property rights would invite their wrath’ and that ‘a chastened Mandela returned to South Africa from Davos ready to drop the nationalisation of the mines’ (Jordan 2012). Tito Mboweni, Mandela’s Minister of Labour and subsequently Reserve Bank Governor, disagrees. Noting that he had been at Davos with Mandela and had helped him rewrite the plenary address that has been drafted ‘by well-meaning folks at the ANC office in Joberg’, Mboweni argues that Mandela’s decision to drop nationalisation had been sparked by his discussions with communist party leaders in China and Vietnam and that ‘It was not Western capitalists. Not at all. I bore witness to that’ (Mboweni 2012).

As ANC policy documents became increasingly market-friendly and liberal (Nattrass 1994), left critics started accusing it of forging an elite pact that would leave existing power structures intact (see McKinley 1997; Bond 2000). But as Cyril Ramaphosa, a leading ANC architect of the transition to democracy, noted of the time, an ideological groundswell was evident and that ‘many people
were beginning to feel more and more comfortable with a mixed type of economy’ (quoted in Green 2008: 339). Even the South African Communist Party (a long standing ally of the ANC) engaged in some soul-searching as its Secretary General penned an influential piece titled ‘Has Socialism Failed?’ (Slovo 1990) criticising Stalinism and asserting the importance of democratic freedoms. The stage thus seemed set for the adoption of a more social democratic or co-ordinated variety of capitalism in South Africa.

Further impetus was provided by spontaneous regional accord processes. In the Eastern Cape Province, business organisations, labour and government came together to form the Eastern-Cape Socio-Economic Consultative Council. This helped foster more co-operative relations between business and the state (in one initiative private sector advisors were seconded to local government to help with public infrastructure revitalisation), but was less successful with regard to capital-labour relations. Whereas business wanted organised labour to ‘put the region first’, that is, to negotiate regionally-specific wages and not to participate in national strikes, this was resisted by organised labour (Nattrass 1997a). In other respects, however, organised labour started cutting productivity-related pay deals with employers in order to save jobs (Nattrass 1995). In 1991, mining employers and the National Union of Mineworkers (NUM) entered into agreements where workers accepted wage restraint and various forms of profit sharing. The NUM acting general secretary noted: ‘The choice we had to make was whether to drive a higher wage increase with less employment in the industry as a real prospect – or whether we try to achieve maximum employment, and at the same time augment wages and win social rights’. Although these innovative wage-setting agreements fell apart three years later (because there were concerns about the potentially divisive effect of having the more profitable mines pay workers relatively higher wages), they demonstrated that even South Africa’s militant trade unions were capable of concluding agreements that recognised the trade-offs between wages, employment and profitability. The possibility that South Africa could move towards CME-type coordinated wage setting seemed very real during the early 1990s and substantial energy was put into developing regional and national-level social democratic institutions.

In 1990 organised business and labour agreed, in principle, to create a national forum to discuss the impact of labour relations on the economy. This resulted in the National Economic Forum being set up in 1992 – a body that was subsequently transformed into the National Economic Development and Labour Council (Nedlac) by one of the first pieces of legislation passed by the new democratic government in 1994. According to the leading business representative, Nedlac was intended to ‘inaugurate a new era of inclusive consensus-seeking and ultimately decision-making in the economic and social arenas’ (Parsons 2007: 9). Unfortunately, this hoped-for vision failed to materialise.

The first problem was that attempts to create the kind of peak-level business organisation necessary for national co-ordination were plagued by racial divisions. An organisation called Business South Africa (BSA) was formed to represent South Africa at the International Organisation of Employers conference in 1994, and it subsequently went on to represent business in Nedlac. But this
unity was fragile and tensions soon arose and the organisation fragmented between the predominantly black and white business organisations. It took eight years before a new umbrella body – Business Unity South Africa (BUSA) – was created but, even then, racial divisions continued to simmer. These were exacerbated by the government’s BEE policies (discussed below) which further undermined the incentives for black and white business to work together. Eventually, in 2011, the major black organisations left BUSA to form the Black Business Council.

The second problem was that the government referred some, but not all, of its economic policies to Nedlac. Thus, while the post-apartheid Labour Relations Act was negotiated in Nedlac prior to reaching parliament, this was not the case with the infamous 1996 ‘Growth Employment and Redistribution (GEAR)’ macroeconomic framework which sought to restrain government spending (to deal with a debt crisis), boost private investment and liberalise aspects of the labour laws to promote job creation (DOF 1996). Although GEAR also called for a social accord, this aspect was drowned out in the public debate by condemnation – especially from organised labour – of its supposedly ‘neoliberal’ macroeconomic and labour policy proposals (Nattrass 1996).

The discursive problem for the ANC was that when it fought its first election, it had in its ‘Reconstruction and Development Program’ (RDP) promised to boost employment creation through demand-driven growth and state-facilitated infrastructural and housing programs (ANC 1994). This vision had been supported by a group of ANC-aligned economists calling for expansionary fiscal and macroeconomic policies (MERG 1993). However, this option was rendered unworkable by the sharp increase in the government deficit (from 1.5 per cent of GDP in 1990 to 7.3 per cent in 1993) that took place during the transitional period. By 1996, when the ANC first obtained full control of government, controlling the debt burden and stabilising the economy had become a priority – and even more so in 1998 after the Asian currency crisis. The Ministry of Finance (now known as the National Treasury) responded with GEAR – a document intended to boost private investment by emphasising ‘fiscal discipline’ and to pave the way for greater ‘regulated flexibility’ in the labour market (Nattrass 1996). Left trade unionists, however, saw it as the beginning of the ‘1996 Class Project’ that is, the ‘co-optation by White monopoly capital to weaken the National Democratic Revolution and reverse the gains of the 1994 democratic breakthrough’.5

The public debate and protests over GEAR involved both communicative discourse (with the public) and coordinative discourse between the ANC and its alliance partner – the Congress of South African Trade Unions (Cosatu). In both cases, the National Treasury lost the rhetorical battle. Cosatu attacked government for imposing these policies unilaterally, for reneging on its electoral promises, by proposing changes to the labour legislation (by appearing to be supporting a ‘two-tier’ labour-market) and selling out to business. The ANC responded by maintaining its stance on fiscal discipline and continuing with trade liberalisation – but it backed away from any changes to labour-market policy and effectively ceded the Ministry of Labour to Cosatu.

While this served the ANC’s immediate political needs by offering an olive branch to its alliance partner, the result was an entrenched oppositional
relationship between macroeconomic and labour-market policy-making at the heart of the state. Whereas the National Treasury was and continues to be staffed by mainstream economists, the Director General of Labour and the Deputy Director General in charge of labour policy and industrial relations are both long-standing trade unionists, and the current and previous Ministers of Labour were ex chairperson of the Cosatu Women’s Forum and head of the teacher’s union, respectively.

The result of this institutionalised ideological mismatch between two crucial organs of economic policy-making has been an uncoordinated set of economic and labour-market policies inimical to employment growth. Whilst labour-market policies sought to raise and extend the coverage of minimum wages whilst increasing non-wage costs of employment for business, tariffs on imported manufactured goods were reduced sharply, from 23 per cent in 1994 to 8.6 per cent in 2004 (Edwards 2005). As was the case in other countries attempting trade liberalisation under rigid labour-market conditions and fiscal austerity (OECD 1999: 156–9), the results were costly in terms of employment, especially of unskilled labour. Figure 3 shows that employment fell as real average remuneration rose during the 1990s (and that this trend is evident in more recent years too). Note that labour productivity rose faster on average than real wages, thereby enabling the gross profit share and rate to rise. The winners were thus the employers who remained in business, and those workers who kept their jobs. Some of these workers, notably the most skilled, enjoyed substantial wage increases but, for the most part, average real wages rose because relatively unskilled low-wage jobs were shed (see also Seekings and Nattrass 2005).

Many factors contributed to the shedding of unskilled labour. These included the impact of labour legislation, which raised the cost of employing labour, and the operation of the wage-bargaining system, which set wage floors by industry (binding predominantly on unskilled labour) – all of which provided strong incentives for firms to substitute machinery for workers, and to have a smaller,
better-skilled, better-paid and more manageable workforce (see Moll 1996; Nattrass 2000). Even policies designed to improve the machinery of labour-dispute resolution, notably the introduction of the Commission for Conciliation, Mediation and Arbitration, had the unintended effect of burdening employers further by operating in an unnecessarily legalistic way, thereby increasing the risks to employers of hiring labour (Bhorat and Van der Westhuizen 2009). This, in conjuncture with the trade liberalisation, put substantial pressure on firms, especially those in the more labour-intensive tradeable sectors such as clothing (Anstey 2004: 1842).

