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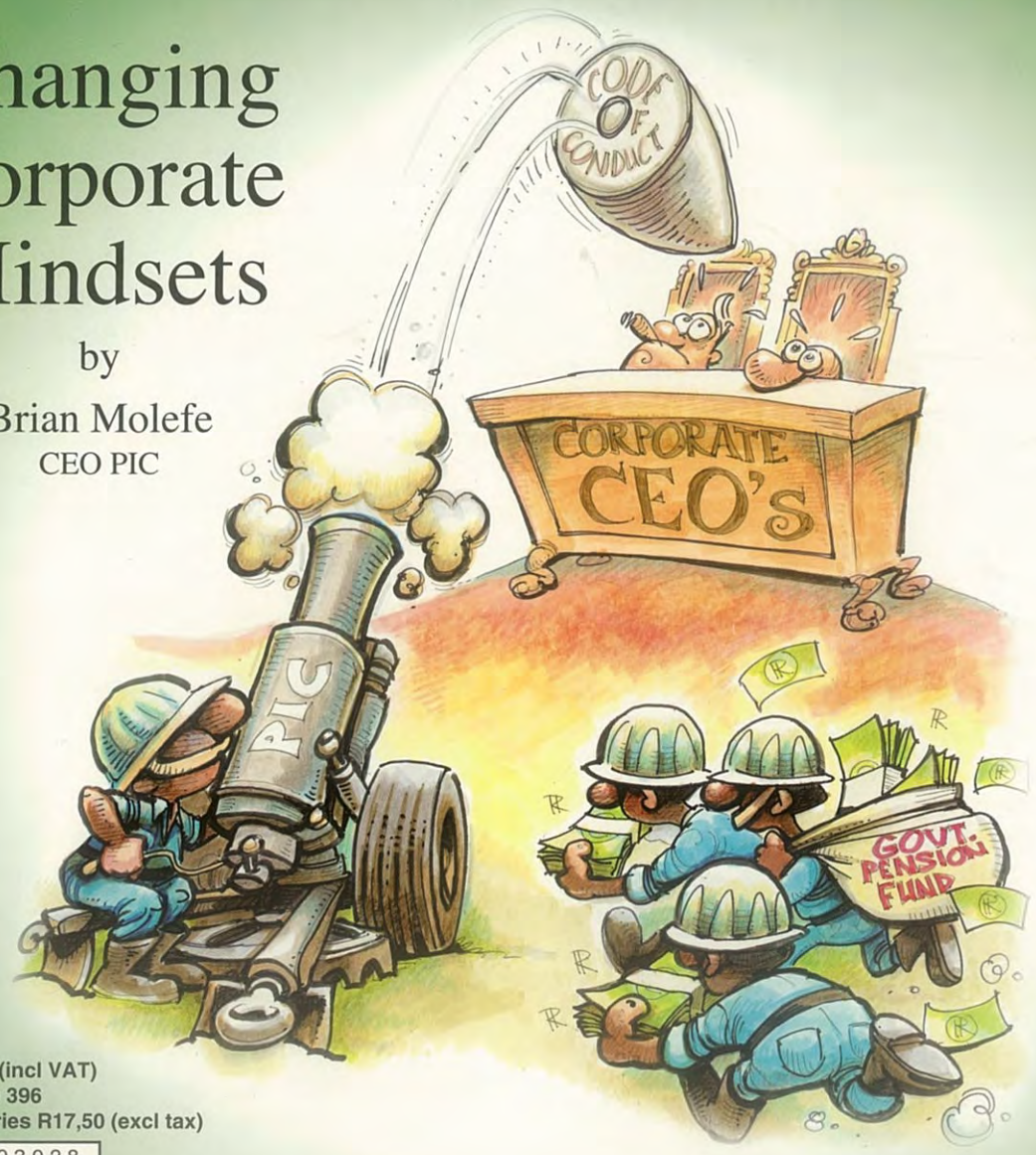
NEW AGENDA

SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY

Changing Corporate Mindsets

by

Brian Molefe
CEO PIC



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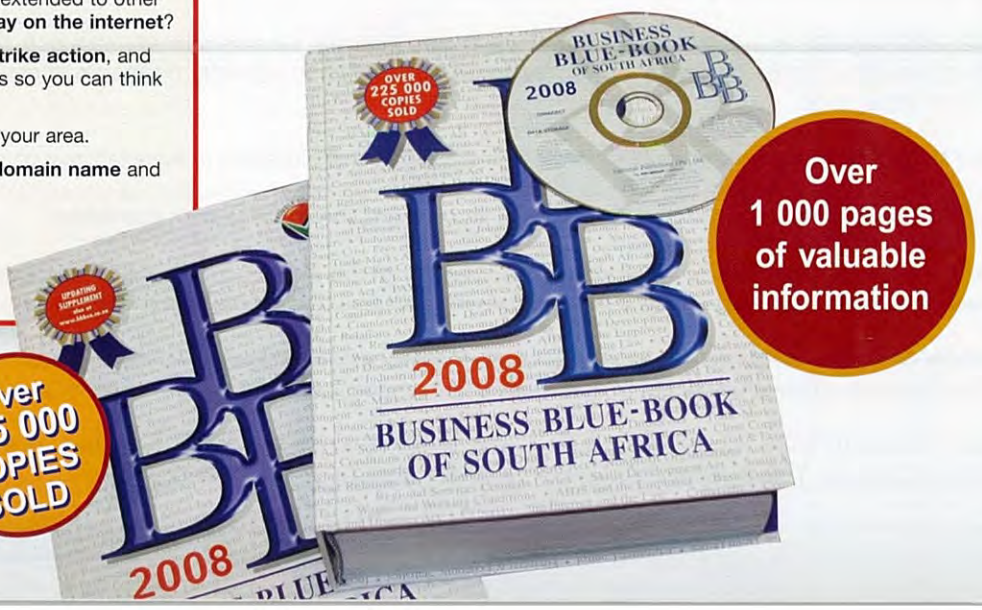

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IN THIS ISSUE

THE activities of Brian Molefe, CEO of the Public Investment Corporation (PIC), have attracted a great deal of press coverage. The PIC is the largest single fund in South Africa, with some R700 billion to invest. Such a large sum of money can make a difference, and there is considerable sensitivity in the market about how this money is allocated. In a *New Agenda* interview in 2004 (Issue 16), Molefe talked about the role of the PIC. Since then, the fund has grown massively. It now has an important presence in many large corporations, and is beginning to flex some muscle on broad-based black economic empowerment, and as an activist shareholder.

In a new interview in this issue, Molefe explains PIC policy on these and other matters, including the PIC's recently published Corporate Governance Policy, a code of conduct for stakeholders that will require significant changes in the way corporate bodies do their work in South Africa. The interview is also important in light of a new stance taken by the Government Employees Pension Fund (GEPF) – which provides more than 90 percent of the PIC funds – indicating that they wish to exercise more influence on how their money is invested by the PIC.

In this issue, we also include a number of papers presented to the high level seminar on The Developmental State held on 19 October 2007. They reflect the deep analysis required to generate a broad consensus acceptable to top decision makers and the public in the coming critical period.

Readers are invited to submit papers on this topic for consideration by *New Agenda*.

Other articles in this issue deal with the debate on the options for pan-African unity, the proposals for a Union Government and related matters. This debate is intensifying and there can be no doubt that there is a new momentum for unity, whether the objective conditions are ready or not. The debate about regional and continental central banks is but one dimension of this momentum.

We also visit the situation in Israel and Palestine in a thoughtful comment by Aziz Pahad, the deputy minister of foreign affairs.

Our next issue will include an article by Minister of Minerals and Energy Buyelwa Sonjica, explaining her department's policies for the mining industry. This is a very important matter for the future of South Africa.

B T

COMMENTARY ON THE CHILDREN'S ACT

Edited by CJ Davel and AM Skelton

Written by the team of experts who were actively involved in drafting and commenting on the Bill, ***Commentary on the Children's Act*** *is the first section-by-section guide to the Children's Act 38 of 2005.*

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- **Interpretation, objects, application and implementation of the Children's Act** – *Ann Skelton and Paula Proudlock*
- **General principles** – *Trynie Davel*
- **Parental responsibilities and rights** – *Jacqueline Heaton*
- **The children's courts** – *Jacqui Gallinetti*
- **Protection of children** – *Julia Sloth-Nielsen*
- **Children in need of care & Contribution orders** – *Carmel Matthias and Noel Zaal*
- **Adoption** – *Tshepo Mosikatsana and Jackie Loffell*
- **Inter-country adoption** – *Sonia Human*
- **Child abduction** – *Christopher Woodrow and Carina du Toit*
- **Trafficking in children** – *Daksha Kassan*
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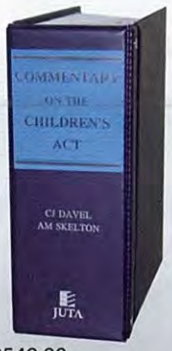

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THE PIC IN 2007: PRUDENCE, INVESTMENT AND CONTROVERSY

BRIAN MOLEFE AND ALBERTINAH KEKANA

Molefe and Kekana are, respectively, chief executive officer and chief operating officer of the Public Investment Corporation (PIC). Ben Turok interviewed them on 21 August 2007, following their presentation to parliament's finance portfolio committee.

BEN TUROK: You've had a high profile recently in the media, Brian. For instance, Ann Crotty said in *Business Report* that you are focusing on corporate governance, too much on black economic empowerment (BEE), the inclusion of black people in the corporate community. What is this all about?

BRIAN MOLEFE: The PIC is – perhaps of all the asset managers in the country at the moment – the most outspoken on matters of transformation, black economic empowerment and transforming the economic landscape. Over and above just pursuing returns for our investment, we are concerned about the issues of societal transformation in South Africa. I think that is what has captured media attention and is raising the profile of the PIC.

BT: "Transformation" is quite a challenging word in business circles. You said this morning that, in your contact with business circles, nobody has objected to the notion that transformation is necessary. But we know that South African business is, by and large, very conservative, and indeed has been resistant to BEE. So, when you talk about transformation being accepted, aren't you stretching it a bit?

BM: It's a bit of a dialectical issue. Even in business, the old way of doing things must change. Everybody recognises, is *conscious* of, the fact that things must change. But, like all dialectical processes, the actual process of getting the change to *happen* is something that is a bit of a struggle. It takes time and requires people to be involved in the active delivery of the new and about-to-be-born. That is the contradiction that exists between the old and the new. It's quite interesting: everybody is conscious about the need for the new, and yet, in practical terms, that change becomes a struggle. And whatever we put in place will also need to be changed at some point, and it will be a struggle also at that point to change it.

Everybody is conscious about the need for the new, and yet, in practical terms, that change becomes a struggle.

BT: What is the purpose of the new corporate codes, and the expected degree of compliance?

BM: The codes aim to ensure consistency of purpose and practice between the PIC and stakeholders. By recommending ways of entrenching the principles in operational structures, we would expect these to be followed by all listed companies, not just the ones that we have stakes in. We would also hope that this set of principles will act as a guide to unlisted companies across South Africa.

FINDING A BALANCE

BT: I was very interested in your comment about a "triangle of contradictions" in the PIC. Your major client is the Government Employees Pension Fund (GEPF), where there is a fairly high degree of political consciousness and a desire to see socio-economic transformation. Your managers are professional accountants and experts in business. Is there a contradiction between them and the shareholders? And with the board?

BM: Perhaps that triangle of contradictions is necessary to take us forward. Because we have to have a balance between the professional management, who are making sure the pensions of the workers are preserved, and the need for an agenda for social, political and economic transformation in the context of South Africa. These are not violent, antagonistic contradictions. They can work together, but they are nevertheless contradictions. And so, you will pick them up them now and again, when you talk to the GEPF and when you talk to us.

We have to have a balance between the professional management, who are making sure the pensions of the workers are preserved, and the need for an agenda for social, political and economic transformation in the context of South Africa.

We employ a lot of chartered accountants and there are a lot of chartered accountants on our board. The GEPF is a little different. But I think the combination of the two results in a very good product that balances the purely technical need to preserve the pensions of workers and the need for transformative social, economic and political agendas, which the PIC and GEPF bring together. It allows us to move forward in a balanced way. I think that this contradiction is necessary: if it was to disappear, it would go one way or the other and that would not be helpful.

BT: Do you actually have formal discussions around this kind of agenda?

BM: Perhaps more at an informal level. For example, the GEPF chairperson, Martin Kuscus, remains somebody that I've known for a long time, a friend, a comrade. We sit and we talk about these things. The GEPF is very appreciative of our role, to make sure that the technical side of things is looked after in the way that we do, and they are very assertive in ensuring that we also recognise the broader agenda.

BT: Does anybody say to you that BEE is not really your business, that you should leave it to the department of trade and industry (DTI), that you should stop meddling and stick to accounting?

Does anybody say to you that BEE is not really your business, that you should stop meddling and stick to accounting?

BM: Nobody has said that to me. In fact, on the contrary, somebody captured it quite aptly the other day. They said that perhaps government is more adept at painting the picture of the society that we want, but business and people like ourselves, the civil service, have better instruments to make sure that the picture is realised, that it becomes a reality.

BT: The focus of your BEE activity has been right at the top of the tree, at management level. The media exposure you've had is about interventions in the appointments of executive chairmen. But the DTI has now shifted ground very substantially toward broad-based BEE. Indeed, they've said to the trade and industry portfolio committee that the period of focusing on top management, in BEE terms, is fading in relation to the broad-base element. Does the PIC also raise this issue?

BM: We do. And I do not think that focusing on management contradicts this. These are processes that go along with each other. They are not mutually exclusive. They can co-exist.

BT: Do you push broad-based BEE?

BM: We do indeed, in the transactions we get involved in.

BT: You raise questions of skills, upgrading and ratios? The media doesn't pick that up.

BM: Perhaps they are not interested. But we do raise these issues.

PROPERTY AND DEVELOPMENT

BT: One of the things that you emphasised in your briefing today is a new approach to property acquisition. Now, South Africa needs a transformation of the economy as a whole. My own emphasis would be on industrial policy; I think that, when it comes to unemployment and poverty, the industrial sector needs massive promotion. But you are pushing quite hard into property. Is that a developmental contribution?

BM: Yes. It is indeed. Property is a significant part of capital. Even in your industrial policy, in order to finance industrial activity, you need capital, and capital can be obtained by leveraging on available property. In [Peruvian economist] Hernando de Soto's argument, part of the problem of the poor is that they cannot leverage their property as capital to pull themselves out of poverty. The way that we acquire, manage and redistribute property becomes critical because it will form the basis of financial structures that will allow us to leverage and acquire capital.

BT: I can understand that building a mall in a township is developmental, because it introduces services that were not there before. But I'm not sure how becoming a property company, even if it is asset creation, is developmental – in the sense that I'm using it.

ALBERTINAH KEKANA: They are not mutually exclusive. We have a strategy to pursue both within the PIC. What we spoke about is the PIC's creation of Advent Asset Managers, a subsidiary company designed to drive property development in black areas, which forms part of our core property portfolio. And then we have the Isibaya Fund to focus on initiatives – like you're referring to – for industrial development. We are working quite hard to align ourselves with initiatives by government: ASGISA [the Accelerated and Shared Growth Initiative for South Africa] and the new industrial policy that has been articulated. It won't happen "either-or". Both of them will be pursued.

BT: In previous presentations of the Isibaya Fund to the trade and industry committee, the story was not an encouraging one. Indeed, we had some embarrassing moments. Has it improved, and if so, how?

AK: It has improved *significantly*. One of the key things that happened was that we had outsourced, to external managers, the management of the Isibaya Fund. And so we were quite distant from the everyday activities of the Fund. The first thing we did in 2004 was to bring it back in-house so that we could resource it properly and pay it better attention. The performance of investments in that portfolio has improved and, as we've seen today, this is actually one of our better performing asset classes.

BT: But the statistics you provided seem to indicate that the allocations are quick but the usage is rather slow, isn't it?

AK: Not really. For example, one of the projects that we committed to is the Gautrain, and, as you know, they have only now started digging.

BT: Is that Isibaya money?

AK: Yes. The long-term process will be done in 2010 or 2011, so they will draw from that commitment over time.

One of the important things is that we have to be very prudent about having all the risk control measures in place before we disburse the money. After the funding is approved, what then happens? It may be approved in January, and we will only pay out in May. The last part of it is finalising the legal agreements and making sure that all the conditions stipulated by our board have been met.

BT: The evidence seems to be that the delays are much longer than five months.

AK: No, no, not really. The investments are approved over time. Where the slowness comes is in infrastructure projects, which are, by definition, very long term.

BT: Gautrain is not a BEE project. Wasn't Isibaya originally set up for black empowerment?

AK: That's not the sole focus. The focus of Isibaya is empowerment, infrastructure and socially responsible issues.

BT: That has changed a little. I recall when Isibaya was first mooted, it was meant to be black empowerment.

BM: No. Even in the 1996 legislation, when Isibaya was established, infrastructure was there. As a result, we've invested in the N3 toll road, N4 and Maputo Corridor. And these have given us very good returns.

STRATEGIC DECISIONS

BT: There are other agencies, like the IDC [Industrial Development Corporation] and the department of public enterprises, that invest in infrastructure. Do you co-ordinate in your investments – for instance, through Isibaya – with other spheres of government?

AK: I think we do. Where there are other government agencies also participating – for example, on the Gautrain – we've had discussions with them around common issues and around the level of funding provided collectively by the institutions. So there is, definitely. But we all play different roles, and the important thing is to distinguish our role from the IDC. We have always been of the view that the PIC is *primarily* the custodian of pension fund monies, and therefore is required to be a lot more prudent than the Development Bank and the IDC. So our funding is complementary, in a sense, because they can take up more risky funding than we can.

BT: That's a very nice distinction you've made, but my thrust is a little more about strategy. The president and the cabinet are saying that we've got to be far more strategic in our thinking. As a huge player in the market, to what extent do you sit down and look at how your activities as investors could have an immense strategic outcome or impact?

BM: I think that you are right, that we could co-ordinate much better at a strategic level. I agree with you that perhaps we're a little bit short on that as government agencies.

However, you will remember that the chairman of the PIC is the deputy minister of finance, who sits in cabinet, who is also a member of the International Investment Council, and he goes to the International Marketing Council. His office is right next to the office of the minister of finance. We really look to that chairman for leadership. I think that is how the government hopes to – at that strategic, political level – co-ordinate the activities and ensure that the PIC is broadly in line with the strategic and political thrust. They made the deputy minister of finance the chairman of the PIC because of its size and, I suspect, its importance in their eyes. We listen carefully to what he says are the strategic issues. We really are the tactical people. They tell us that we need to move in this direction; we marshal the troops and go there.

We really are the tactical people. They tell us that we need to move in this direction; we marshal the troops and go there.

BT: Let me pursue this a little. To say that the minister is responsible to guide you is correct. But at the same time, there's a certain autonomy that you and other agencies have in implementation and day-to-day operations, driven by the mandate, as you understand it. Those of us in parliament, whose job it is to monitor these things, sometimes feel that the agencies are not co-ordinating enough, and that they are waiting for guidance from on high, when the ministers have a lot of other things to do. Wouldn't it be a good idea if there were more practical co-ordination?

BM: I agree with you, and I have already confessed and said that there is an area of weakness in the co-ordination of the activities of the development finance institutions (DFIs).

EXTERNAL MANAGEMENT

BT: Let's go back to your use of external managers. What is their role?

AK: It's mostly for our equity investments.

BT: Are these brokers?

AK: No, they are investment managers, namely Sanlam Investment Managers...

BT: These are companies, not individuals?

AK: No, they're companies: Stanlib, Rand Merchant Asset Bank, Futuregrowth... We use them to supplement our skills in managing the fund. We give them specialist mandates, which are in accordance with what we perceive to be their skills.

BT: But isn't there a conflict of interest? They are advising you on investing in areas in which they have commercial interest.

AK: Not really. They are full-time investment managers. That is what they do; that is their core business.

BT: But, Stanlib is a bank, isn't it?

AK: No, Stanlib is an asset management company, owned by Standard Bank and Liberty Life.

BT: Quite. You are asking a bank employee...

BM: You see, it's the same relationship we have with the GEPF. Liberty is a life insurance company. People contribute to their life insurance policies, and then Stanlib invests that money on behalf of Liberty's policyholders – just like the GEPF gives us the money to manage. Stanlib also gets to manage, as another portfolio, part of our assets.

BT: This is a private sector company, linked to banks in one form or another, and you're asking them to invest on behalf of the public. Is there no conflict of interest?

BM: In terms of our regulatory environment, the Financial Advisory and Intermediary Services Act (FAIS), we are required by law to tell them exactly where to invest, and they are required by law to invest exactly in those things that we tell them to invest in. We must give them a FAIS-compliant mandate, which is a detailed mandate with benchmarks. They can only invest in what we tell them to. On the other hand, we are told by the GEPF where to invest. So it can only be in line with what originally comes from the GEPF.

BT: They have no discretionary powers?

BM: No.

BT: So there is no scope for a conflict of interest?

AK: Those risks are managed, in the sense that they have a mandate from us, and if they breach that mandate, we have recourse.

BM: That is regulated.

BT: Forgive me, I'm a bit sceptical.

BM: I don't make the laws! (laughter)

BT: Many people say that South Africa is run by a fairly small club of people who play golf with each other, know each other from university, and so on. Are these people not part of that same club, and are they not going to act in the interests of that club?

BM: Let me put your mind at ease. Last December, before Christmas, we withdrew R146 billion from these managers, and brought it back to be managed inside the PIC. It's a significant chunk. We've left a little bit with those companies. Part of our plan going forward is to increase the pool of professional asset managers who will assist us in managing that money. A little bit of that R146 billion will go to smaller firms to be managed.

What happens in the market is that asset managers develop certain skills, or specialities, for instance in mining. To the extent that you need to invest in mining, perhaps you need to give it to the asset manager who specialises in mining – or in financial services, or in a combination index that they create themselves that they think performs better. So, we study what their skills and their specialisation areas are, and give them a mandate in line with those. It's a tactical matter.

BT: How do you keep away from cronyism in this sort of relationship, where you depend on external managers?

BM: Whenever we've had issues with companies, and had decided to vote in a particular way that is unpopular with the established asset managers and business – and we have taken those steps – we have always said to the managers that *they cannot vote* on the shares that they hold on our behalf. We always have taken those shares to vote on. For example, Stanlib has invested in SASOL in their management of our assets. When we had an issue with SASOL at the AGM, we said to Stanlib that we will vote on those shares. They don't proxy vote on our shares. That's how we deal with the issue that you raised now.

CORPORATE CLOUT

BT: In a broader sense, looking at your portfolio and all the companies that you have investments in, what clout does this really give you in the South African economy? Sometimes a minority shareholder can be controlling with, say, 15 or 17 percent – if the other shares are distributed very widely, but not if the other shares are held in big chunks. What power does the PIC have, in the South African corporate world, through your ownership?

BM: It gives us the power to pick up the phone and to make quite a hefty phone call. We are able to talk and be listened to. A lot of people appreciate our level of investment in their companies and they're prepared to listen and have meaningful discussions with us when it comes to important issues. We do not try to replace the boards of companies. We accept that the boards have their role to play. They remain the people that have the final fiduciary responsibility for the company. But we do take the avenues that are open to us, like the annual general meetings, very seriously. We make our opinions known, even before the meetings, by way of phone calls and discussions, and we vote our shares at the AGMs.

BT: Do you think that your interventions, the kind that you've just described, have some impact in changing mindset?

BM: It's like I was saying earlier, about consciousness and being. When you talk to people, you get a sense that they *have* changed their mindset, and, if they haven't, that they are really trying very hard to do so, and they would like to know how, what is it they can do to show that they have changed their mindsets. But then, the *being*, the reality of it lags behind, most of the time. I think that is the challenge: to make sure that the *reality* of the South African corporate landscape reflects the *consciousness* that business leaders have.

CHANGING ECONOMY

BT: Just two last questions. Firstly, I know that you operate in the financial sector, which we don't define as the real economy – that is, the productive economy – but what is your sense of the performance of the South African real economy, as an investor?

BM: We think that it has done well. You will see that, over the years, gross fixed capital formation has been increasing; the contribution of manufacturing and economy has also increased over the last 10 or 15 years. We are relying less and less on mining as a contributor to GDP. We think there has been a fundamental structural change of the South African economy. This is reflected by the GDP growth. Our GDP growth, I think, reflects structural change in the economy. The translation of the real economy into the financial sector has resulted in the performance that we saw at the JSE. It is the underlying activity in the economy that translates into activity in the financial sector, where capital, and the price of capital, shifts around, and so on. We think we are going through – and it's not finished – a major restructuring of the real economy in South Africa, with manufacturing taking a more prominent role, mining declining in significance, and gross fixed capital formation growing.

We are going through a major restructuring of the real economy in South Africa, with manufacturing taking a more prominent role, mining declining in significance, and gross fixed capital formation growing.

BT: Let me challenge you on that, if you don't mind. (laughter) I have a document here that the governor of the South Africa Reserve Bank presented on 7 August 2007, which gives the contribution of agriculture, mining and manufacturing to GDP. In September 2001, the contribution of these three crucial sectors was 30 percent, and in September 2006, it was 25 percent. So, these three, which I regard as the real economy, have gone down as a contribution to GDP, whereas those areas that you are interested in – particularly property, the financial sector and so on – have all gone up.

BM: No, let me challenge you on that. (laughter) I said to you that mining, as a contributor to GDP, is declining. If you look at the decline in mining, from 5.0 to 3.1 percent, it's a huge jump. In fact, if you take the three sectors you've mentioned, you will see that the *bulk* of this 25 percent decline is from mining, in relative terms. In comparison, the decline in manufacturing is marginal. It's 1 percent, neither here nor there. If you take this manufacturing number further back, ten and twenty years back, then you will see that this number was much, much smaller. In any country, for manufacturing to increase from our 1970s' levels to 14 percent is huge. And in fact, this is continuing. This document covers a relatively short period of five years. Agriculture has declined in *this* five-year period about 2 percent, which is not much. But mining is significant, from 5 percent to 3 percent is big, about 40 percent decline in mining alone.