Other policies, notably industrial policy with its focus on recapitalisation, contributed further to rising capital intensity (Kaplan 2003, 2007). Although the post-apartheid economic planners had hoped that recapitalisation would provide a strong basis for growth, thereby expanding employment opportunities in the future, industrial policy proved disappointing. As Kaplan (2007: 98–9) points out, industrial policy was never consolidated under one arm of the state, but remained scattered and even ‘hidden’ – such as support for arms production. Industrial policy was also bedevilled by having to address too many strategic concerns, including regional development, small-business development, racial transformation in hiring, skills development, moving up the value chain, promoting labour-demanding growth and BEE. The result was that industrial policy as a whole became less well targeted and effective. Attempts to create structured forms of engagement with business (including national investment summits and regional forums as part of the spatial development initiative) failed to build the necessary trust and information flows required for effective industrial policy.

The key institutional casualty was Nedlac. According to a representative from the Presidency (during Mbeki’s term of office), Nedlac failed because Cosatu was fearful that business was bypassing Nedlac and influencing the state directly – as it was believed to have done with regard to GEAR. Others argue that government was primary to blame and that its failure to discuss GEAR in Nedlac was symptomatic of a broader desire to maintain control over policy. But according to Jayendra Naidoo, Nedlac’s first executive director, the key issue was that organised labour was never comfortable with the tripartite aspect of Nedlac, preferring instead to have bilateral engagement with business over wages/working conditions and with the ANC over policy. This, in turn, was facilitated by an alternative policy discourse emanating from the trade union movement in favour of a strong developmental state designed to assist and discipline capital whilst promoting productivity growth and ‘decent’ work.

The contrasting growth vision from organised labour

During the early 1990s, intellectuals aligned with the trade union movement grappled with how to engage with capitalism. Constrained by the collapse of socialism in Europe to accept market-oriented policies, they nevertheless saw themselves as radical socialists engaging with both state and business on a strategic level to establish a basis for socialism in the future (Gall 1997). Arguments by visiting social democrats and Australian trade unionists for class compromise and linking wage increases to productivity growth failed to resonate within Cosatu
According to Harcourt and Wood, this reflected deep historical antagonisms: ‘Years of intense conflict, precipitated, at least in part, by a system of “Racial Fordism” at the workplace, have radicalized workers, so that calls for wage moderation and cooperation with management would probably be perceived as signs of co-optation’ (2003: 95–6). Thus even those unionists who accepted the need for class compromise may have felt themselves discursively trapped by this history.

Instead, the trade union position eventually coalesced into support for a capitalist system shaped and managed by a ‘developmental’ state – which would support a high-wage, high-productivity growth path through complementary labour-market and industrial policies (see Vavi 2008a, 2008b). This ‘high productivity now’ strategy assumes that even in a labour surplus country like South Africa it is necessary to increase labour productivity today in order to project the economy onto a more ‘dynamic’ growth path tomorrow (Nattrass 2001). It adopts aspects of the East Asian development experience – notably a role for active industrial policy (Wade 1990) – whilst disregarding the central characteristic of the East Asian growth experience: that surplus labour was drawn initially into low-wage labour-intensive sectors, and that the economies were only projected onto a more capital- and skill-intensive labour demand growth path once that surplus labour had been absorbed and average skill levels improved (Birdsall and Jasperson 1997). Instead, it asserts the need for ‘living wages’ and ‘decent work’, thereby employing a rhetorical strategy inimical to low-wage, low-productivity employment strategies. Precisely because it prioritises ‘decent’ high-wage jobs for the employed, it is, ironically, a reincarnation of the old trickle-down story: increases in productivity supposedly drive the rising tide of economic growth; the unemployed must get trained and wait for the employment waters to rise.

This approach has strong echoes of Porter (1990) in that it assumes national competitive advantage rests primarily (if not solely) on the adoption of ‘best practice technology’ and on active state involvement in support of innovation and otherwise generally encouraging structural change in favour of higher value-added activities. In the hands of trade union intellectuals, this approach was adapted to include the use of wage pressure to ‘force’ South African capitalism onto the cutting edge and up the value chain (Nattrass 2001).

An early influential statement of this vision was articulated by the Industrial Strategy Project (Joffe et al. 1995), a trade union-linked think-tank which favoured using wage growth and employment protection to ‘encourage restructuring up the value chain rather than restructuring towards low-wage, low-productivity forms of production’ (Joffe et al. 1995: 213). They situated the South African labour movement’s approach to industrial restructuring within this particular logic, pointing out that it was ‘premised on the need to move South African firms out of their low-wage, low-skill, low-productivity vicious circle in which they are out-competed by the second-tier newly industrialising countries (Joffe et al. 1995: 214). In other words, not only does it take as a given that South Africa’s wage structure is too high to compete with the newly industrialising countries and that the appropriate response is for the state to assist firms to become more productive (which typically implies more capital-intensive
production) in order to compete on a higher wage, high productivity trajectory, but it also assumes that destroying existing (competitive) low-wage production is part of the strategy. This resonates with popular notions that if low-wage production is allowed to exist, there will be a ‘race to the bottom’. Such ideas serve to denigrate low-wage labour-intensive jobs and deflect attention away from the fact high and low productivity operations can co-exist where they compete in different product markets.

In 2009, in the cabinet reshuffle following Thabo Mbeki’s replacement as president by Jacob Zuma, Ebrahim Patel was appointed to the newly created ministry of Economic Development tasked with co-ordinating and planning the government’s economic policies. Patel, who had been General Secretary of the South African Clothing and Textile Workers Union from 1999–2009 and national labour convenor for Nedlac, is deeply committed to using government resources and policies to promote high-wage, high value-added forms of production. The first policy document produced by the Ministry of Economic Development, the ‘New Growth Path’ plan is centred on this vision (Nattrass 2011) – as is industrial policy with its Porter-like emphasis on ‘world class manufacturing’, upgrading and the like (see DTI 2011).

Cosatu’s vision thus appears to be at the centre of the government’s growth strategy, but there are signs that it is not necessarily a hegemonic position. For example, the Minister of Finance, Pravin Gordhan (2011) recently suggested that changes to South Africa’s labour dispensation may be necessary to prevent further job losses in the clothing sector – a view subsequently endorsed by Trevor Manuel, a previous minister of Finance. There appears to be major differences of opinion within government about economic policy, but under Jacob Zuma’s political leadership there have never been any effective attempts to resolve them. Certainly since Rob Davies (a member of the SACP) became minister of Trade and Industry, there has been better co-ordination between trade and labour policy in the sense that there have been no further unilateral decreases in tariffs, and government assistance to industry has been conditional on firms complying with labour legislation. But tensions remain between DTI and Labour on the one hand, and the Ministry of Finance and the Reserve Bank on the other (both of which are regarded by the left as pursuing unnecessarily restrictive fiscal and monetary policies).

**Race, business and the state**

The potential for economic co-ordination has been undermined further by racialised and increasingly clientalistic relations between business and the state. The cordial relationship between the ANC and the white business elite that had been evident during the transition to democracy unravelled in early 1997 when the head of Standard Bank offered to assist government with its ‘capacity’ problems by suggesting that senior executives be seconded to government as ‘part of their commitment to transformation’ (Gevisser 2007: 686–7). Thabo Mbeki, then Deputy President and increasingly responsible for economic affairs, was apparently offended by the suggestion that the new government needed assistance from white business. It was only once the white corporate sector created the
‘Business Trust’ in 1998 to raise money for job creation and education, that he re-opened lines of communication by creating a working group through which he would meet with big business leaders (Handley 2008: 90–1).

The situation for black business, however, was very different. The ANC government, especially after Mbeki became president in 1999, championed BEE to encourage rapid redistribution of share ownership from white to black hands. This had a significant impact. Just as the old white corporate sector had maintained power and control over vast swathes of the apartheid economy through interlocking directorships and shareholdings, a now tightly connected new black elite serves on each other’s boards and is closely connected to the national government (Calland 2006: 265; Van Wyk 2009; Seekings and Nattrass 2011). This is justified by an unabashed ideology that frames the promotion of a black business elite as both just and good for South Africa (Seekings and Nattrass 2011). SACP critics, however, regard this as a justification for cronyism and as a betrayal of the revolution (SACP 2006; Turok 2008). Ironically, though, beneficiaries of BEE include the politically connected black elite and trade unions who, by virtue of their largely black membership, are able to invest pension funds and debt in BEE deals. Notable amongst these has been the Mineworkers Investment Company (owned by the NUM), Kapanao ke Matla (owned by Cosatu), Sactwu Investment Group (owned by Sactwu) and the Union Alliance Holdings (owned jointly by Cosatu and other trade union groupings).