Now, if you look, finance is up a percentage point...

BT: Trade is up... and construction is huge...

BM: ...but if you take all of these, like agriculture, and think of them as goods and services, and if you look at, for example, their role in the growth of the United States of America economy from the 1930s to today, you will see that, at the moment, the biggest contributor to economic growth there is services, rather than goods.

This is a particular developmental path, and the fact that the USA is producing much less food than it did sixty years ago is a particular phenomenon in the world. But this has to do with a much more fundamental problem in world trade: the countries that produce goods for consumption by the world

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have been faced with a decline in terms of trade, against things like services. That is why an orange from Africa is sold to the first world much cheaper than orange juice is sold in France, and that is a fundamental problem. The people that are working hard in agriculture, the countries that produce primary commodities, have been disadvantaged by the terms of trade between, basically, the developing and the developed world. America is an economy of services. They don't produce goods; the services are expensive. The primary goods that they produce are not significant, partly because of their prices. The people that really produce goods, in Africa, Asia and South America, will remain poor because the prices of the goods they produce have not been increasing relative to what processed goods and services are being sold at in the developed world. The price at which we sell an orange to France and the price at which France sells orange in a glass in a restaurant is not what goes back to the developing world.

That is a global problem and you will see this even reflected in the South African economy. You'll see relative decline in agriculture, relative increase in finance. It is partly due to increases in the prices of those services. The prices for consultants, for financial products, and the prices for agricultural products are not growing at the same rate. The agricultural products are at a disadvantage.

BT: But that doesn't mean to say that you advocate South Africa should move into service sectors primarily, does it?

BM: No, I am just pointing out a major contradiction. We may not be able to resolve this contradiction; it's a much bigger point that is even beyond us. We operate in those economies. We may not like it, but that is what is happening. Perhaps, with the WTO and all, there is a much bigger problem.

What you see here is actually, in my opinion, a manifestation of that problem. Part of the increase, from 2001 to 2006, in finance's contribution to GDP is possibly not the quantity. Part of it is the price. And part of this decline of agriculture does not necessarily mean we are producing less food. It's just that the price has not been increasing at the same rate as it has been increasing in services. So, it is a distribution of inflation between these things. I'm afraid that the real sector always gets the wrong end of the stick. But you know where the origin of this problem is?

Surplus value of labour. (laughter)

BT: Now we're going to Marx's *Capital*, volume one! And we're not going to...

BM: No, we're not going to finish that one today.

AK: That one is going to last till midnight! (laughter)

MARKET VOLATILITY

BT: Let me turn to the last question. I think it's essential to say something about the current prices on the international stock exchanges. Since you are working in the equity market, you really have to try to understand whether this is a temporary phenomenon that we can ride out, or whether there's something going on which is more fundamental and therefore requires some sort of adjustment in your strategy. I know this is a tricky question – because this interview is only going to be published in December – but it does seem to me that we need to think about that.

BM: I was on a panel on private equity at the World Economic Forum in Cape Town earlier this year. In my presentation there, I noted that private equity involves the de-listing of companies from the stock exchanges, public accountability in making them private, leveraging them and selling them off. "Leveraging them" means putting a lot of debt into the companies and then later selling them off – what they call "unlocking of value". It does not address the fundamentals, usually, of the company. It's just financial engineering that has become fashionable, and I warned that it is not sustainable. And if this is a global phenomenon, this is a bubble that may burst. I am afraid that the fundamental problem in the global markets today is in the debt markets: this is where it originates. And I think that the fashionability of private equity contributed to this. Suddenly, there were a lot of private equity players coming in and demanding a lot of debt, and credit committees were beginning to be lax in the way that they did things. At some point this must give in, and so we had a swing. I think it's swinging back, and it will continue to swing back. I think it's just a glitch.

BT: But don't you think that what the American Federal Reserve Bank has done, which is to increase liquidity, in fact creates greater uncertainty and volatility?

BM: There was perhaps an over-correction, and they tried to stem the over-correction by increasing interest rates. I think that they, by doing that, have reduced the uncertainty. You know, the market is like a herd of goats – if one crosses the road, then everybody crosses the road. I think what they've managed to do is at least to stop the herd from driving the world economy.

BT: But it may be temporary?

BM: Everything is temporary! In the long run, we're all dead. (laughter)

BM: No, now we're rich again. On Friday, we were poorer, but yesterday afternoon we got it back.

BT: Do you sleep at night?

AK: Yes. (laughter)

BM: I sleep very well!

BT: Is there anything you want to add?

BM: I want to say that the *nature* of our engagement with the issues that confront us – poverty, a more equal society, with equal opportunities – is now much, much more sophisticated. It has to be – through an understanding of business, an understanding of financial engineering, the development of capital markets, and finding creative ways of involving poor people in these markets. Because part of the reason for poverty is that people are left out of markets. And this kind of engagement is not just something that needs to be done in South Africa, but also on the continent.

The *nature* of our engagement with the issues that confront us – poverty, a more equal society, with equal opportunities – is now much, much more sophisticated.

For me, the next twenty years on the continent are going to be spent understanding these things. I think that we are going to shape what Africa is going to look like for centuries to come, and it is these next twenty years that are critical. *That* is what keeps me awake. Suddenly, the enormous responsibility that our generation has, to shape the structure of the economy of the African continent in the next twenty years! That is the big challenge.

In South Africa, with our activities, we influence what the outcome is going to be. We're like a butterfly: whatever we do, wherever we fly to, influences the whole jungle, the whole continent. It is an enormous responsibility, about which trees we land on, what we do, what levers we touch and what levers we leave alone. Because we need to come out with a product that is African, and yet that takes us forward as a people, as African people. That is what keeps me awake.

In South Africa, with our activities, we influence what the outcome is going to be. We're like a butterfly: whatever we do, wherever we fly to, influences the whole jungle, the whole continent.

Are we going to get it right? Is this generation's contribution to the development of the continent going to be the correct contribution, given globalisation, the sophistication of the markets, the use of derivatives and things like that? I wish more people could go and try to understand how things work, because, whether we like it or not, they are going to shape what comes out of the wash in twenty or thirty years' time.

This interview was conducted at the same time as the PIC code of conduct was being finalised. The published document, "Corporate governance and proxy voting: Principles, policies and practical application", provides guidance to companies in which the PIC invests and to fund managers who invest on its behalf. If implemented forcefully, it could have great impact.

The code has some far-reaching proposals, based on the concept that corporate governance "is concerned with holding a balance between economic and social goals". Thus, corporate policies should be subject to investor scrutiny, fairness, good corporate citizenship (non-discriminatory, non-exploitative and responsible action in relation to environmental and human rights issues) and good stakeholder relations. BEE deals should involve transparency, equity, responsibilities, integrity and compliance. Executive remuneration should be fully disclosed, should respect the broader social context and be consistent with remuneration throughout the company.

Also of much importance here is the issue of how the GEPF provides a mandate to the PIC, and to what degree the GEPF influences how their money is invested and controlled. There have been some confusing reports in the press about the position taken by Martin Kuscus on this. In an earlier interview, New Agenda *(Issue 26, 2007) raised this with him and he said that, while the minister of finance was previously the sole trustee, this had changed in June 2005 when a new board was established. More recently, he said, they are "taking a lot of that money away [from external managers] and managing it in-house... [T]he mandate is now much tighter and more focused." We have received the following clarification.*

INVESTMENT POLICY OF THE GEPF

- Diversified portfolio with strategic asset allocation to maintain long-term funding level of 100 percent and minimise fluctuations in the employer contribution rate
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- Development of the capacity and intellectual capital of the investment management industry in South Africa through allocating a portion of our portfolios to licensed investment management companies owned and operated by black people
- The investment policy shall be directed in a manner that does not cause undue market impact either on registered exchanges or at macro-economic level.

DEVELOPMENTAL STATE: MEANING, RELEVANCE AND IMPLICATIONS FOR RURAL DEVELOPMENT IN SOUTH AFRICA

BY CHARLES MACHETHE

The author is with the department of agricultural economics, extension and rural development, University of Pretoria. This paper was prepared for the Developmental State Seminar, 19 October 2007, Pretoria

Poverty eradication remains one of South Africa's major challenges. Although poverty affects both urban and rural areas, most analysts agree that it is largely a rural problem. Therefore, winning the battle against poverty will depend largely on the progress achieved in eradicating rural poverty.

There is general acknowledgement that rural development should be accorded high priority. Indeed, the government has implemented numerous programmes that focus on rural development and poverty eradication. This is a clear demonstration that rural development is important and receives high priority in the process of moving South Africa to a higher level on the development ladder. Despite government initiatives, rural poverty remains a major problem and rural areas – especially in the former homelands – continue to lag behind urban areas in terms of development.

Over the last decade, South Africa has experienced economic growth, averaging about two percent per annum. (Machethe and May, 2007) However, there is a general consensus that this economic growth has not resulted in the desired outcome in terms of poverty eradication, especially in the rural areas, where 65 percent of the people are considered to be poor. (Woolard and Leibbrandt, 2001)

Recently, some analysts have asked whether South Africa is on the right development path to ensure that development is broad-based (i.e. that it benefits the majority of South Africans). Some have suggested that South Africa should become a "developmental state" to ensure this. However, because the meaning of a "developmental state" is not clear, it is unclear how this would help the country to move forward and how things would be done differently to ensure that the country is on the right development path.

Because of the importance of rural development, it is pertinent to ask what the implications of a developmental state would be for South Africa's rural development strategies.

Would a developmental state contribute significantly to poverty eradication, especially in the rural areas? How would a developmental state affect current efforts to promote rural development in South Africa?

How would a developmental state affect current efforts to promote rural development in South Africa?

HOW IS "DEVELOPMENTAL STATE" DEFINED?

Although different scholars define "developmental state" differently, it tends to be treated as synonymous with "state-led development". For example, Loriaux (1999) speaks of a developmental state as "a kind of capitalist political economy that is characterised by the preponderance of a certain kind of actor, which pursues a certain kind of ambition using a certain kind of power". The actor referred to here is the state bureaucracy. Chang (1999) holds the view that "[e]conomic development requires a state which can create and regulate the economic and political relationship that can support sustained industrialisation – or in short, a developmental state".

Economic or political approach

Fine (1999) identifies two approaches to the development state, namely, "economic" and "political". According to the "economic" school, market imperfection is the basis for state intervention, with little attention to the issue of whether the state has the capacity or the will to undertake the necessary interventions. The "political" school focuses on the political conditions under which the state can – or can be induced to – undertake interventions, without any attention to what these interventions should entail.

Ideology and capacity

Mkandawire (2001:290) identifies two components of the "developmental state". First, a developmental state is considered as "one whose ideological underpinning is 'developmentalist', in that it conceives its 'mission' as that of ensuring economic development, usually interpreted to mean high rates of accumulation and industrialisation". The second component relates to the capacity to implement economic policies "sagaciously and effectively".

Embedded autonomy

A distinction is sometimes made between "developmental states" and "predatory states". (Evans, 1989) Developmental states "exhibit the characteristic of 'embedded autonomy': the 'autonomy' of bureaucratised states from social entanglements gives them a capacity to direct social change, and social 'embeddedness', in turn – especially the links these states forge with business and industrial classes – enables state elites to incorporate these powerful groups in the state's economic project". Predatory states, on the other hand, are characterised by a commitment to the promotion of self-interest rather than public interest.

Hard or soft state

A "developmental state" is also referred to as a "hard state" (a distinction attributed to Gunnar Myrdal), "because of a commitment to economic development and an ultimately successful role in mobilising private sector involvement to promote economic growth. The "hard" is supposed to distinguish the developmental state from a "weak" or "soft" state which often retards development in developing countries. (Huff, 1999)

In a "hard developmental state", the state has the will and power to carry out successful intervention, while this is not the case with a "soft developmental state". Soft developmental states tend to respond to a variety of interest groups, and these groups tend to play a significant role in defining government policies. Hard developmental states, on the other hand, tend to define autonomous goals and policies and to resist the influence of these interest groups. (Grabowski, 1994)

According to Leftwich (1995), a developmental state has six major elements:

- a determined developmental elite
- relative state autonomy
- a powerful, competent, and insulated state bureaucracy
- a weak subordinated civil society
- the effective management of non-state economic interests
- repression, legitimacy, and performance.

The first three components constitute what Huff (1999) refers to as the "micro-foundations of the developmental state" and they serve as important initial conditions for a developmental state. If adequate, these political micro-foundations provide the basis for a potential developmental state to implement its "fundamental economic feature" effectively. This entails co-ordination of accumulation through the use of economic power to "tax and direct subsidies, build infrastructure, and invest in human capital through subsidies to education and training".

Where developing countries have not succeeded, individuals and groups within the state have pursued their own interests, even though these may have clashed with those of the majority of the public.

The distinction between a "hard state" and "soft state" is useful in understanding why some developing countries have not achieved development goals even though they are committed to development. The common explanation refers to the capacity of the state: where developing countries have not succeeded, individuals and groups within the state have

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pursued their own interests, even though these may have clashed with those of the majority of the public. That is, existing mechanisms of the state have been used to extract a surplus to benefit the ruling elite.