The first major BEE legislation was the 2000 Preferential Procurement Framework Act, which required that government favours tenders from black-owned companies. Further BEE legislation was promulgated in 2003 to promote sector-specific ‘charters’ specifying targets in terms of BEE deals (Hirsch 2005; Gqubule 2006; Turok 2008: 155–7). This was backed up by legislation, for example the Minerals and Petroleum Development Resources Act of 2004 which required mining houses to become BEE compliant if they wanted to renew their mining licences. The basic model for a BEE deal is that black investors buy a discounted stake in a company (sometimes through holding companies or Trusts) financed through a combination of bank loans (sometimes underwritten by the company involved), expected dividend flows and increases in share price.9 In return, the company is able to gain informal access to the black political elite, lucrative government contracts, mining licences and the like.

In February 2007, the government gazetted new ‘Codes of Good Practice’ for so-called ‘broad-based’ BEE in an attempt to spread the benefits more widely.10 It widened the range of business practices, such as affirmative action, employee share ownership for which firms could earn BEE ‘points’.11 As the BEE status of supplier firms affects the BEE status of contracting firms, BEE compliance is now being strongly transmitted through value-chains. In the process, the business environment has become fundamentally re-racialised, although this time to the advantage of (especially politically-connected) black rather than white people.

Increasingly, the interconnections between the ruling elite and BEE beneficiaries has raised the spectre of corruption and nepotism – with the attendant worry that South Africa may be moving towards a more patrimonial variety of capitalism. In the mid-1990s, the Treasurer of the ANC, Thomas Nkobi, favoured the creation of party-aligned business structure. Although this was never endorsed
as official policy, Jacob Zuma’s advisor, Shabir Shaik, went on to create Nkobi Holdings (of which the ANC had a 10 per cent stake), a conduit later shown to have received payments from companies in return for lucrative contracts mostly in the arms industry, but also government contracts such as the supply of South African driver’s licences (KPMG 2012: 27). Other similar shady investment vehicles were created and South African newspapers regularly carry stories and exposés of corruption, where tender processes are abused and contracts awarded to individuals close to the state. As Robinson and Brummer concluded in 2006, ‘the murky relationship between money and politics has been at the heart of almost every major scandal faced by political parties and the government since 1994’ (2006: 2). Most infamously, there has been a steady drip of revelations in the media about the corrupt arms deal, in which inter alia millions of Rands were channelled through Nkobi Holdings to Jacob Zuma. Schabir Shaik was found guilty in 2005 on two counts of fraud and corruption for his profiteering in the arms deal through Nkobi Holdings. Jacob Zuma (now president) was depicted by the judge as having a ‘generally corrupt’ relationship with Shaik. Subsequent attempts to prosecute Zuma failed as the prosecuting authority folded in the face of political pressure and influence.

The arms deal is one of the most contentious issues of post-apartheid South Africa. It has resulted in civil society mobilisation in favour of full disclosure, in resignations from parliament by disgusted ANC members of parliament and various public interest lawsuits. Part of the justification for the arms deal was that the firms awarded the armaments contracts would deliver ‘offset’ investments – that is, would promise to invest in other parts of the economy, thereby creating jobs. Alec Erwin, the erstwhile Minister for Trade and Industry, was one of the most fervent supporters of the arms deal, supposedly because the offset deals could boost South Africa’s industrial policy (Feinstein 2007: 232; Green 2008: 474–5). However, less than a quarter of the paltry 12,000 offset-related jobs were actually delivered (Feinstein 2007: 232).

The growing number of examples of graft, corruption and the abuse of state power in the allocation of contracts has harmed South Africa’s reputation in the business and international communities. So too has the erosion of trust in South Africa’s police services. Jackie Selebi, the national police commissioner from 2000 until 2008, was convicted of corruption and sentenced to 15 years in jail (though he was released on supposedly medical grounds after serving less than a year) and South Africa’s criminal investigation and prosecutions authorities have been plagued for more than a decade by political intrigue. Figure 4 plots the Heritage Foundation’s changing index of perceived corruption and other aspects of ‘business freedom’.12 Perceived freedom from corruption improved in the late 1990s, but has been on a sharp trend decline since 1998. Thus while fiscal and trade ‘freedom’ (basically a measure of trade liberalisation and orthodox fiscal policy – both of which shape the macro environment) trend upwards, the micro business environment (corruption, controls on investment, BEE, labour laws barriers to entrepreneurship) have trended the other way. The World Bank governance indicators are even more negative about post-apartheid South Africa’s ability to control corruption. As shown in Figure 5, perceived regulatory
quality and especially control of corruption have been trending sharply downwards in the 2000s.

The rational strategy for white business, in this environment, is to act defensively and for individual capitalists to look after their own narrow interests, perhaps through continued unbundling and disinvestment, and otherwise by engaging in BEE deals and the like in order to obtain government patronage through the back door. The rational strategy for black business is to accumulate capital...
on a parasitic basis (by obtaining shares in return for political favours and connections) rather than participating in the productive sector of the economy where conflict with labour is inevitable. Those that do venture into the productive sector are likely to lobby the government for additional support, such as tariff protection and even bail-outs.

In short, there are strong indications that a form of crony capitalism is developing with a peculiarly South African twist in which organised labour lobbies government on behalf of employed workers and its investment interests. However, unlike in Zambia and Ghana where this is a serious problem (Handley 2008), the South African economy is large enough for there to be many other routes for aspirant capitalists to make money – even though BEE regulations may act as a tax on that effort. Furthermore, there exists a dynamic civil society which has resisted the government, notably on AIDS, poor education delivery, and corruption in the arms deal. Neo-patrimonialism thus may grow, but as long as civil society remains strong, and the economy reasonably diverse, it is unlikely to become the key defining feature of post-apartheid capitalism.

The rational strategy for organised labour is to continue lobbying the government for pro-labour policies and to involve itself in BEE deals. What this means for the prospects of a more co-ordinated variety of capitalism emerging in South Africa is an open question. Iheduru (2002) points out that organised labour’s involvement in business deals (so-called ‘comrade capitalism’ or ‘business unionism’) blurs the lines between workers and owners thereby giving workers a ‘material stake’ in the economy, and helping build a black business class. He argues that this will make cross-class compromises more likely and be good for ‘social concertation’. But as long as unions continue to reject wage restraint and insist that it is the job of government to mobilise development-state type policies to boost productivity and move firms up the value chain, then class compromise is unlikely. Indeed, one would expect unions to demand industrial policy support when companies run into trouble. For example, in 2011–12, R66.7 million was provided by the Department of Trade and Industry to Seardell, a clothing and textile producer part-owned by Sactwu, for modernisation, upgrading and the financing of additional capacity. Ironically, though, this large injection failed to stem the tide of job losses as Sactwu continued to push for higher wages.

**Conclusion**

Post-apartheid South Africa thus appears to have CME-like labour regulations entrenched alongside growing neo-patrimonialism. But it also, somewhat paradoxically, operates in a more liberal economic environment – at least on some dimensions. For example, Figure 4 shows that South Africa’s ‘fiscal’ and ‘trade’ freedom increased between the 1990s and 2000s – largely because of trade liberalisation and the countries fairly orthodox fiscal and monetary policies. The problem for businesses – especially those in the internationally competitive labour-intensive product markets – is that the combination of high and rising labour costs and trade liberalisation places a serious squeeze on profitability (Nattrass and Seekings 2012). The situation, as depicted in Figure 2, may...
benefit firms operating in higher wage, higher productivity niches, but it comes at the cost of growing capital-intensity and persistently high unemployment. Racial inequality has declined sharply in the post-apartheid era, but unemployment coupled with no support for the unemployed has resulted in the persistence of both poverty and inequality, albeit in new, class-based forms (Seekings and Nattrass 2005). It is a variety of capitalism which provides CME-like support for the employed, patrimonial and increasingly corrupt support for sections of black business, whilst effectively excluding the predominantly unskilled, unemployed from the fruits of growth.

South Africa’s failure to create sufficient jobs to address the unemployment crisis is posing serious challenges for economic policy and social policy. Recent attempts to boost youth employment through a wage subsidy scheme met with strong resistance from organised labour which has remained implacably opposed to the idea that jobs should be created through lowering the cost of employment. Despite growing concern about job losses (notably in clothing) bargaining councils continue to use the legal system and local sheriffs to shut down firms which fail to pay the negotiated minimum wage. Calls by the Minister of Finance and the head of South Africa’s Planning Commission for a more employment-friendly labour relations system reflect a growing disquiet in government circles about the role of institutions in exacerbating unemployment.

One option is to move more in the direction of a CME and introduce social welfare for the unemployed – which will lower inequality but increase the tax burden. But this is resisted by business and organised labour because South Africa’s relatively narrow tax base means that all income earners will have to pay higher taxes. Another option is to move more in the direction of a LME with regard to labour laws whilst retaining statist components (for example, industrial policy) where they are effective. This, however, is strongly resisted by organised labour. The framing of those who propose labour-market reforms as ‘neo-liberal’ and as ‘sell-outs’ makes it very difficult to have a productive discourse about how best to build an inclusive political-economy in South Africa.

Finally, South Africa’s adversarial labour relations pose major challenges for any co-ordinated solutions involving class compromise. Most worryingly, violent strikes disrupted the mining industry in 2012 – most notoriously in August when over 47 miners were killed by the police. The once powerful NUM, which had brokered profit-sharing deals in the gold mining industry in the early 1990s, appears to have lost ground to a rival union, with a particularly adversarial approach to wage setting. This has all but stalled investment in South African mining. The Western Cape wine industry has also suffered from spontaneous and organised protests and demands that the minimum wage in agriculture be doubled. In neither the mining nor the agricultural wage disputes have any efforts been made to link wage demands to profit sharing arrangements or job retention. Although there are some employee share ownership schemes in mining and agriculture, these are rare. Overall, there appears to be no immediate prospect for a more co-ordinated, social-democratic variety of capitalism in South Africa.
Notes

1. The increase is attributable to the introduction of a child support grant and extensions in eligibility criteria for the old age pension. See South African Reserve Bank Quarterly Bulletin, September 2011: 52–3.
11. Information on legislation, charters, BEE scorecards etc can be found on the Department of Trade and Industry website: http://www.thedti.gov.za/bee/bee_codes.htm
12. See http://www.heritage.org/index/book/chapter-1

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A South African Variety of Capitalism?


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Structured Inequality: Historical Realities of the Post-Apartheid Economy

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Structured Inequality: 
Historical Realities of the Post-Apartheid Economy

Nancy L. Clark

With the advent of the twentieth anniversary of the democratic elections in South Africa, it is useful to examine the most crucial and certainly one of the most controversial areas of change: the South African economy. The historic wealth of South Africa, making it the second largest economy on the continent, was based on enormous mineral wealth combined with a racially discriminatory legal system that resulted in an abundant disenfranchised and poorly paid workforce.¹ In this manner, huge profits were generated for a very few. While the apartheid economy suffered from a very small internal consumer market, and increasingly from external censure and withdrawal, it still functioned successfully for the extremely small, privileged white community that reaped the benefits of the country’s wealth. Has it continued to be successful with an entirely different agenda of equality?

South Africa has fully joined the international community and has been transformed in countless ways. All residents of the country now enjoy the full rights of citizenship; they are free to move about the country, and to engage in business and economic pursuits. South Africa has been welcomed into international business circles and freely trades with all nations. South Africa was asked to join the BRICS group (Brazil, Russia, India, China, and South Africa) of developing economies, and is the only country in Africa to be ranked among the top fifteen emerging economies worldwide. The very size of the economy has expanded by 438%, from $80 billion to $350 billion, and per capita GDP has increased by 90%.² Any visitor to the country’s urban centers will be astounded not only by the growth of the population, but also by the expansion of commerce. Apparently the end of apartheid was great for business in a general sense, but has that change benefited most South Africans?

In reality, the economy has not changed much for many. South Africa today suffers with the most unequal income

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distribution in the world. Most significantly, and least surprisingly, this inequality remains based on race. Eighty-five percent of Africans remain poor, while 87% of whites are in the middle and upper income brackets. Since 1993, the percentage of whites in the highest income levels has increased from 8% to 20%. At the same time, the percentage of blacks in the middle class has increased from 7% to 14%, with only 1% of blacks reaching the very highest income levels. And despite the explosion of business activity, unemployment rates remain shockingly high: officially over 25%, but 36.1% under an expanded definition. Again, these numbers differ sharply between black and white—nearly 30% of Africans are unemployed, compared with approximately 5% of whites. It is fair to say that these numbers correlate most strongly with educational levels and cannot be interpreted as a continuation of the sort of overt and institutionalized racism of the past. In fact, Black Economic Empowerment (BEE) programs have aggressively worked, with some success, to place more historically disadvantaged South Africans into business and government and are responsible, in conjunction with expanded social grants, for the improvement in poverty and income statistics for Africans. Nevertheless, Africans still suffer from poverty, inequality, and unemployment on scales not unlike their condition under apartheid.

A lack of economic opportunities—especially in terms of employment—is the root of the problem for Africans. It is widely acknowledged that mediocre job creation, especially in the manufacturing sector, plays a major role in this situation. The purpose of this paper is to offer a historical perspective on the embedded economic structures that continue to replicate these inequalities, specifically with regard to industrialization and manufacturing, and then to examine the impact of government policy changes over the past twenty years that have exacerbated some of the limitations of the country’s economic progress. Apartheid institutions that underpinned wealth and employment for the white population have not expanded to perform the same service for the entire country. In the absence of the direct government interventions so prevalent under apartheid, the new government has allowed the private sector to take the lead on economic and industrial development. The result has been increased generation of wealth without an attendant increase in industrialization or jobs. Rather
than put the wealth of the country to work to create new industries and jobs, private capital has instead replicated many of the dynamics of the past.

**Partnerships of State and Private Capital**

When Nelson Mandela became president of South Africa in 1994, the apartheid policies of the past were swept away, and the practices of the former government that were so harmful to the country were ended. Without the intervention of a state bent on racial discrimination and limited privileges, the door was open to allow everyone to excel. But apartheid left a structure of inequality that did not simply evaporate and remains largely intact to the present.

The economic structure that was inherited by the Mandela government was the outcome of intentional government policies dating back hundreds of years and backed by extreme state force and violence. Since 1652, this region was ruled for the advantage of a few at the expense of many. This arrangement relied on many government actions over 350 years, including the land dispossession of over 80% of the population.\(^6\) It was also characterized by government support for business enterprises through limited taxation, infrastructure support, and guaranteed input costs. The bulk of the country’s most profitable products have always been exported, whether wool or gold, making the government in turn reliant on those industries and thus willing to continue beneficial supports to insure their continued profitability. And most importantly, successive governments pursued a very limited goal that allowed for such extravagant support to business. Economic activity was meant to benefit only a very small group of South Africans, those of European descent, who represented less than 15% of the population. South Africa’s economy was structured so that revenue generated by industry was split between the local white population and overseas investors with very little left over for the African majority.\(^7\)

One of the most direct links between the government and industry has been the state-owned enterprises (SOEs) that are run through the government but supply services to private enterprise.\(^8\) The operation of these organizations most clearly reveals the relationship between the interests of the state and those of capital.
Viewed through an historical lens, the policies and operations of the SOEs have shifted according to the political imperatives of the day. They have been used as sources of employment for politically important groups, as low-cost suppliers of inputs for industry, and as financiers for new technologies. Overall, they have been used to promote capital accumulation in the private sector, and especially in those industries associated with mineral extraction and energy production. Often accused of inefficiency and corruption, the SOEs have in fact facilitated great profits for the private sector. Has their role changed in post-apartheid South Africa?

For the purposes of understanding the contemporary situations of the state corporations, it is important to be aware of their beginnings. The first state corporations were established in the interwar period, replacing existing private companies that provided goods and services for a hefty profit. The early state corporations helped create and support additional industries that were tied to the mining industry but that could also provide jobs for the white minority. The relationships between these early state enterprises and private capital were very close, and usually favored the interests of private capital.

In the case of the first state corporation, the Electricity Supply Commission (Eskom), the state took over the operations of a private company, expanded electricity for the mines at a cost to the state, and thereby insured greater mineral production, profits, and ultimately tax revenue for South Africa. While a private company, the Victoria Falls Power Company (VFPC), held contracts to supply the mining industry, Eskom was established in 1923, partially to supply electricity for the state-owned railways. By 1946, the mines correctly suspected that the VFPC was overcharging them for power, and the mining giant Anglo American provided Eskom with the majority of the funds to buy out the VFPC and become the sole electricity supplier on the Rand. At the same time, Anglo American was Eskom’s major supplier of coal, and the two companies worked together to turn cheap coal into cheap electricity. Eskom provided cheap electricity to its major coal supplier.