Grabowski (1994) argues that the existence of a hard state is a necessary condition for state-driven economic development, and that the success of East Asia may be attributable to the existence of hard or autonomous states. The absence of hard states in many developing countries is, therefore, considered to be the main reason for the failure of their state-led economic development. Based on the experience of South Korea, Chibber (1999) notes that the difference between successful and unsuccessful developing countries lay in the quality of state intervention. For example, South Korea linked state support (in the form of subsidies) to performance and thus avoided a situation in which subsidies were treated as gifts. Furthermore, South Korea was able to "discipline" the private sector by insisting on having a say in the investment decisions of firms in return for access to state resources.

Although the meaning of a developmental state in South Africa is not clear, we suspect that many of those arguing for a developmental state are actually suggesting that we should have a "hard state" in which the state drives the economic development process.

Some believe that the vision of the Reconstruction and Development Programme (RDP), considered as grassroots or developmental, has been abandoned in favour of the Growth, Employment and Redistribution (GEAR) Programme. (Akoojee and McGrath, 2005) The view seems to be that state involvement/intervention in the economy has not been sufficient to ensure a broad-based development. Increasing state intervention/involvement in the economy, they argue, would ensure that not only economic growth is achieved but this would also result in equity. That is, there will be growth with equity, which equals development.

INTERNATIONAL EXPERIENCE

During the 1950s and early 1960s, the dominant view in development theory and policy was that market failure was pervasive in developing countries and government intervention was necessary to correct it. Onis (1991) refers to this as "structuralist" development theory: what the market could not do, or did wrongly, the state could do, and do correctly. State intervention is required whenever the market fails to do what it is supposed to do.

The 1960s and early 1970s were dominated by the neo-classical paradigm, which was critical of the structuralist approach. In the neo-classical paradigm, the market drives economic growth and development, with the state playing a minimal role, mainly to create a favourable environment for market forces to operate without hindrance.

The neo-classical criticism of structuralism was based on the following observations, drawn largely from the

development experience of East Asian countries, where:

- extensive state intervention to promote import-substituting industrialisation resulted in inefficient and unsustainable industries which required permanent subsidisation for survival
- extensive state intervention promoted "rent-seeking", that is, encouraging economic agents to focus on lobbying government for increased subsidies and protection rather than focusing on productive activities
- the experience of the four most successful East Asian countries (Taiwan, South Korea, Hong Kong and Singapore) indicated that an "outward-oriented model driven by market incentives and a strong private sector" was largely responsible for the success.

Development analysts often refer to Japan, South Korea, Singapore and Taiwan as development success stories. Two different explanatory views have been advanced. The first – the neo-classical "free market" view – sees the creation of an environment in which relative prices reflected social opportunity cost, i.e. there was minimal distortion in prices ("few price distortions existed"). For neo-classicals, the solution to development problems lay in minimising state intervention in the economy and adherence to free market principles. (Chibber, 1999) A second school of thought argues that development success in East Asia is attributable to government policies that "aim at selective intervention that distort relative prices". Such price distortions were meant to enable the purchase of new technology from other countries for adaptation to local conditions, making it possible to achieve long-term development and to promote local manufacturing of goods for export.

In recent years, an "institutionalist" view that is counter-critical of the neo-classical view emerged to provide a different interpretation of the East Asian development

experience. The argument is that a focus on industrialisation, with a strong and autonomous state "providing directional thrust to the operation of the market mechanism", was key to rapid industrialisation. "It is the 'synergy' between the state and the market which provides the basis for outstanding development experience". (Onis, 1991) Thus, where the two extremes of structuralist and neoclassical approaches downplay, respectively, the roles of markets and states, the institutionalist approach considers both to be crucial in the development process.

Where the two extremes of structuralist and neoclassical approaches downplay, respectively, the roles of markets and states, the institutionalist approach considers both to be crucial in the development process.

The institutionalist approach recognises that both the state and market have strengths and shortcomings, arguing that market-oriented development and state-led development are not alternatives. In all successful cases of "late industrialisation", the state played a key role. Therefore, the challenge should be to find the appropriate mix between state intervention and market orientation to spur development (industrialisation).

It is always difficult to strike a reasonable balance between the public and private sectors, and the appropriate mix of the activities of the two sectors is likely to vary at different stages of development. (Smith and Thomson, 1992) Also important is to address the issue of which political and institutional arrangements should be put in place to achieve the desired mix of market orientation and state intervention. Bortoloti and Perotti (2007) note that institutions determine the functioning of both private and public policy. Weak or poor institutions will produce poor macro-economic outcomes even where the state is genuinely committed to development.

DEVELOPMENTAL STATE IN THE SOUTH AFRICAN CONTEXT

Having outlined definitions of a developmental state that are based mainly on East Asian development experience, a logical question to ask is whether South Africa can be classified as a developmental state. Most analysts would argue that, although South Africa has some of the elements of a developmental state as defined above, it cannot be defined as a developmental state. Laubscher (2007) argues that it is misleading and counterproductive to regard South Africa as a developmental state. He concludes that it is more appropriate to consider it as a "redistributive state, focused on the transformation of the economy and society".

Another pertinent question is whether South Africa should become a developmental state to overcome rural development problems such as poverty. We would argue that it is possible to eradicate poverty without meeting all the requirements of a developmental state as described above. Our focus should be on finding the right mix of public and private sector activities that will serve the goals of rural development rather than a preoccupation with the issue of whether we are, or should become, a developmental state.

In countries that have successfully achieved rural development goals, the degree of state intervention may differ but state intervention is a common factor. The question therefore is no longer *whether* the state should be involved in rural development activities but rather *how* it should, in terms of both the nature and the degree of involvement.

Many agree that little progress will be achieved in rural development without the active involvement of the state. Indeed, experience from other countries suggests that the involvement of the state in rural development activities has been crucial to address the problem of poverty. It is also true that achieving rural development goals requires well-functioning markets. Therefore, we need both state intervention and markets to address the problem of rural poverty in South Africa.

It is important to identify the current role of the state in rural development and then decide on the areas which require more or less state intervention. It is our contention that the state will probably need to increase rather than reduce its involvement. For example, the provision of information, market outlets, infrastructure, health services, education, etc. will need to be intensified if the majority of the poor in the rural areas are to escape from the poverty trap. At the same time, engaging the private sector in some of the rural development activities will be necessary, as the state alone cannot adequately address all social and economic ills in the rural areas.

In South Africa's rural development context, a developmental (or progressive) state should be one that creates or promotes a environment conducive to development and provides support for entrepreneurs to engage in productive activities that promote growth and development objectives, especially poverty eradication. The state should not only perform a regulatory function but also play a supportive role to nurture the growth of the rural economy. In performing its role, the state should forge strong links with the private sector.

The above suggests that the state should not participate directly in economic activities but rather ensure that everything that stands in the way of economic activities aimed at eradicating poverty is removed. Convincing the private sector to engage in rural development activities will require a great deal of effort on the part of the state. However, it is not sufficient to convince the private sector to contribute, if such contribution cannot be sustained for the duration of the development process. Huff (1999) considers the state's reputation with the private sector to be one of the necessary conditions for successfully promoting economic growth and development with private sector involvement.

The state should not participate directly in economic activities but rather ensure that everything that stands in the way of economic activities aimed at eradicating poverty is removed.

A HISTORICAL PERSPECTIVE

South Africa has a history of strong state intervention in the economy, especially in sectors such as agriculture. Today, South Africa's commercial agricultural sector is one of the most developed in the world. The state has contributed in no small way to its success. Farmers were supported in a number of ways:

- controlled marketing guaranteed markets for agricultural products at prices that covered production costs
- direct subsidies ensured that farmers had access to inputs at prices lower than market prices
- subsidised credit made access to finance possible at low interest rates
- state-owned research institutions ensured that farmers had access to modern technology.

If commercial agriculture reached an advanced stage of development largely through the support received from the state in the past, is it not reasonable to expect smallholder farmers to achieve similar levels of development if similar levels of support are provided now? Of course, it is important to realise that the support provided to commercial farmers was possible given the global economic environment that prevailed then. Today's global economic environment imposes some constraints on the level of support that can be provided to smallholder farmers. However, it is possible to raise the level of support to the maximum level imposed.

If commercial agriculture reached an advanced stage of development largely through the support received from the state in the past, is it not reasonable to expect smallholder farmers to achieve similar levels of development if similar levels of support are provided now?

Although South Africa never adopted the structural adjustment programmes promoted by the Bretton Woods institutions in the 1980s, the view that government should withdraw from active participation in development activities (especially through the provision of subsidies, etc.) affected the thinking of the state and resulted in the withdrawal of support for farmers, including smallholder farmers in the former homelands. Institutions that were providing support there, such as agricultural development corporations, were either abolished or restructured, leaving a vacuum in farmer support provision that has yet to be filled.

Thus, there was a movement away from the structural approach to the neo-classical approach. The withdrawal of support meant that smallholder farmers had to operate in an environment where there was little or no state intervention in market forces. Experience from countries that have been successful in rural development indicates that a mix of the two approaches is necessary for success.

A DEVELOPMENTAL STATE FOR RURAL DEVELOPMENT

A commitment and capacity to drive the process of rural development is necessary for a successful state-led rural development. The state's commitment to rural development in South Africa is not in question, but the capacity to implement programmes is limited. Our view is that many of the existing rural development programmes, if implemented effectively, would contribute significantly to rural poverty eradication in South Africa. Therefore, a strong focus on enhancing capacity through, for example, human capital development is required. A state without the capacity to implement rural development programmes effectively is not a developmental state.

The state's commitment to rural development in South Africa is not in question, but the capacity to implement programmes is limited.

A strong partnership between the state and the private sector to address rural development challenges should be a characteristic of a South African developmental state. Although some progress has been made in creating a state-private sector partnership nationally, the partnership appears to be very weak in the rural areas. Therefore, we need to identify better ways of creating and strengthening partnerships between the state and the private sector to eradicate rural poverty.

South Africa's dualistic economy poses unique development challenges for the country. A developmental state needs to recognise this unique situation and design appropriate strategies to address development challenges in the so-called first and second economies. The fact that these "economies" are different implies that the respective development strategies will not necessarily be the same. A developmental state for South Africa should call for increased support for rural development.

A developmental state that promotes rural development should ensure that the interests of rural people come first in all state initiatives aimed at eradicating rural poverty. This means that rural development benefits should accrue to rural people, especially the rural poor. A real developmental state should not permit the appropriation of rural development benefits by the elites, regardless of whether they are in the public or private sector.

A developmental state in the context of South Africa's development should create an economic environment that

- encourages economic growth, where the benefits are enjoyed by the majority of the population

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- promotes private sector participation in rural development activities in partnership with the public sector
- enhances interaction between the first and second economies
- provides for increased support for economic agents involved in rural development activities.

CONCLUSION

The concept of "developmental state" is relatively new to most South Africans, but it is becoming fashionable as alternatives for addressing development challenges are explored. More than just state intervention in the economy, the concept relates to the leading role of the state in the process of development. We contend that this role varies inversely with the level or stage of a country's economic development. Thus, one would expect more state involvement in the early stages of development than in the later ones. In the case of South Africa, with its so-called "two economies", the state would be expected to play a greater role in the second economy than in the first economy.

Therefore, in our effort to improve livelihoods in South Africa, it is important to make the distinction between the so-called first and second economies and to identify and apply appropriate development strategies for each "economy". A blanket approach that does not take into account the differences between the two is bound to fail. While acknowledging the differences between these "economies", we should also take cognisance of the important linkages between them and the need to enhance these to promote economic development and address the problem of rural poverty. Experience from other countries suggests that this is essential.

Applying the above logic to the second economy, the level of state intervention should also differ according to the level of development of the various economic sub-sectors in the rural areas. Thus, if agriculture is less developed than manufacturing in the rural areas, state involvement there should be higher in the agricultural sector than in manufacturing.

State involvement in the economy should not be a permanent feature. The nature and degree of involvement should evolve as the country develops. In terms of providing support, it is envisaged that state involvement will increase initially but reduce to a minimum once the desired level of development has been achieved. In this regard, the withdrawal of state support for smallholder farmers in the former homelands may be considered premature because it happened before the desired level of development in the sector could be achieved.

Both the state and private sector are important role players in the process of rural development. In the same vein, the effective and efficient functioning of markets is important to the realisation of rural development objectives. Therefore, the state and private sector should become "partners in rural development" in South Africa. Furthermore, state involvement in rural development should not preclude market development.

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WHAT IS DISTINCTIVE ABOUT A DEVELOPMENTAL STATE FOR SOUTH AFRICA?

BY BEN TUROK

The author is a member of parliament in South Africa. This paper was presented at the Developmental State Seminar held in Pretoria, 19 October 2007

"A rising tide lifts all ships." Washington Consensus

"A government would have to be pretty daft to try to raise the level of health, etc., through raising income per capita." Amartya Sen

In the current debate about the developmental state, two positions are emerging, though often merged in a single strategy. One is focused on upgrading our technological capacity in the formal sector of the economy; the other is focused on a development programme for the disadvantaged sectors of society.