By 1960, Eskom supplied electricity primarily to the mines and railways via a national grid, with power stations in the eastern Transvaal near the Anglo American coal mines. Taken together, mining and industry accounted for 71% of all Eskom sales in 1960,
and these figures do not account for Eskom electricity sold by municipalities to industries, especially to the state-owned steel plant in Pretoria. Furthermore, these sales were made primarily to two customers: the Anglo American Corporation, Eskom’s partner and the largest mining company in the country, and another state corporation, the South African Iron and Steel Corporation (Iscor) and its subsidiaries, which made up the bulk of the South African engineering industry. It was clear that electricity generated with coal from the mining industry would be returned primarily to that industry and any that served the mines rather than to the broad population.¹⁰

In a similar manner, the steel industry was established with the needs of private industries in mind. The new steel company, Iscor, was especially ready not only to provide steel to the mines but to encourage, promote, and even fund subsidiary companies to manufacture steel products from its raw steel. The chairman of Iscor as well as Eskom, H. J. van der Bijl, outlined the company’s approach in 1934:

[We will] confine our efforts, as far as practicable, to the production of primary steel products. . . . believing that where opportunity offers for the development of subsidiary industries private enterprises will not fail to seize it. We are of the opinion that the best results will be obtained by working amicably together with subsidiary and cognate industries and by encouraging the establishment of further subsidiary industries. It will certainly redound more to the benefit of the Steel Corporation if our efforts are directed towards assisting capital which has been invested in such industries to earn more and so to encourage further development.¹¹

True to his word, van der Bijl as chairman of Iscor sought out private engineering firms, competitors, and customers and formed numerous joint ventures and subsidiaries, selling them Iscor steel at close to cost. And for Iscor, costs were partially contained by substantial vertical ownership of iron ore and coal mines to supply production, and marketing and sales partnerships with private subsidiaries.¹² In 1945, Anglo American became a partner to a second state-owned company through the acquisition of Iscor’s primary
coal supplier, the African and European Investment Corporation, thereby cementing the relationship with the mining industry.13

The early state corporations conformed to a very specific structure focused on capital-intensive industries dependent on advanced technology and a split labor force of highly skilled technicians and minimally skilled workers. This was the structure that worked well for the mines. But could this formula work for industries that did not work with the mining industries, especially those producing consumer goods? During World War II, South African industries began to develop in these directions, producing goods and clothing both for the troops and as import substitutes. Following the war and through yet another state corporation, the Industrial Development Corporation (IDC), the state tried to promote the local manufacture of some consumer goods, especially textiles, wool, and paper goods. Although the factories were placed near the “Native Reserves” so that they could use disenfranchised workers, and in most respects they followed the structures used at other state corporations, these enterprises failed. They faced competition from foreign goods and private capital as had Eskom and Iscor, but they lacked access to the primary centers of capital accumulation in the mining industries. As the chairman of Anglo American said at the time:

Far, therefore, from secondary industry offering an alternative to take the place of mining in our economy, the fact is that the prosperity of gold mining and the other primary exporting industries is a prerequisite and a condition of our industrial development... Manufacturing industry will only be able to serve as a substitute for the wasting asset of our mining industry if it is able to increase substantially its contribution to our export trade.14

No matter how much state support was provided, industries could not succeed in South Africa without a direct link to the center of capital accumulation, the mining industry.

Another IDC-sponsored state corporation, the South African Coal, Oil, and Gas Corporation (Sasol), proved the point. Established at the same time as the failed textile and paper operations, Sasol has achieved astounding success. Its operations were based on technology developed by the German government during
World War II to convert coal into fuel oil, and it was established in 1951 solely with government funds, since private investors did not want to risk their funds on the experimental technology. It proved to be a costly investment for the government, with the Minister of Finance at the time complaining that he “would probably not have approved of the scheme had I visualized that the cost would reach such dimensions.” The company struggled for years, but following the oil embargoes of the 1970s, and the rising price of oil since that time, Sasol has become the most successful of the state corporations, shedding government ownership and now operates as an international energy conglomerate. Sasol played a crucial role in the early development and success of South Africa’s energy sector and embodied the link between minerals and energy through its conversion of coal into oil. It fit perfectly into the country’s most successful industrial sector.

As the turn to democracy began in the late 1980s, these institutions loomed large in the South African economy. Various South African administrations had used the state corporations to promote employment for whites, to produce weapons or fuel oil to counteract international boycotts, or simply to develop import-substitute industries. In combination with protective tariffs and racially discriminatory wage structures, most of the state corporations had succeeded. Their successes in part allowed the apartheid government to withstand boycotts and unrest, and they were viewed as part of the apartheid bureaucracy responsible for the country’s regressive social policies. While it was acknowledged by the Mandela administration’s Government of National Unity (GNU), that the public enterprises “play a major role in the economy... to provide cheap and efficient services,” it was also noted that, “under the skewed policies of apartheid the Government inherited a range of assets that could now be sold to release resources for the implementation of the RDP.” In other words, these entities represented significant assets formerly used to support apartheid; they could now be liquidated to release new resources to enable the transformation of South Africa.

The Road to Freedom, or to the Free Market?

When Nelson Mandela took control of the South African government, he not only inherited a vastly unequal society, but he also
faced an international financial and corporate community that was nervous about the future of their investments and profits in South Africa. Banks and investors had withdrawn their funds during the 1980s, skeptical that the apartheid government was capable of protecting their interests. But President Mandela and the African National Congress posed a different type of danger. Would the new government withdraw the privileges enjoyed by those industries, or even impose greater responsibilities and costs that would eat into profits? Even worse, would President Mandela nationalize the mining industry—the veritable goose laying the golden egg?18

While the 1955 Freedom Charter called for the nationalization of the mines, few believed that the new government would pursue such action. Nevertheless, businesses could hardly believe that the new government would continue the profitable policies of the old.

When the new government’s economic plan, the Reconstruction and Development Program (RDP) was unveiled in 1994, the massive document sought to address injustice through economic growth. It was hoped that the anticipated expansion and growth of the economy in a free and democratic society would ease the transition and enable the government to solve nearly every problem. Change was proposed from the “commanding heights” of the economy down to the country’s sports fields. At long last, the majority of South Africans could hope to make their dreams a reality. The document, signed into law by Parliament in November 1994, outlined objectives, programs, and targets and specified which government ministries were responsible for implementation. As President Mandela stated in the preface to the plan:

This transformation will permeate every level of government, every department, and every public institution. The Government’s RDP activities therefore should not be seen as a new set of projects, but rather as a comprehensive redesign and reconstruction of existing activities. Growth and development are more than interdependent. They are mutually reinforcing. Addressing inequalities will expand markets at home, open markets abroad and create opportunities to promote representative ownership of the economy. The expansion of the South African economy will raise state revenues by expanding the tax base, rather than by permanently raising tax rates.19
The RDP indeed envisioned a complete transformation of South Africa that was dependent on a highly successful, profitable, and expanding economy.

The role of the state in this plan was, however, problematic. What is easy to forget now, twenty years after President Mandela wrote these words, is the nature of the government and society that he was in the midst of inheriting. He took charge of a government bureaucracy that had implemented the policies leading to the gross inequalities in South African society. Was the existing state structure capable of such transformation? The basic immorality, greed, and discrimination inherent in the previous regime constituted a huge preoccupation for the new government, leaving “a legacy of secrecy and greed. The Government in its own activities and structures as well as through legislation will seek to promote transparency and accountability and the development of individual and social integrity.”

Addressing the less obviously social and political aspects of government policy, the new government faced the fact that even “science and technology have served the interests of the minority and the political goals of apartheid.” And time and again the RDP document addressed the urgent need for representation at all levels of society. The RDP represented a mixture of idealism and skepticism — idealism about the future, and skepticism about the apartheid structures that remained and needed to be reformed if any progress could be achieved.

When addressing problems in the economy, the RDP seemed unwilling to trust entirely to state mechanisms. While the government was committed to providing unspecified sources of support, the RDP also included plans to “reform those market structures that underpin high prices and complacency, and that constitute major entry barriers to small and medium-scale enterprise.” In other words, there was some hope that freeing market forces that had been constrained under apartheid would promote industrial development and job growth. There would be an organic process that would lead to “a more dynamic manufacturing sector [that] will emerge as a growing source of productive and well-paid employment opportunities and industrial learning.” Relying on market forces, now decoupled from the apartheid agenda, the RDP forecast the growth of jobs, prosperity, and equality for all.
But within two years, concerns about significant depreciations in the South African currency led the government to quickly reformulate plans for development. The Mandela government had initiated many crucial programs to address the quality of life for South Africans, including access to clean water, healthcare, and education. Nevertheless, the RDP was abandoned in favor of a new plan, the Growth, Employment and Redistribution Program (GEAR), which placed heavy emphasis on a reduced—not expanded—vision of state economic intervention. This plan dealt almost exclusively with fiscal and monetary policies, and very little with industrial growth and jobs. The plan, written by a team representing the Development Bank of Southern Africa, the South African Reserve Bank, and the World Bank in addition to several South African academics, echoed then-current IMF and World Bank structural adjustment programs primarily focused on debt reduction, conservative monetary policies, and the relaxation of exchange controls and tariffs. GEAR proposed cuts in state expenditure in order to reduce South Africa’s budget deficit to 3% of GDP by 1999. The plan also called for “speeding up the restructuring of state assets to optimize investment resources,” and “an appropriately structured flexibility within the collective bargaining system.” While the plan acknowledged that serious investments in public infrastructure, including electricity, transportation, etc. were necessary, it did not commit the government to providing the support. Instead, “government is committed to the application of public-private sector partnerships based on cost recovery pricing where this can practically and fairly be effected.” Satisfying the banks and putting the fiscal house in order were the first priorities for the state, not investing in industry.