Both are needed. Although we have a single economy, the structural faults and consequent dualism require clearly designed strategies and distinct implementation mechanisms for each component. We cannot depend on either "trickle down" or "ladders up" to create a more just and equal society.

THE CASE FOR A DEVELOPMENTAL STATE

We do not say that the United States, the United Kingdom or Japan needs a developmental state, and yet they have large pockets of ghettoes, significant areas of poverty and unemployment and crime. So why do they not require a developmental state? The answer seems to be that these distressed areas are exceptions in a sea of affluence and developed social and economic infrastructure.

And why is it argued that South Africa needs a developmental state? Is it because we are a poor country, our industry underdeveloped, our universities and schools backward, our infrastructure – roads, railways, etc. – poor? But none of these criteria holds for the whole of South Africa.

True, our GDP per capita is relatively low. But the *Economist* states that we are one of the best-resourced countries in the world, with leading resources in gold, diamonds, aluminium, chrome, and coal, among others. We have a sound financial system, a budget surplus based on efficient revenue collection, efficient banks. Many of our infrastructure components work quite well, such as telephones, air travel, main roads and drinking water. We also have some of the most luxurious suburbs in the world. Our manufacturing industry has considerable depth and substantial potential.

Clearly, there is a sound foundation for creating a strong economy, equal to upper medium-income developing countries, and even better than that.

The obvious answer is that what works benefits only a minority, and even then it does not work to its full potential. Mining, previously the backbone of the economy, is in decline, agriculture is also declining, and manufacturing is largely stagnant due to a lack of investment.

The private sector has been disinvesting for two decades and shows little appetite for a substantial effort to boost all-round economic advance. Yet the private sector is crucial, controlling much of our capital, productive capacity and know-how, a condition that has not changed substantially since the democratic transition.

The ANC discussion document, *The State and Social Transformation* (November 1996), argued that the correct handling of the contradiction between political and economic power was vital. Since then, a series of economic reforms has been introduced to alleviate the appalling inherited social conditions; but the ANC has always identified itself as a revolutionary rather than a reformist movement.

The crucial question, therefore, is whether the state's economic actions constitute a step-by-step platform for incremental advance towards overcoming the three most pressing problems: unemployment, poverty and inequality, and the fundamental transformation of our society. Are we using state power to shift the balance of the political economy towards that goal? While no revolutionary movement is able to transform a country in a single sweep, it seeks to ensure that reforms contribute to fundamental change, rather than entrench inherited distortions.

While no revolutionary movement is able to transform a country in a single sweep, it seeks to ensure that reforms contribute to fundamental change, rather than entrench inherited distortions.

The arguments for a developmental state point to the necessity to prioritise broad-based economic development. If we do not, we shall not achieve "the central task in the current period, [which] is the eradication of the socio-economic legacy of apartheid". (ANC, 2007a: 8) *So: broad-based economic development is the task that determines the need for a developmental state for South Africa.*

Documents prepared for the recent National Policy Conference (ANC, 2007b) contained sections that dealt with the developmental state. They called for the building of capacity to act "in a developmental way" and for the mobilisation of "all of society", stating that "we are not a homogenous society". The document prepared for the Commission on Economic Transformation set out the following issues for discussion:

- the developmental state and economic governance
- state owned enterprises and development finance institutions
- industrial policy
- monopolies and mineral resources
- rural development and land/agrarian reform
- spatial development
- the second economy
- small business, co-operatives and procurement
- broad-based black economic empowerment (BBBEE)
- welfare and development
- monetary and fiscal policy
- skills development.

These issues arose from consultations in the provinces and clearly represent a balanced economic agenda. The sections that follow elaborate on these themes in a way that reflects a new focus on development. However, much more analysis needs to be done on how dualism can be overcome.

One of the salutary issues that should seize our attention is that, while the ANC urges us not to entrench welfarism and dependency but encourage our people to earn an income, the government is spending R62 billion annually on social assistance for 12 million beneficiaries, and rising. (The Presidency, 2007) In contrast, our spending on small and micro-enterprises is probably no more than R3 billion. Furthermore, the physical infrastructure that would facilitate economic activity in the former homelands and in urban

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townships is grossly inadequate. State spending is heavily skewed to social grants to meet immediate needs, but miniscule for developmental needs.

GROWTH NOT THE SAME AS DEVELOPMENT

Decades ago, Amartya Sen argued that neo-classical economics did not apply well to underdeveloped countries. With the emergence of development economics came the proposition of an activist state with the major strategic themes of industrialisation, rapid capital accumulation, mobilisation of underemployed manpower, and planning. (Sen, 1983)

While the ANC urges us not to entrench welfarism and dependency, the government is spending R62 billion annually on social assistance for 12 million beneficiaries, and rising. In contrast, our spending on small and micro-enterprises is probably no more than R3 billion.

Sen went on to argue that growth is not the same thing as development, and that what is at issue is the crucial role of labour mobilisation and use. Economic growth is no more than a means to some other objective. Associated benefits are realised in the process of economic growth. Growth does not automatically lead to "the same level of achievements in life expectancy, literacy, health, higher education, etc., as can be seen in countries with widely varying income per capita".

The crucial point is that "[i]f the government of a poor developing country is keen to raise the level of health and the expectation of life, then it would be pretty daft to try to achieve this through raising income per head, rather than going directly for these objectives through public policy and social change, as China and Sri Lanka have both done." (Sen, 1983: 753) Hence his conclusion, that "the process of economic development can be seen as a process of expanding the capabilities of people."

This seems to be a useful riposte to the case for a basic income grant (BIG). When dealing with starvation and hunger, the focus on income is a good one. But "when it comes to health, or education, or social equality, or self-respect, or freedom from social harassment, income is miles off the target." (Sen, 1983: 756)

These arguments have much relevance to the attempts to deal with dualism in South Africa. While the formal economy could be advanced by traditional development economics, dualism requires a development economics that embraces entitlements and capabilities.

PROMOTING PRODUCTIVE CAPACITIES

Our economic development cannot be simply modernising and upgrading what exists, although that is essential. We have to expand and upgrade our infrastructure, make our industry competitive and build the capacity of the state to direct and regulate the economy. This means developing the productive forces of the formal economy. But such expansion benefits some more than others. State intervention must be designed to spread the benefits beyond its present beneficiaries.

International experience indicates that the provision and distribution of infrastructure is not neutral. (Fine, 1996) An essential task of a developmental state in South Africa is to rectify inequality in the provision of social and economic infrastructure. This is because infrastructure has been unequal between racial categories, and very fragmented. Fine argues that there are important "social rates of return to infrastructure provision".

We cannot depend on "trickle down" benefits from the formal economy. Nor can we depend on ladders of advancement between the two spheres for substantial changes: the gap is too wide.

However, equally important, and in parallel with infrastructure, we need to promote productive work in the underdeveloped areas, rural and urban, directly and with the necessary state resources in what is commonly called "the second economy". We cannot depend on "trickle down" benefits from the formal economy. Nor can we depend on ladders of advancement between the two spheres for substantial changes: the gap is too wide.

Such a programme will require a fundamental change of mindset in government, massive adjustment of the budget and reprioritisation in national, provincial and local government.

It will need far more specific research on how to overcome underdevelopment from a development perspective. In particular, what are the actual productive potentials of these areas, and what state resource investments are therefore required? Such studies should also be far more sensitive to the different gradations of employment found in underdeveloped areas, such as formal sector full-time employment, formal sector part-time employment, formal sector casual employment, self-employment, survival work, unemployed work-seekers, discouraged unemployed, unpaid work, and voluntary unpaid work. This analysis will enable a new approach to increasing productive paid work incrementally. Our universities could do much to assist here.

This approach is included in the latest version of the department of trade and industry (DTI)'s Industrial Policy Framework, but it needs a great deal of elaboration,

especially as it suggests far greater attention to strengthening production for the domestic market and not an exclusive focus on "export led growth" as previously. The approach may encounter resistance from privileged economic interests in business and the state, since it implies restrictions in luxury consumption, re-direction of state investment and expenditure, and a degree of pressure on the private sector to cooperate in building a productive rather than a consumptionist economy.

THE INTERNATIONAL DEBATE ABOUT THE DEVELOPMENTAL STATE

The international debate about development has been led by Ha-Joon Chang for a decade. He argues that infant industries must be protected until they mature, by ensuring cheap inputs, including low tariffs for essential imports, and high tariffs for competing final goods. Once an industry is mature, tariffs are reversed so that there is competition on final goods. The use of domestic input goods is encouraged. He insists that a significant domestic market is a foundation for economic advance. (Chang, 2007) Chang also emphasises the importance of available finance for promoting industrial growth, as happened throughout the East Asian Tigers. This was "unparalleled in human history", and the state coerced the banks to provide the necessary finance.

Chang identifies the following characteristics of the East Asian model:

- pro-investment, rather than anti-inflationary, macro-economic policy
- the control of luxury consumption, which served both economic and political functions
- the strict control of foreign direct investment
- the integrated pursuit of infant industry protection and export promotion
- the productivity-oriented view of competition. (Chang, 2007: p3)

Will Hutton claims that China's growth has been pretty much guaranteed "by state-driven capital accumulation in the cities, financed by state-owned banks using China's vast pool of savings, together with migration from the land... The banking system is the essential and indispensable tool of the state... cheap finance to support investment. For bridges, reservoirs, railways, motorways and steel and cement making... " (Hutton, 2007: 157-8)

The major advance in industrialisation in Asia is rather different from the rest of the world. In an extended essay on de-industrialisation in developing countries in the post-war period, Gabriel Palma (2004) found that there has been a rapid decline in manufacturing employment in most industrialised countries and in many medium- and high-income developing countries. He believes that South Africa is still making up its mind regarding which industrialisation path to follow. South Africa has also shed many formal sector jobs in the last decade, amounting to de-industrialisation on Palma's definition. We cannot accept a continuation of this trend and the approach of Ha-Joon Chang seems to provide the answer.

THE DIVERSITY OF POSITIONS SOUTH AFRICA

A document for an ANC Forum on Economic Transformation, held 5 May 2007, includes a section called "Building the developmental state as an instrument of economic liberation". (ANC, 2007b) It emphasises the need to build the capacity of the state so it can act developmentally. Attention should be given to strategic, organisational and technical capacity. The document goes on to discuss unemployment and poverty, and overcoming dualism, but does not go beyond previous formulations.

However at the same meeting, the minister of trade and industry, Mandisi Mpahlwa, presented a detailed case for direct interventions to absorb the unemployed and people in the second economy into economic activities. "Our interventions must change the destiny of South Africa," Mpahlwa said. This must include massive interventions by the state, especially public investments, which will crowd in private investment. He analysed the "marginalised areas" and asked why they seemed to have no prospect for development. He suggested that the reason lay in the lack of investment, little demand, de-concentration, poor infrastructure, lack of skills and work experience, stagnant enterprises and no access to markets. He concluded that previous policies had focused on supply-side measures and now demand-side measures needed to be added – for instance, by leveraging procurement, in a balanced manner. In short, he gave a wholly different emphasis to the agenda for a developmental state.

"Our interventions must change the destiny of South Africa," Mpahlwa said.

On my return from exile in 1990, I was overwhelmed by the changes in Johannesburg over my 25-year absence. Midrand had become an industrial complex stretching to the northern suburbs of Johannesburg. However, nearby were huge African townships and informal settlements. I used the metaphor of a "skyscraper economy" to characterise the dualism of concentrated white assets counterpoised by black poverty. The term stuck and was recalled at many seminars. (Turok, 1993: 28)

What I did not realise is that the metaphor of the skyscraper, with its emphasis on stark contrast to its surrounds, is also applicable, albeit on a minor scale, to some remote areas in our former homelands. For instance, in some coastal areas in the Transkei, we find several hotels of good quality, frequented by many foreign and domestic tourists, located in the vicinity of immense poverty and underdevelopment. The contrast is startling.

For the hotels, everything is brought in, even fish (although this is a fishing resort). There is no supporting cottage industry, no vegetable farms, and even no hawkers. Hence,

apart from the salaries for employees, there is no "trickle down" benefit whatsoever to the surrounding communities. The result is widespread begging.

The surrounding economy is desultory. Maize is grown in small patches and only for home consumption. Traditional huts are built by the peasants themselves using local thatch and mud. There are also many cattle, sheep and goats, but these are for consumption not for sale. Hence there is no internal money economy. Dependency on social grants and remittances is overwhelming.

In one area, there is evidence of government remedial measures, such as the provision of public water taps, teams of women doing clean-ups, a women's craft project, and a substantial further education college.

But there is no evidence of an overall development programme to harness potential productive capabilities in agriculture or anything else, despite abundant year-round water in the rivers. Many idle youth are to be seen, while the general atmosphere is one of stagnation, even dilapidation. Even the access roads are in a poor state desperately requiring maintenance. The contrast with the main hotel is striking. (See box)

Some critics of current policies suggest that the absence of more direct state interventions in the second economy is due to continuing preoccupation with maintaining a stable macro-economic environment, which brings with it a high degree of caution about public spending to advance second-economy productive capabilities. In part, it may also be explained by serious reservations about the failure rate of small and micro-enterprises, as well as small-scale agriculture.

However, another key factor may be the continuing influence of the business sector, which raises concerns about any new emphasis on state intervention, and uses its media channels to whip up public sentiment against this. Many state officials pander to this pressure. It is remarkable how easily some state officials internalise conservative values with respect to legislation and allocation of resources.

The failure to curb luxury-goods imports, and catering for elite needs rather than national priorities, is an indication of a failure of will to get to grips with economic decision-making in the national interest.

The failure to curb luxury-goods imports, and catering for elite needs rather than national priorities, is an indication of a failure of will to get to grips with economic decision-making in the national interest. Do these problems reflect on the power of the democratic state? In his classic text, *The State in Capitalist Society*, Ralph Miliband argued that "political equality, save in formal terms, is impossible in the conditions of advanced capitalism... Unequal economic power inherently produces political inequality". (Miliband, 1973: 237) Furthermore, the state is the guardian and protector of the dominant economic interests. Nevertheless, the state elite, which wields state power, is a distinct and separate entity, and the capitalist class, as a class, does not actually govern. From this analysis emerged the notion of the "relative autonomy of the state".

Arguably, in the conditions of political dominance of the ANC in the South African political system and in the state apparatuses, this relative autonomy is far greater than in advanced capitalist countries where capitalist values and economic power are highly entrenched.

So, are there fewer encumbrances to the creation of a developmental state that is pro-people in South Africa than elsewhere? Furthermore, the Freedom Charter and the Reconstruction and Development Programme (RDP) remain the main policy reference points for the ANC and the government, as the ANC Forum document quoted above sets out.

THE BASIS FOR CONSENSUS

The following elements may comprise a basis for consensus on the developmental state for South Africa:

- there is broad agreement about the relative inefficiency of some sectors, in particular manufacturing and physical infrastructure
- there is a shared concern about the inadequacy of co-ordination across economic ministries and departments, and the urgent need to attend to this

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- there is little opposition to the need for support of infant industries, and small, medium and micro-enterprises (SMMEs)
- there is a degree of acceptance that the domestic market is important for employment creation and skills development
- there is support for state incentives for technical and vocational training, possibly with inducements and an element of compulsion
- the need for medium- and long-term planning within government is broadly acceptable, though business would be very wary of any move to centralised planning, even of the kind used in Japan and South Korea
- there is little opposition to state subsidies for factors which affect workers' living standards, such as public transport, sub-economic housing, basic foods, etc.
- there may be reservations about facilitating labour-intensive enterprises, especially in urban townships and rural areas, since these enterprises would compete with more established enterprises.

However, there is likely to be strong opposition to any moves to maintain control on capital inflows and outflows, luxury and non-priority imports, and curbs on excessive enrichment through salaries, bonuses and shares allocations in both the state and private sectors.

Nevertheless, it could be argued that a rigorous programme of economic development that went beyond a pragmatic fixing of current obstacles might capture the imagination of most of our people, bring business on board, and produce the national accord that seems to elude us presently.

CONCLUSION

South Africa is likely to remain a mixed economy with a dominant private sector for a long time. What is abundantly clear is that the inherited poverty, unemployment and inequality will not be overcome without a major intervention by the state. This intervention must necessarily be incremental given the scale of the problem. But by using political power strategically, through the creation of a developmental state, we can ensure that these reforms constitute a platform for the ultimate transformation of the political economy of our society, rather than the pragmatic alleviation of separate problem areas.

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Just one example

Janet is a receptionist in the main hotel. She deals with all visitors, accommodation allocations and all payments. She was born in the area, of very poor parents, but completed matric in a local school with distinctions in all subjects. Her first job was in another smaller hotel nearby. She lived with her mother and siblings, cultivated a small vegetable garden and sold surplus produce to her hotel.

Although a very outgoing personality, with clear leadership quality, Janet has never been beyond the nearest large town, has never seen a real city nor flown in an airplane. Her ambition is to see Pretoria.

Her mother lives a small cluster of four traditional huts, and every few days Janet has to walk eight kilometers to visit her and then return the following day, also on foot, as she cannot afford taxis – which are scarce anyway. Her mother has no electricity or running water on the site. Her brother is unemployed, but inoculates cattle and is paid a small fee by his clients. Her sister-in-law is employed in a clean-up team for R40 a day.

Janet has two children but has no husband. She is anxious to study and is likely to pursue part time study with UNISA.

Clearly she is a very competent person, frustrated by the limited opportunities in her own environment. A developmental state would ensure that she would be encouraged to fulfill her full potential.

A DEVELOPMENTAL STATE FOR SOUTH AFRICA?

BY NEVA MAGKETLA

The author is the sectors strategy co-ordinator in the Presidency

The term "developmental state" is often used without much investigation of its intellectual origins or significance in international development theory, but, in any case, the South African state cannot simply be shaped to match some ideal type. Rather, the concept can point to weaknesses in the state that are critical to shortcomings in the economy since 1994.

From this standpoint, the core issues are:

- *the failure to prioritise economic development rigorously and to mobilise capital and civil society around it by ensuring broad-based benefits from growth*
- *the narrow export-orientation of industrial policy, without adequate orientation toward the diversification and protection of the domestic market as the basis for new industries*
- *the inability to direct resources systematically to new industries.*

This paper first reviews the theoretical discourse around the concept of the developmental state, and then explores some lessons for South Africa. The final section reviews the evolution of central co-ordinating institutions since 1994, as this type of institution is crucial for industrial strategy.

THE ORIGINS OF THE "DEVELOPMENTAL STATE"

In South Africa, the concept of the "developmental state" is generally used to mean a state that drives development, in contrast to a free-market approach. The concept arose, however, from a much more specific effort to analyse the industrialising states of Asia, especially Japan and Korea.

The model of the developmental state originated with an American Asian-studies scholar named Chalmers Johnson. For him, the critical element of the developmental state was not its economic policy, but its ability to mobilise the nation around economic development within the capitalist system. In effect, these states endorsed a revolutionary project – although, in his view, "[w]hat distinguishes these revolutionaries from those in the Leninist states is the insight that the market is a better mechanism for achieving their objectives than central planning." (Johnson, 1999: 53)

The developmental state's absolute prioritisation of industrialisation differed from the norm in, for instance, Latin America (and indeed much of Africa), which can be described as pursuing a 'showcase modernity', aimed not at self-sustaining development but at reaching a set of elite consumption patterns appropriate for developed countries. This leads to the following mutually reinforcing aspects: a consistent pattern of exuberant consumption, heavily skewed in favour of urban elite groups at the expense of the rural and lower-income majorities; industrial sectors oriented primarily toward the domestic market; the insertion of national economies into the international system via trade in natural resources; and the dubious leadership role played by either the state or national industry. (Woo-Cumings, 1999b: 22)

From this standpoint, the developmental state was defined by both its class structure and its economic policy.

Asian characteristics

In class terms, the developmental state was closely allied to business but able to maintain the autonomy needed to drive development of new industries. It maintained mass support through a combination of nationalist propaganda, substantial improvements in living standards for workers and small businesspeople, associated with rapidly increasing employment and paternalistic labour relations in larger companies.

In terms of economic policy, the state intervened vigorously to develop new industries, using a combination of massive amounts of subsidised credit, strong tariff protection, substantial training and infrastructure development. Historically, South Korea and Taiwan essentially copied Japan in establishing "light-industrial exporting under multiyear plans, guided by strong state ministries (if less so in Taiwan than Korea). This gave all three economies a highly neo-mercantilist, nationalist tendency; in Japan and Korea especially, it meant strong state involvement with and promotion of big economic conglomerates." (Woo-Cumings, 1999a: xi-xii)

Both these roles point to the importance of a clear vision of the structural changes that could diversify the economy and ensure broad growth. (Kim, 1998: 32; Chang, 1999: 194)

Most authors see close, even corrupt, links to business as central to the developmental state. But the ability to

establish and maintain legitimacy and equality seems an equally important lesson. As Joao Campos and Hilton Root demonstrate at length, the successful Asian states undertook substantial efforts to ensure more equitable ownership and opportunities through the 1950s. They emphasised land reform, relevant education and training, support for small enterprise and provision of housing and infrastructure. (Campos and Root, 1996) Improvements in social protection focused on measures that would reduce the cost of employment and raise productivity. (Clark and Chan, 1998)

At the same time, support for light industry meant that employment rose rapidly, laying the basis for rising living standards without much increase in pure welfare spending. Growing employment was backed by limitations on retrenchment and high spending on skills development. In Singapore, Taiwan, Malaysia and Indonesia, dismissal is relatively easy for poor performance, but the minimum retrenchment package is one month's pay per year of service. The skills levy is around 5 percent in both South Korea and Singapore. (Agrawal et al., 2000: 99 ff)

In this context, the dominant companies adopted labour relations characterised by job security, strong career paths for men, and paternalism. In Japan, according to TJ Pempel, the combination of shutting unions out of national policy development, while establishing "plant-level corporatism", resulted in the kind of plant-level harmonisation of worker and business interests that involved workers showing up fifteen minutes early, singing the company song in the parking lot and then working doubly hard to "embarrass management into granting our demands". (Pempel, 1999a: 41; see also Kohli, 1999: 134)

State action never takes place in a vacuum. The success of the developmental state in Japan, Korea and Taiwan resulted as much from peculiar international and national circumstances as from good policies. (See Moon and Prasad, 1998)

In particular,

- The US and Europe saw these three countries as the frontline against communism. As a result, all three received substantial foreign aid, preferential access for exports, and indirect support through US military spending in the region. They were able to undertake substantial state intervention in the economy, including very extensive control of the financial sector, without much opposition from multilateral institutions and the industrial states. (Pempel, 1999b: 174 ff)
- Capital in all three countries was disorganised after World War II, with the traditional order undermined by war and land reform. This reduced pressure to retain resource-based production, existing industries and traditional forms of inequality and subordination. (Pempel, 1999b: 164) More generally, capital was not rooted in large-scale mining or agriculture, making it easier to support a new industrial focus. In other words, a successful developmental state requires that capital as a class supports development and is willing to sacrifice some fractions of capital in order to achieve that aim.

As Ronald Herring (1999: 331) writes

> [f]or Marx, autonomy from the industrial class was neither necessary nor possible for the state. The capitalist state is by necessity developmental; it must simultaneously understand the needs of capital – not fractions of capital, but capital as a whole – and be able to act against particular capitals in the interest of capital as a whole. The successful developmental state, with historical irony, is one able to function as if it were the executive committee of the bourgeoisie. The question then may be more under what conditions we get a developmental business class than why we get a developmental state that will give capital its head – the original Marxist formula for success.

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Critiques right and left

The concept of the developmental state is distinguished from both right and left views of the ideal state as well as from the realities of most developing countries.

On the right, the Washington Consensus argued that the state should not intervene to direct the structure of production or ownership. Rather, as the World Bank's 2005 *World Development Report* emphasises, it should seek to enhance overall competitiveness, and then let business determine the direction of investment. It can increase competitiveness principally through investment in infrastructure, education and training. But it should avoid structural measures – which the World Bank calls "targeted" policies – that seek to promote particular sectors or types of ownership such as small enterprise. And of course, it should not own large sectors of the economy or direct credit to desirable activities.

In contrast, leftwing observers have generally welcomed the perception that successful states in the South must intervene extensively in business decisions in order to restructure the economy. But they are troubled by the narrow focus on industrialisation, rather than on social or human development. Moreover, they reject the bias toward capital rather than labour or other mass-based groups. The effective repression of unions is especially troubling.

Finally, the concept of the developmental state implicitly – or in some cases explicitly (e.g. Schneider, 1999; Evans, 1995) – suggests a critique of Third World states in Latin America, Africa and India. It points to the failure of most

states to prioritise economic development and compel co-operation from business. Instead, at best, these states focus on maintaining existing economic activities, even when they are no longer viable (Schafer, 1994), or on fiscal redistribution to raise living standards through welfare, rather than employment creation. (Schneider, 1999: 288) At worst, individual officials and leaders use state power to enrich themselves at the cost of society as a whole. In extreme cases, this type of "kleptocracy" can ruin the economy altogether. (Schneider, 1999: 303)

In sum, the concept of developmental state does not simply mean that the government actively directs economic development. Instead, it has a peculiar intellectual history, which derives primarily from the experience of industrialisation in Japan, Korea and Taiwan. It emphasises the ability of the state to drive development by guiding capital toward new activities while maintaining broad-based support, including from workers.

We now turn to the question of how this concept can assist in understanding the state and development in South Africa.

DOES THE CONCEPT HELP?

In applying the concept of the developmental state, the fundamental question is whether we can learn from the success of selected Asian countries. After all, these states succeeded in specific historical circumstances, both at home and abroad, that we cannot recreate. In addition, observers disagree about which factors were most important in their overall success.

Just in terms of economic policy, different authors argue that the success of the Asian economies arose because they

- they undertook strong measures to enhance equality of ownership, skills and incomes through the 1950s
- they repressed labour and generally had authoritarian governance structures, allowing them to mobilise and discipline stakeholders around developmental strategies
- they maintained stable macro-economic conditions and ensured overall competitiveness. In this view, adopted strongly by the World Bank, their economic growth resulted despite, not because, of industrialisation policies
- they had strict merit-based promotions in the public service, ensuring high-quality governance and autonomy
- they successfully supported new industries by combining incentives and discipline for local business, especially through cheap credit, tariffs and export promotion.