Considering that GEAR remained the de facto economic plan for the country for the next ten years and played a crucial role in shaping the post-apartheid economy, it is important to understand the impact of the plan on employment, poverty, and inequality. While government debt as a percentage of GDP dropped from 49.7% in 1994 to only 28.3% in 2007, unemployment jumped from 22.9% in 1994 to a high of 30% in 2004. At the same time, personal debt increased with household debt as a percentage of disposable income rising from 56.6% in 1994 to approximately 80% in 2007. And manufacturing—the acknowledged driver of jobs and key to solving the problems of
unemployment and poverty—dropped as a percentage of GDP from 18.7% in 1994 to 11.6% in 2013.\textsuperscript{30} By 2008, 85% of Africans were classified as “poor,” down from a high of 92% in 1993 but still far from a robust improvement. While GEAR strengthened the financial sector, “liberalized” the investment climate, and increased GDP, little of these improvements translated into jobs or prosperity. These gains, coupled with highly liberalized foreign exchange controls, allowed investors to make money that was easily transferred outside the country rather than reinvested inside South Africa.\textsuperscript{31}

By 2005, growing unemployment and poverty prompted the Mbeki government to reconsider the role of the government in promoting development and to turn to the state corporations. Acknowledging that public-sector investment in infrastructure had fallen dangerously low—and that the private sector had not filled the gap—in 2006 the government released a tentative plan, the Accelerated and Shared Growth Initiative-South Africa (AsgiSA).\textsuperscript{32} Included were plans to beef up government-provided services through the state-owned enterprises:

> Public enterprise investment expenditure for the period April 2005 and March 2008 is planned to be about R370 billion. Of this, about 40% will be spent by public enterprises, mostly Eskom (R84 billion) and Transnet (R47 billion, of which R40 billion is ‘core’), and mainly on power generation, power distribution, rail transport, harbours and an oil pipeline. The general purpose is to improve the availability and reliability of infrastructure services in response to rapidly growing demand.\textsuperscript{33}

The Industrial Development Corporation (IDC) also figured largely in these plans, including a R1 billion program to promote small and medium-sized businesses. “Government is committed to reviewing the functioning of the development finance institutions, which include the IDC, the Land Bank, the DBSA and the National Development Agency. These are powerful institutions that can be more effectively employed in our developmental efforts and support social mobilization and active participation of civil society.”\textsuperscript{34} These were hesitant steps towards greater state intervention in the economy.
Nevertheless, an international panel of economists based at Harvard that the government consulted recommended continued reliance on the private sector despite the dismal record of support from that quarter. In particular, the “Harvard Group” report recommended that the government itself should finance exploration into new products, etc. that could “crowd in significant additional investment through imitation and replication” while specifically stating that industrial policy “should not focus on financing small and medium enterprises per se or BEE [Black Economic Empowerment] deals.” In other words, government should take the risk to develop new industries that could be turned over to private enterprise and profit but these firms should evidently not include small, medium, or BEE businesses. Even more surprising, the group entirely discredited the creation of industries to process the country’s natural resources: “Greater processing of natural resource exports does not constitute either an easy or a natural next step in the process of structural transformation, especially in South Africa. . . If these sectors have not developed on their own, it is prima facie evidence that either they face low social returns or confront obstacles similar to those of other sectors. . .Privileging beneficiation is unwarranted and it takes government’s attention away from other opportunities that may have more potential to create export jobs in South Africa.”

By the time the Harvard Group report was submitted, the Mbeki presidency was already in trouble and would soon be replaced by a new government. Although fiscal and monetary policies remained conservative throughout this period, the AsgiSA was never fully implemented.

Upon taking office as the President of South Africa in 2009, Jacob Zuma seemingly reversed course and announced a new economic plan, The New Growth Path (NGP), with the aim of redirecting state support to small businesses and new entrepreneurs and stemming the tide of South Africa’s deindustrialization. The NGP signaled a move toward state-led industrialization: “Areas with employment potential often lack private-sector champions or supportive market structures, meaning that they require government encouragement.” At the same time, the government hedged on full responsibility for promoting industrialization, stating that “the growth path, while state-led, has to articulate well with market institutions. The challenge for the developmental state
is to minimize costs for business except as required to support transformation toward a more equitable, decent, work-generating, and green economy.”

The National Development Plan (NDP) that ostensibly provided the details of the growth policy soon followed the New Growth Path. But neither the NGP nor the NDP provided specific guidance on how the government would create the millions of jobs promised in both reports.

Instead, the most direct policy proposals for state-led industrialization have been framed by the Department of Trade and Industry. The Industrial Policy Action Plan (IPAP), first introduced in 2007, has undergone elaboration and refinement over the years to reach a goal of creating more jobs through industrialization. The plan has received the endorsement of labor: “The only way to address the structural problems in the economy is through industrialization, in particular promoting the manufacturing sector and the creation of decent jobs. COSATU [Congress of South African Trade Unions] fully supports the efforts by the Department of Trade and Industry to reverse the deindustrialization of the economy as a result of neoliberal policies implemented before and after 1994.”

The IPAP clearly states that “sustainable long-term development should be underpinned by higher growth, exports and labour-intensive, value-adding economic activity in the production sectors, led by manufacturing. It is widely and increasingly acknowledged that manufacturing should play the critical role in this adjusted model of economic development.”

The IPAP also identifies the major domestic constraints to industrial development, leading back to the roles played by the state corporations. The primary obstacles to the development of key manufacturing industries are identified as high electricity prices and the “monopolistic pricing” of the materials that are key to manufacturing, especially steel, plastics, and polymers, produced by Iscor and Sasol. Nearly twenty years after the demise of apartheid, those companies that were established by the apartheid state and that provided the electricity for a profitable mining industry, steel for mining and weapons, and oil to withstand international embargoes, are obstacles to the goals of post-apartheid South Africa.

Now that the government has come full circle to consider the advantages of state-led industrialization, can it regain some control over those resources that were “privatized” during the last
twenty years? The impact of GEAR, AsigaSA, the NGP, and the NDP has allowed the dismantling of many linkages between the state and the economy. It is evident that market forces have not supported the post-apartheid goals of equality and employment, and have in fact continued the historic trajectory of the South African economy.

Privatization and the Free Market

The close linkages between the state and capital as embodied in the state corporations have weakened considerably during the post-apartheid period as the new government has distanced itself from these relics of apartheid. By 2004, the government had “privatized,” or sold off, approximately twenty-six former SOEs. These included television stations, resorts, airports, and a forestry company. Of the most significant SOEs, Sasol and Iscor were “privatized” and are no longer under government control; the IDC now operates within the South African Department of Economic Development; and Eskom operates within the Department of Public Enterprises. The only other wholly state-owned companies are Transnet (rails and ports), South African Airways, Broadband Infraco, Denel (military equipment), Safcol (forestry), and Alexkor (diamond mining). While these enterprises have provided managerial positions for historically disadvantaged groups, they have suffered decreasing influence over the private sector and in fact find themselves undercut by the private corporations who were once their partners.

The transition to a post-apartheid economic agenda has been largely unsuccessful for the four enterprises that have been most closely involved in South Africa’s industrial development—Eskom, Iscor, IDC, and Sasol. The IDC has made the greatest changes in response to government pressure since it was targeted early on by the Government of National Unity for a bias toward large, highly capitalized projects rather than those supporting more broad based economic development and job creation. The IDC has changed mission, especially since the 2009 New Growth Path was implemented, and the agency now focuses on job creation for women and youth, entrepreneurship, and the development of green industries, among other areas. The IDC claims to provide over 60% of its funding for small and medium
The other state corporations have not made such changes, and Minister of Trade and Industry Rob Davies recently accused Iscor (now ArcelorMittal) and Sasol of overcharging on basic materials used in local industries and thereby undermining the development of local manufacturing. Eskom has come under even more severe public criticism following a series of rolling electricity blackouts in 2008, and again in 2012. The state corporations are variously accused of inefficiency, corruption, and incompetent leadership. Whatever the cause, they have failed to advance the goals of post-apartheid economic development.