Fundamentally, the experience of other countries does not prove any general truths that must be slavishly adopted. Rather, they give us ideas about possible causes of failure and solutions. Any analysis or proposal must still be tested rigorously to see if it will solve the problems we confront. Even if relevant, it must invariably be modified to fit our circumstances.

To start with, we need to define the main challenges facing South Africa. The Presidency's *Toward a Ten-Year Review* and COSATU's Secretariat reports generally agree that South Africa has made great progress in consolidating democracy and redirecting government spending toward the poor, and that the main failures have been on the economic front. On the one hand, unemployment and massive inequalities in ownership persist. On the other, investment and growth remain low by world standards.

In these circumstances, substantial dualism remains, with most of the population effectively marginalised from the formal sector. This dualism emerges spatially, with the former homeland areas in particular left out of economic growth. Even in the formal sector, pay and conditions remain unacceptably low for many, especially in services, on the farms and in light industry.

If we use the concept of the developmental state to suggest explanations for the failure to ensure more rapid and equitable growth, the main arguments appear to be the following:

- the dominant economic groups were based in mining and the related financial activities, rather than manufacturing and trade
- the government has not rigorously prioritised equitable, employment-creating growth in either social-protection or economic programmes
- economic policy has adopted an export orientation, but has not ensured a basis for local production in an increasingly equitable, prosperous and protected domestic market. Meanwhile, monetary policy targeted inflation rather than maintaining an undervalued rand, which undermined the export strategy
- the government did not ensure direct benefits to workers and communities from economic growth. This has led to persistent conflict in the workplace and the community.

We here briefly examine each of these arguments in turn.

Problems from history

The *structure of capital* in South Africa was shaped, above all, by mining. Financial institutions, parastatals and even agriculture were established largely to ensure that mining succeeded. Afrikaner nationalists tried from at least the turn of the 19th century to get mining interests to support manufacturing. Their success was considerable compared to the rest of the economy. Still, industry remained largely geared toward consumer goods for the high-income group, based heavily on imported inputs and capital equipment.

Mining continued as the single most important export. If refined metals are included, the share of minerals in total exports has remained remarkably steady at about 40 percent

for the last two decades, although iron and platinum have to some extent replaced gold mining.

This situation had two implications. First, where the developmental states of Asia faced national capital groups that saw industrial growth as their main road to profit, key sectors of South African capital saw their future in mineral investments abroad. The mines and major financial institutions were the only sectors of the economy that remained largely foreign-owned until the 1980s. When the economy opened after the end of apartheid, they rapidly re-integrated into global markets. As the South African mines declined, they shifted their activities to mining and financial markets in other parts of the world. Second, this analysis suggests a need for deeper understanding of how South African economic systems, from taxation to tariffs to energy prices, were historically structured to support mining. A new growth path based in other industries would require consistent efforts to reshape these structures. (Schafer, 1994)

The dependence on mining does not mean the South African state was powerless. But it does suggest that it would face greater resistance to industrialisation than was found in the successful Asian economies.

Lack of economic restructuring

The *failure to prioritise economic development* emerged in both economic and social programmes.

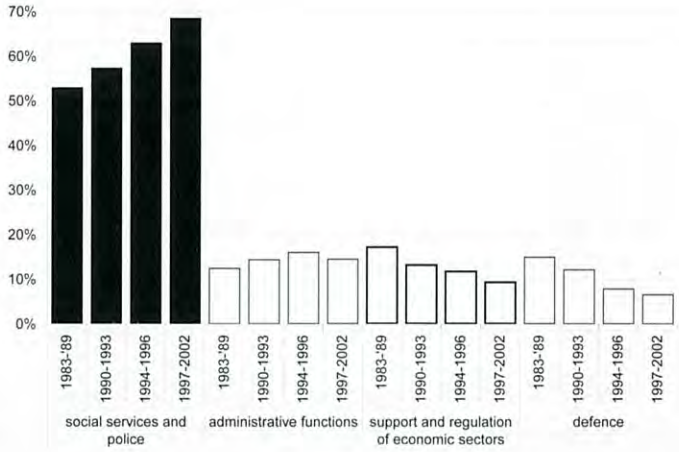
The economic departments lacked a clear mandate to restructure the economy toward employment-creating growth. Their main documents focused on enhancing competitiveness, with little reference to equity or jobs. As a result, they generally did not focus strongly on restructuring the economy.

In addition, policies adopted by the Treasury and the Reserve Bank repeatedly throttled overall growth. In the late 1990s, cuts in government spending had a contractionary impact. In the mid-2000s, the overvaluation of the rand, largely as a result of relatively high real interest rates, had a devastating impact on both the mines and manufacturing. In December 2004, in real terms, the interest rate was 7.6 percent (deflated using CPI), down from the average of 12 percent in 1996-2000, but still higher than in the early 1990s and the 1980s (calculated from 2005 South African Reserve Bank (SARB) figures).

The failure to focus on economic restructuring emerged from the structure of government spending. As the following chart shows, the share of economic services in the budget declined steadily in the ten years of democracy, while social services and administration increased.

The reluctance to prioritise equitable growth also emerges if we contrast engagements on sector strategies with the implementation of black economic empowerment (BEE). In the 2000s, virtually every government policy included some reference to BEE. Government departments drove the BEE charters in key sectors. In contrast, it was difficult to ensure government commitment to sector strategies that sought to ensure employment creation and more equitable ownership.

GOVERNMENT SPENDING BY MAJOR FUNCTIONS, 1983 TO 2002



Source: Calculated from SARB long-term data series on public expenditure, downloaded from www.resbank.gov.za in December 2004.

Moreover, even in the BEE Charters, commitments to serve the majority and enhance investment usually had to be promoted by community, labour and even business representatives, with little encouragement from government. These initiatives were undermined when the first draft of guidelines for the charters from the government, in 2005, emphasised almost exclusively ownership, control and human resource development, practically cutting out developmental initiatives.

Even in the BEE Charters, commitments to serve the majority and enhance investment usually had to be promoted by community, labour and even business representatives, with little encouragement from government.

While the economic departments faced unclear mandates, the social service departments – health, education, policing, housing and household infrastructure – had very clear aims: to shift government services toward black communities. But they were not bound to ensure that these services supported broader economic engagement. As a result, while their interventions undoubtedly raised living standards, they did less than hoped to support equitable economic growth.

Some examples demonstrate the difference between a dedication to alleviating poverty and a developmental approach. In housing, the new settlements were located

far from economic centres and jobs, making it more difficult and costly for residents to become economically active. In education, access improved, but ten years after independence most black schools still lacked the maths, science, computer and cultural studies needed to open economic opportunities. In health, delays in rolling out anti-retroviral treatment increased the burden of HIV/AIDS on families and workplaces.

Local markets

The reluctance to develop the *domestic and regional market* emerged clearly from policy documents. The government consistently cut tariffs and subsidies to industry through the first democratic decade. This contrasted with the very high tariffs and substantial financial support provided to new industries in the fast-growing Asian economies. Moreover, the Asian economies consistently sought to hold down the value of their currencies in order to limit imports and spur exports.

Certainly the growing power of the World Trade Organisation and the lack of a special relationship with the US made it harder for the South African state to protect and subsidise infant industries. Nonetheless, the government made remarkably little effort to push the envelope in this regard. The only exceptions were the auto and clothing industries, which enjoyed substantial tariff rebates. Even these sectors, however, did not enjoy the sort of comprehensive, corporatist programmes found in Korea and Japan in the initial phases of industrialisation. Other sectors saw substantial cuts in tariffs, combined with a high rand from 2002, and were largely left to sink or swim on their own.

Living standards

Finally, *shared growth* remained an elusive objective in South Africa. The government used the budget to redistribute resources to the poor. But the primary division of income – that is, income earned from employment and ownership – remained highly inequitable. Indeed, from 1993 to 2002, the share of profits increased while compensation of employees declined, with a shift in the trend only in 2003. In contrast, the phases of early industrialisation in East Asia saw rapid improvements in workers' pay in real terms, admittedly off a very low base. (Campos and Root, 1996)

Generally, popular analyses of the Asian economies focus more on low pay in dollar terms than on shared growth. To understand the economic and political dynamic, however, we need to compare living standards, not just wages.

REMUNERATION AND PROFITS, 1983 TO 2003

Source: Calculated from Reserve Bank long-term data series on national accounts. Downloaded from www.reservebank.gov.za in February 2005.

From this standpoint, a critical factor was the ability of the industrialising Asian states to hold down the cost of living for workers. The state generally subsidised skills development, education, housing and transport. Food remained relatively cheap. Moreover, undervaluing the currency reduced pay in foreign terms, but did not raise the cost of living since tariffs and non-tariff obstacles largely blocked imported goods.

In contrast, in South Africa, apartheid settlement patterns and concentrated farming and retail systems tended to increase the cost of basic necessities. Moreover, with high unemployment, workers often had to support many dependents, making it impossible to work for lower pay. From 1994, the rapid increase in tariffs for household services, education and health further increased the cost of living.

Given stagnant living standards, insecure jobs and the history of apartheid, the labour-relations system in South Africa remained largely hostile and hierarchical. Workers' prospects depended largely on their race, gender and formal qualifications. Inequalities in opportunity undermined social mobilisation around economic growth. It largely ruled out the kinds of collaboration found in earlier stages of industrialisation in East Asia.

NATIONAL CO-ORDINATING INSTITUTIONS SINCE 1994

This section briefly outlines the development of national planning agencies – which are critical for a true developmental state – since 1994. By national planning agencies, we mean centralised technical support agencies for political leadership. We are not including the cabinet itself.

In 1992, COSATU's Economic Policy Conference argued for:

- the promotion of worker control and involvement in strategic decision-making at all levels of the economy
- the reassertion of the central role of state ownership in providing for basic needs

- attempts to bring about an element of planning and social regulation in relation to key areas of the economy.

In the available resolutions, there is no mention of a planning agency as such. However, the resolutions repeatedly emphasise the need for, in the words of the central committee in 1997, "an active, interventionist state... to achieve our goals of economic development". COSATU's submission on the Industrial Development Amendment Bill in 2001 argued that a "basic strategic requirement for progressive industrial policy measures is for the state to play a planning, co-ordinating, and propelling role."

The social equity document submitted to the Presidential Jobs Summit in 1998 argued that "a multi-year planning tool to ensure the effective development of the public service must be recognised and an alternative medium-term budget framework developed which directly incorporates employment creation."

The Reconstruction and Development Programme (RDP) also called on the democratic state to play a "leading and enabling role" in reshaping the economy (para 4.2.3) It argued that the inherited state suffered from "[e]xcessive departmentalism leading to unco-ordinated, sometimes contradictory, decision-making by various state agencies." (6.1.1.1) It called for RDP structures in every sphere of government to overcome tendencies to fragmentation of different government departments, which would require real powers of coordination and an appropriate budget (6.3.2); and to ensure consultation, especially with representatives of workers and the poor. (6.3.6)

Planning agencies since 1994

Planning agencies worldwide are contested. They have to have sufficient status to tell other departments what to do, which often causes bitter resentment.

In 1994, the South African government inherited a tradition of departmental autonomy that had been tempered only by the state security council. Instead of giving a planning agency the power to control departments, the democratic government established a series of co-ordinating agencies with little power to require action by departments.

The power of the new co-ordinating agencies depended largely on the prestige of individual officials and the backing of the president himself. In these circumstances, the Treasury generally had greater power, through its control of the budget, to influence national priorities and programmes. Still, in the past few years the most recent reincarnation of a central co-ordinating body, the Presidential Co-ordination and Advisory Service (PCAS) has begun to exercise more influence over policy than its predecessors.

The RDP office

The RDP Office in the Presidency was established in 1994 and closed two years later. It was supposed to monitor government programmes and co-ordinate them around RDP objectives. But it had serious weaknesses.

Although headed by a full minister, the top-ranking official in the RDP Office was only a deputy director-general, under the director-general in the Presidency. In contrast, the heads of departments were full directors-general. Given the hierarchical nature of public-service management, which the new government quickly made its own, this undermined the authority of the office.

The office had its own budget comprising mostly aid funds, with projects worth approximately R19 billion when it was closed down, or over 10 percent of the budget. It was supposed to use these funds to support RDP projects. But it lacked efficient systems for spending the funds, and had to rely on other government agencies to drive projects. This led to substantial delays in expenditure.

Even more problematic, the RDP funds had a fairly narrow focus on construction projects, while virtually none supported economic reconstruction. When it was closed down, the RDP Office's projects centred on health services, nutrition programmes, community water supply and sanitation, bulk infrastructure, land redistribution, urban renewal, spatial development and the KwaZulu-Natal peace initiative.

The capacity of the RDP Office remained very limited. The Office had four chief directors, of whom only one had economics training. In contrast, planning agencies in the developmental states of East Asia had hundreds of officials. The lack of personnel in the RDP Office necessarily limited its ability to co-ordinate and drive government programmes. But government at that time argued strongly for a "lean" administration, and would not consider expanding it.