Eskom is the most widely derided of the state enterprises. The utility’s performance over the past few years has justifiably raised serious concerns since electricity is vital to South African society and the economy. Nevertheless, it is clear that the utility was completely unprepared for the demands of post-apartheid South Africa. Throughout its history, Eskom had been built and structured to serve a small constituency—primarily the mining and manufacturing sectors—with cheap electricity that was generated from coal provided by its major customer, the mining industry. The relationship allowed Eskom to provide that power at a cheap rate to its partner, the mines, and by 1960, over 70% of its electricity was sold to the mines. Throughout the 1980s, there was little growth in Eskom’s capacity due its inability to float the large overseas loans it needed to build new power stations. And even in the 1990s, the new South African government was slow to fund new power stations, still believing that Eskom should be privatized to realize revenues and to leave the problems of electricity generation to a private company. For a variety of reasons, capital was not eager to take on such a large operation, labor opposed privatization, and the government was disinclined to break up the operation—thereby undercutting the advantages of the nationwide grid—to sell it off in smaller chunks. The combination of a reluctance to invest with the imperative to expand left Eskom with disastrous results. While the total number of customers grew over 400% between 1994 and 2014, capacity only increased by 10%. The majority of additional capacity has come from a new coal-fired plant at Volksrust and two gas-fired stations on the west coast that are expensive to operate. In an effort to increase capacity and remain financially solvent, electricity prices have been steadily raised to build up resources to build new plants, leading
to more public dissatisfaction with the commission. Although discussions concerning privatization have again resurfaced, these proposals are opposed by COSATU and are unlikely to attract private investors at this point. Without significant government funding, it is doubtful that Eskom can ever catch up to the needs of present-day South Africa.

Iscor’s fortunes have likewise shifted radically over the past twenty years. As the iron and steel industry hit a slump throughout the 1970s and 1980s, and faced dumping from international producers, it was feared that it made no sense to support a national industry. In that climate, the rush was on to privatize what seemed like a drag on government resources. In 1989, the government offered Iscor shares on the Johannesburg Stock Exchange but met with little enthusiasm. In 2001, the government decided to “unbundle” the steel corporation, essentially selling off parts of the carefully constructed vertical supply chain. Iscor’s mining resources, including coal and iron ore mines, were sold off to Kumba Resources, leaving Iscor with only steel manufacturing operations. In 2006, Kumba retained the iron ore deposits and another private company, Exxaro, took over the coal mines. Privatization left Iscor with the least lucrative and most vulnerable operations of the former state corporation.

Today the largest steel company in the world, ArcelorMittal, owns Iscor. Iscor shares were bought out in 2003 by the Indian firm, Mittal Steel, which later merged with the European firm Arcelor in 2006, creating ArcelorMittal South Africa, the largest steel producer in Africa. The company still uses the facilities in Vanderbijlpark, Vereeniging, and Newcastle, although the Pretoria plant was recently closed, while new facilities at Saldanha Bay produce primarily for export. Emblematic of the new realities of the South African economy is the agreement ArcelorMittal reached in May 2013 to supply steel from the Newcastle plant for a number of hydroelectric projects in Zambia that are being built by the Chinese Sinohydro Corporation. The private company has come under attack from Minister of Trade and Industries Rob Davies for overcharging on steel to local industries. Davies accused the company of charging more than the price of imported steel and holding back on necessary investments in plant maintenance to manufacture sufficient products for the local market. Instead, the now-global company has focused on exports of steel
and coking coal. As a small part of a multinational global conglomerate, the former Iscor operations are somewhat irrelevant to the success of the parent company.

Sasol, alone among the former state corporations to achieve great success despite a tentative start, was the first of the state corporations to be privatized in 1979. Since the 1930s, private entrepreneurs had tried to float a company to produce oil from coal but lacked the capital to do so. Following World War II, Parliament passed the *Liquid Fuel and Oil Act (1947)* to create regulations and protection for such an industry, but there were still no private companies willing to take on the financial burden. In 1951, the government finally decided to establish the industry, buying out interests in the technology that were held by the Anglo-Transvaal Corporation (now Anglovaal) and began to establish the industry under exclusive government control. Due to the uncertainty of the technology as well as doubts about the ultimate financial success of the company, it remained a wholly government-owned enterprise, with the government funding the construction of three plants. In the wake of the oil crisis of the 1970s and renewed oil embargoes against South Africa, oil prices rose and South Africa was desperate to overcome the international embargoes against the apartheid regime. Sasol’s strategic significance insured continuing government support. Nevertheless, private investors were wary of the company’s ability to produce on a profitable basis until the price of oil became high enough. With its three coal gasification plants underway with government funding, the public finally began to invest when the government offered shares on the Johannesburg Stock Exchange in 1979. The government’s bet on this new technology would pay off handsomely for private investors.

Sasol consolidated its position within South Africa in the 1980s, moving into chemicals production, and it was poised for expansion by the late 1990s. By 2003, Sasol was listed on the New York Stock Exchange, in addition to its listing on the Johannesburg Stock Exchange (1979). As the leading manufacturer of oil from coal in the world, and enjoying the longest proven record in the field, Sasol’s expertise was welcomed around the world. Today Sasol has joint ventures and operations in Malaysia, Qatar, China, India, Uzbekistan, Nigeria, Canada, Australia, Botswana, Mozambique, and the United States. The company recently invested in a
liquid gasification plant in the United States, undertaking a $22 billion investment—its largest ever—to build a plant in Louisiana to convert natural gas into liquid fuels and chemicals. Sasol is hopeful that the company will also be able to take advantage of hydraulic fracturing, or “fracking,” opportunities inside South Africa, as the government continues to consider allowing hydraulic fracturing to find shale gas in the Karoo. The Department of Trade and Industries (DTI) has estimated that South Africa may contain the world’s fifth largest reserves of shale gas. Today Sasol ranks with the premier energy conglomerates in the world.

By 2010, the government recognized that the state enterprises could play a much larger part in economic development and President Zuma convened a Review Committee to recommend changes and restructuring of the state enterprises. The resulting report recommended a process for the restructuring of existing state enterprises to better align their operations with the developmental goals of the government. The report recognized that the state corporations had played a major role in the development of the economy and its “transition to a resource-processing economy.” Nevertheless, the report did not elaborate on how the state enterprises could further the country’s economic development, nor what their goals should be.

**Back to Mining**

As the apartheid-era state corporations were “privatized,” they lost key resources that had allowed them to enjoy monopolies and secured markets that are now in the hands of private companies. The most important advantage they have relinquished is their close connection to the mining industry. Eskom is the country’s principle energy producer, but is now dependent on private minerals suppliers (coal) for its operations. And Iscor has lost access to the minerals it once controlled (iron ore, coke), and is no longer linked to its customers. The exception is Sasol, which continues to have direct access, both to the minerals that it needs for production (coal) through its subsidiary Sasol Mining, and in its role as a supplier of energy (liquid fuel). Although they could never have provided sufficient support for the economy under their apartheid-era structures, the loss of these advantages has severely hampered the success of the state corporations.
Eskom’s situation is the most serious. Beginning with its establishment in 1923, the corporation constructed a series of complicated partnerships with the mining industry to secure its success. Coal supplies were provided by the major consumers of electricity, the mines, at low cost in exchange for low prices on electricity. Unfortunately for Eskom, today the supply of coal has become difficult as the export market for South African coal has become extremely lucrative. Nearly three quarters of Eskom’s fuel supply comes from domestic coal, but estimates show that Eskom will suffer a shortfall in supplies as early as 2015 and well into the future.\textsuperscript{59} In 2013, South Africa exported over 70 million tons of coal from Richards Bay Coal Terminal.\textsuperscript{60} Since 1994, the price of South Africa’s export coal has more than tripled from $29 per ton to $71 per ton.\textsuperscript{61} And the South African government has repeatedly encouraged increasing these exports as a way to raise revenue. Facing shortages of coal supplies for its stations, Eskom has been forced to turn to the much more expensive alternative of purchasing gas to fire its turbines. While the government prefers for Eskom to develop clean energy including hydraulic and wind-powered stations, the current demand for electricity supplies is creating an impossible financial situation for the utility. Faced with rising fuel costs from its private suppliers, Eskom can no longer produce enough cheap electricity to power the South African economy.

Eskom’s situation, as well as Iscor’s, is most directly connected to the rapid reconfiguration and consolidation of private enterprise in South Africa, especially in the coal-mining industry. Without the international embargoes and constraints that companies experienced under apartheid, in the past twenty years South Africa’s corporate world has become increasingly international, with many formerly local companies now moving on to the global scene, including the mining giant Anglo American, which moved its headquarters from Johannesburg to London in 1999. As a result, the companies are less reliant on their South African customers. Currently there are five major coal-mining companies in South Africa, producing over 80% of the country’s coal. Three of the companies have ties to Anglo American—Kumba Resources (a subsidiary of Anglo American), Exxaro (67% owned by Anglo), and Eyesizwe (Anglo is a major shareholder). One company, Xstrata, is owned by the international conglomerate
Glencore. The fifth coal company is a subsidiary of Sasol—Sasol Mining—that supplies primarily to Sasol. Exxaro has made no secret of the fact that it hopes to expand export sales of coal.\textsuperscript{62} And the Glencore-Xstrata relationship threatens Eskom’s ability to negotiate necessary short-term prices with the international conglomerate.\textsuperscript{63} The new firms are not reliant on South African profits alone, and today they can realize much larger profits on their coal exports than on the South African operations. The consolidation of ownership in the coal industry by a few international companies is choking off supply to local industries.

The dramatic acquisition of mineral resources by increasingly globalized conglomerates invites export and processing of the minerals overseas, and undermines attempts to use South Africa’s own resources as a springboard to industrialization. The astounding growth of the financial services sector in South Africa attests to the level of foreign exchange activity—especially the movement of profits out of the country—that is underway. At the same time, the very profitable export of coal, iron ore, and now perhaps shale gas and resulting petroleum generates considerable profits and revenue for the government. But the lack of secondary or tertiary impact throughout the economy lies at the heart of the unemployment, poverty, and inequality paradigm. International corporations—such as ArcelorMittal, Anglo American, and even Sasol—spread their operations around the globe and suffer little dependence on South African resources, markets, or labor. In these situations, neither South African firms nor the government has tremendous leverage.

Nevertheless, in 2014, the South African Parliament passed a bill that could significantly reclaim the country’s control over these resources. The \textit{Mineral and Petroleum Resources Development Bill of 2012} would allow the Minister of Mineral Resources to designate certain minerals and petroleum resources for “beneficiation,” defined as the “transformation, value addition or downstream beneficiation of a mineral and petroleum resource. . . to a higher value product.”\textsuperscript{64} Under the terms of the bill, the Minister will determine the percentage of each mineral or petroleum commodity that may be “required for local beneficiation, after taking into consideration the national interest.”\textsuperscript{65} Every producer of such commodities will be required to offer local processors a percentage of its products, as determined by the Minister. And any
producer planning to process such materials must obtain written consent from the Minister of Mineral Resources. The bill also provides that “the state has a right to a free carried interest in all new exploration rights, with an option to acquire a further interest on specified terms through a designated organ of state or state-owned entity as determined by the Minister in the Gazette.” In terms of the bill, “free carried interest” is defined as “a share in the net profits derived from the exercise of an exploration right or production right issued in terms of this Act . . . despite the State not contributing to the capital expenditure.” In sum, the bill gives the state a 20% interest in the mineral extraction and energy production, and full control over the use of those commodities, whether for export or local processing.

Not surprisingly, the bill has generated controversy. The major minerals and energy producers, including BHP Billiton, Exxon Mobil, Total, and Anglo American, have all voiced alarm and, in a not-so-subtle threat, warned that the bill “could hamper South Africa’s ability to attract and retain investment in mining.” The Minister of Mineral Resources, Susan Shabangu, told the Parliament, “We are on the path of changing the mining and petroleum industry in South Africa, whether you like it or not. Change is painful, change is bitter, especially when you are stuck in the past. This act is about the people of South Africa.” The bill was approved by Parliament in March 2014 and still awaits signature by President Zuma. In the meantime, the new Minister of Mineral Resources, Ngoako Ramatlhodi, has advised Zuma not to sign the bill. He is considering industry requests to separate oil and gas from the current bill, but he has also announced that he is considering declaring coal and iron ore “strategic minerals,” restricting their export and promoting local processing. The stakes are high for industry, government, and the economy.

**Conclusion**

This article has sought to place changes in the South African economy over the past twenty years in a historical context, focusing on the role of the state, and the state corporations in particular, in the promotion of local industries. Always a challenge for successive South African governments despite the tremendous wealth of the country, minority regimes prior to 1994 fashioned an arrangement
that benefitted the small white population and the primary mining industry. When the new government took control in 1994, these corporations were rightfully viewed as part of the apartheid alliance and most were dismantled or privatized. In turning over these operations to private enterprise, however, the outcome for South Africa has not improved. And with the appearance of global conglomerates, South Africa’s resources are now leaving the country at an accelerated rate. While the South African government may reap tax revenues from these companies, and an expanding GDP, this new relationship undermines job creation, and the quest for greater economic equality for all South Africans.

It is unlikely that the future role of the state corporations will resemble that of the past. They played a large part in shaping an economy based on privilege and advantage for a very small group. Yet they can still serve as tools for economic development—through cheaper electricity, or steel, or fuel, or finance—if the government can successfully exert leverage on the much larger global actors that have increasingly come to control South African resources. While threatening to withdraw investments, it is inconceivable that they would abandon even a fraction of the great profits they have reaped in South Africa. The government is faced with increasing unemployment, inequality, and an unproductive economy if it cannot regain control over the country’s resources. The country’s wealth is enormous, not only in minerals but also in human capital, but it must be claimed for the benefit of all South Africans.

**Endnotes**

1 South Africa’s economy was listed as the largest in Africa until April 2014, when it was surpassed by Nigeria. “Africa’s New Number One,” *The Economist*, 12 April 2014.
3 Ibid., p. 23.
5 The Black Economic Empowerment initiative, first launched in 2003, provides certain benefits to businesses based on the participation of previously disadvantaged groups. Financial support is extended to children, the disabled, and the elderly for nutrition, education, and healthcare. Since 1994, the number of
beneficiaries of social grants has expanded from 2.7 million to over 16 million. Republic of South Africa, *South Africa Yearbook 2013/14*, p. 358.


8 Today, these institutions are referred to as State Owned Companies. During various historical periods, they have also been referred to as State Corporations (1920s-1960s), Parastatals (1970s-1990s), and State Owned Enterprises (1990s-2010s). In this paper, they will be referred to as state corporations prior to 1994, and state-owned enterprises post 1994.


10 Ibid., p. 159.

11 H. J. Van der Bijl, quoted in *South African Mining Year Book* (Johannesburg, August 1934), p. 67.

12 Presco was formed with the British firm Hubert Davies to manufacture fabricated steel products; Phoenix Colliery was operated jointly by Iscor and Johannesburg Consolidated Investments to mine coal from Iscor’s Witbank coal mines; two marketing firms were established, Steel Sales Company and Iscor Baldwins Lysaghts, to jointly market products from Iscor and the private companies; Vecor was established in partnership with Mesta to manufacture machinery. See Clark, *Manufacturing Apartheid*, pp. 89, 92, 117.


16 For the history of the state corporations see Clark, *Manufacturing Apartheid*.


18 Just before his release from prison, Mandela stated that “the nationalization of mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable,” prompting a nervous
editorial in *Business Day* that he “will set back the hopes of those moving towards acceptance of majority rule in the belief that free enterprise and individual property rights would still be possible.” Quoted in Patrick Bond, *Elite Transition: From Apartheid to Neoliberalism in South Africa* (Pietermaritzburg: University of Natal Press, 2000), pp. 16-17.


20 Ibid., Section 3.15.

21 Ibid., Section 3.13.

22 Ibid., Section 3.6.7.

23 Ibid., Section 3.6.2.


25 Improvements in services for black South Africans have been dramatic over the past twenty years, leading to a 93% literacy rate; 91% of South Africans now have access to clean water, and 85% have electricity in their homes. The shortcomings of industrial development should be understood in the overall context of government efforts. Goldman Sachs, *20 Years of Freedom*, pp. 2-3.

26 Ibid., p. 2.

27 Ibid., p. 16-17.


29 Ibid., p. 42.

30 Ibid., p. 44.


33 Ibid., p. 6.

34 Ibid., pp. 13, 15.


36 Ibid., Recommendation 16.

37 Ricardo Hausmann, former Minister of Planning of Venezuela and former Chair of the IMF-World Bank Development Committee, led the Harvard Group. His concept of economic “self-discovery” clearly influenced the AsgiSA report. For an enlightening discussion of the report, see the exchange between


39 Ibid., p. 28.


51 See below for discussion of the ownership of the private mining companies.


56 “Sasol Cracks Major US Fracking Deal,” *Mail and Guardian*, 20 September 2013. It is estimated that the Louisiana project will produce a total economic impact in the state over the next twenty years of $46.2 billion. “Sasol Gives Final Approval to $8.1 Billion Louisiana Project,” *Advocate*, 27 October 2014.
“Sasol Still Keen on Karoo Fracking,” Reuters, 9 September 2013.


Republic of South Africa, Mineral and Petroleum Resources Development Amendment Bill, B15-2013, Section 1(b), Section 21.

Ibid., Section 21(c) (2B).

Ibid. Section 21(c) (2C).

Ibid., Section 54 (f).

Republic of South Africa, Mineral and Petroleum Resources Development Amendment Bill, B15-2013, Section 1(b), Section 21.


The government has recently recognized the potential value of the state enterprises, but does not necessarily grasp the importance of the supply agreements. Nevertheless, the government has recognized that “in principle, Public Enterprises could be powerful instruments of development and a robust governance process, to weigh up restructuring opportunities, [and that] the current socio-economic climate in South Africa requires a coordinated and integrated strategy leading towards a robust role of Public Enterprises for long term development.” Presidential Review Committee, Restructuring of State Owned Enterprise in South Africa (May 2012), pp. 5, 7.