The RDP Office's task of directing departments generated considerable resentment amongst ministers and departmental officials. At the same time, its lack of capacity meant that its interventions were often neither appropriate nor effective. In these circumstances, it was soon closed down.

Despite the weaknesses of the RDP Office, its closure left a vacuum. The government ended up with virtually no centre for strategic oversight besides the cabinet itself. As a result, central co-ordination increasingly devolved to the Treasury, which tended toward relatively finance-driven and conservative policies.

This situation facilitated the adoption of GEAR. This central strategy reflected the Treasury's narrow focus on ensuring fiscal stability, at the cost of broader developmental initiatives. Before the RDP Office was closed, it had been working on a broader growth and development strategy, which the Growth, Employment and Redistribution programme (GEAR) replaced.

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The Presidency: CIU and PCAS

In 1998, the Presidential Review Commission (PRC) pointed to the lack of co-ordination through the Presidency as a major problem for overall governance. It apparently wanted a stronger cabinet office like that found in the UK. Instead, the government established more independent policy capacity in the Presidency. In 1999, it set up the Co-ordination and Implementation Unit (CIU) in the Presidency, which was replaced with the Presidential Co-ordination and Advisory Service (PCAS) two years later.

The CIU had limited personnel and capacity. It was supposed to ensure greater co-ordination and monitoring, with an emphasis on social protection and crime prevention, rather than giving overall direction to development efforts. In the words of the Treasury's National Expenditure Survey for 1999, "The new Co-ordination and Implementation Unit (CIU) promotes the alignment of key policies, programmes and institutions of delivery. The Unit assists in co-ordinating poverty reduction efforts, public sector investment programmes and integration of justice and crime prevention, among other functions." (24)

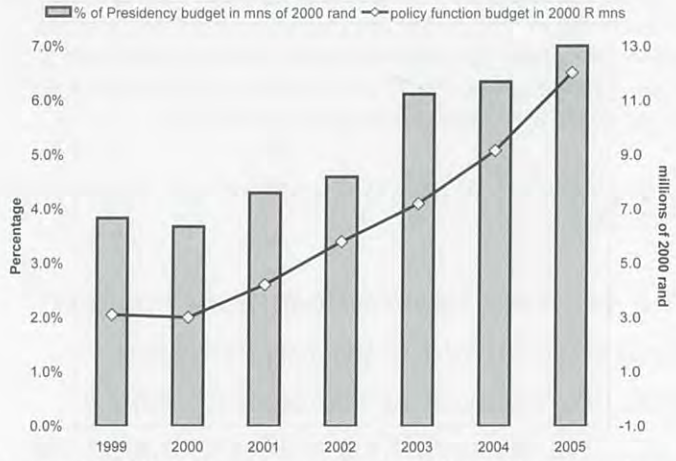
At the same time, the cabinet set up clusters that were supposed to co-ordinate policy development and implementation within key sectors. The clusters were supported by committees of the relevant directors-general. They covered the social sector, economic sector, investment and employment, international relations, the criminal justice and security sector and governance and administration. While ministers and officials said that these helped considerably to ensure co-ordination, it remained difficult to point to specific outputs, such as interdepartmental programmes.

Since the early 2000s, the Presidency has steadily enhanced its policy co-ordination and guidance functions. In 2001, the establishment of PCAS saw a substantial increase in its resources for policy formulation and oversight.

In contrast to the RDP Office and the CIU, the PCAS is headed by a director-general rather than a deputy director-general. The position was filled by Joel Netzhitenzhe – an individual with considerable influence in the ANC in his own right. Its five chief directors work closely with the cabinet clusters and their support committees of departmental directors-general.

As the following table shows, the Presidency's budget clearly reflected the expansion in its policy capacity. Between 1998 and 2005, the budget for the Presidency's policy function climbed from under a million rand to R15 million. In real terms, it rose by 25 percent a year, while the budget as a whole increased 5 percent a year.

BUDGET FOR THE PRESIDENCY'S POLICY FUNCTION, 1999 TO 2005



Source: Calculated from relevant issues of Estimates of National Expenditure; figures for expenditure in 2000 rand deflated using CPI in March.

The growing influence of PCAS also emerged in the description of its outputs. According to the estimates of national expenditure, in 2001 its main "service delivery indicator" was "the degree of policy co-ordination and negotiation between departments." By 2005, its key output was "policy integration across government" – a noticeably stronger formulation.

The main documents published by PCAS – *Toward a Ten-Year Review* in 1994 and the subsequent national Programme of Action – reflected its continued uneasy relationship with the departments. On the one hand, the PCAS was able publish synthesis documents, improving oversight of government programmes and fostering a co-ordinated strategies. On the other hand, the specific proposals in its publications largely arose within departments, and remained poorly aligned and sometimes contradictory.

The Ten Year Review document included both presentations by departments that downplayed shortcomings, and a separate crosscutting analysis, based on PCAS research, that underscored deep weaknesses in economic outcomes. The key proposals reflected existing departmental programmes rather than the PCAS analysis.

The Programme of Action demonstrated similar weaknesses. For instance, while it argued unemployment was a core problem, it reflected the commitment of the department of trade and industry to accelerating free trade, including with China – an approach that would lead to substantial job shedding.

PCAS has had the greatest influence in gradually fostering departmental interest in new approaches, rather than dictating an overall strategy, and in ensuring greater consultation, in line with the Ten Year Review's conclusions that greater mobilisation of stakeholders was necessary.

Important innovations arising in the PCAS include the renewed emphasis on sector strategies; moves to develop a progressive approach to regulatory impact assessment; efforts to deal with import-parity pricing; and a renewed concern for small enterprise. The latter has been linked to criticism of the labour laws, although the PCAS argues it will base any concrete proposals in this regard to systematic research.

The influence of the PCAS should not, however, be overstated.

The Ten Year Review document included both presentations by departments that downplayed shortcomings, and a separate crosscutting analysis, based on PCAS research, that underscored deep weaknesses in economic outcomes. The key proposals reflected existing departmental programmes rather than the PCAS analysis.

CONCLUSIONS

The concept of the developmental state effectively seeks to explain why the countries of East Asia have industrialised while the rest of the South has largely remained trapped in poverty and resource dependency. It tends to neglect critical factors beyond the control of the state.

Still, it points to areas where South African policies have been weak. Above all, it suggests the importance for economic development of

- providing all government agencies and departments with an unambiguous mandate to prioritise equitable, employment-creating growth, and ensuring much more effective co-ordination of all programmes around these goals
- understanding how the historic dependence on mining shaped economic systems and relationships in ways that block the emergence of other industries
- building export industries based on development of the domestic market and other government support measures, rather than assuming they will emerge spontaneously from reintegration into world markets
- ensuring real increases in living standards for workers, in part by reducing the cost of basic necessities, including transport, and in part by holding down the value of the rand
- developing genuinely broad-based BEE and employment equity, so that growth retains popular support by opening opportunities to workers and small enterprise.

This does not, of course, constitute a comprehensive development strategy. It leaves open some crucial questions. At the broadest level, these include the following questions.

Is there a contradiction in the short run between the democratic state's welfare orientation and a rigorous prioritisation of economic development?

Can COSATU support the kind of "plant-level corporatism" described in large Asian companies?

What sort of co-ordination or planning would best support development while strengthening participatory democracy?

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QUESTIONS OF GROWTH, QUESTIONS OF DEVELOPMENT

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In recent years, the need for a pro-active developmental agenda has become prominent once again. This is linked in part to the now widespread acknowledgement that the Growth, Employment and Redistribution programme (GEAR) was not in fact a growth strategy but a strategy to attain a particularly defined macro-economic stability, and the recognition that the trajectory of the South African economy would not mean substantial reductions in unemployment and poverty. In this context, the government has developed the Accelerated and Shared Growth Initiative for South Africa (ASGISA), aiming to meet the targets of halving poverty and unemployment by 2014.

It is now clear that countries which have recorded rapid growth in the past two decades have been notable more for their breach of Washington Consensus policy prescriptions than for their observance. (Rodrik, 2004) Countries in Latin America which, until recently, broadly followed the prescriptions of neo-liberal macro-economic policy, trade liberalisation and privatisation have been outshone by Asian economies which have followed a diversity of paths. Indeed, "[i]t is difficult to identify cases of high growth where unorthodox elements have not played a role". (Rodrik, 2004)

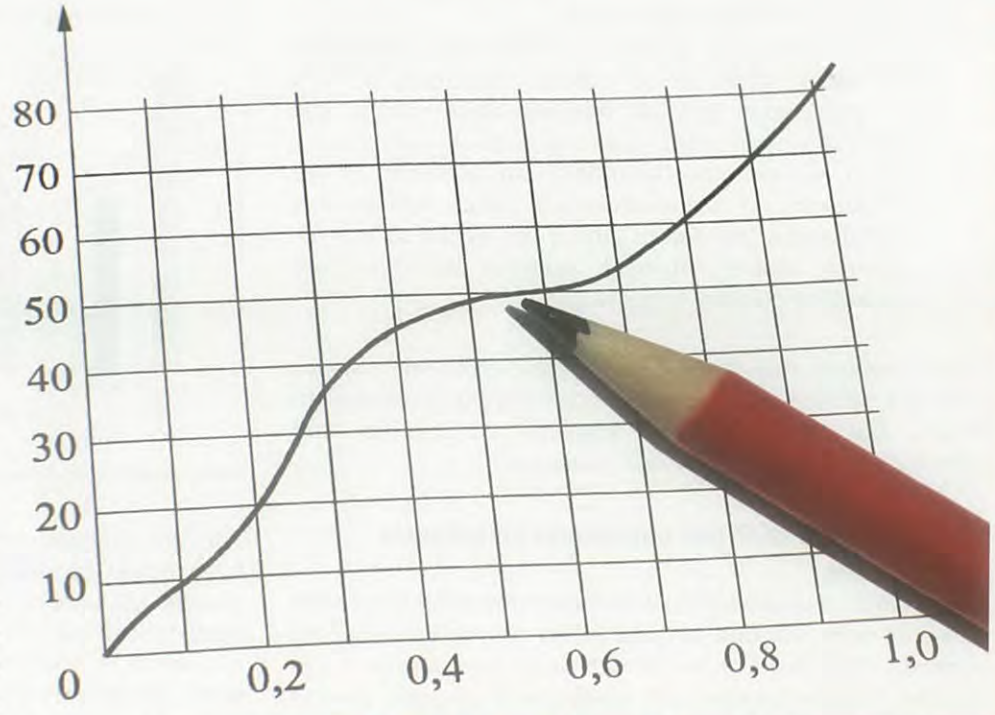
We contribute to the debates around growth and development by highlighting certain features of the South African economy and its performance, which we argue have largely been ignored or downplayed. Based on an assessment of macro-economic performance, the structural patterns of growth and the impact of trade liberalisation, we find that recent economic performance in South Africa is not as good as it seems at first sight.

For example, job creation has been largely due to services, such as security and cleaning, and more recently has been underpinned by unsustainable consumption expenditure. Moreover, the performance is fragile as there has been further concentration in South Africa's traditional industries, entrenching structural weaknesses of the economy, rather than the diversification of capabilities that is required for meaningful shared growth. To understand why this is so, we highlight the importance of trends to financialisation, together with the further internationalisation of large corporations.

CRITICAL REVIEW OF SOUTH AFRICAN ECONOMIC PERFORMANCE AND POLICIES

Assessment of macro-economic policies and their outcomes

A discussion of growth and development requires an assessment of macro-economic policies and how they have affected development performance. What would be the macro-economic concerns of a developmental state with an agenda to promote industrial and economic development aimed at addressing huge social problems of unemployment, poverty and inequality?



Ocampo (2003) argues that, in addition to institutional requirements (efficient state bureaucracy, non-discretionary legal system and social covenants to secure political stability), specific strategies are required to drive growth and to deal with "old and new forms of vulnerability". (p.92) He says three important elements of this strategy would be "macro-economic policies designed to reduce external vulnerability and facilitate productive investment, productive development strategies aimed at guaranteeing a dynamic restructuring of productive structures, and active social policies." (ibid.) This is consistent with the views of other well-known economists working on industrialisation and economic development, such as Amsden (1989) and Chang (1997), who have demonstrated that macro-economic policy needs to support industrialisation and the dynamic restructuring of productive sectors.

Unfortunately, the relations between South African government departments have created a situation where finance and macro-economic policies takes precedence over and dominate other policies. The South African government's choice to follow the Washington Consensus in order conform to the expectations of financial markets and credit ratings agencies was made clear with the adoption of GEAR as non-negotiable. This non-negotiable aspect of policy is institutionally entrenched in the independence of the South African Reserve Bank (SARB) and the adoption of inflation targets. This approach to macro-economic policy makes it almost impossible to develop strategies to drive growth and deal with vulnerability emanating elsewhere, for example, external shocks such as increases in the oil price or contagion from financial crises. It also rules out state intervention in financial markets to allocate capital in line with industrial policy goals.

Recognising this weakness in the approach to macro-economic policy, we assess macro-economic performance in South Africa since 1994 in two ways:

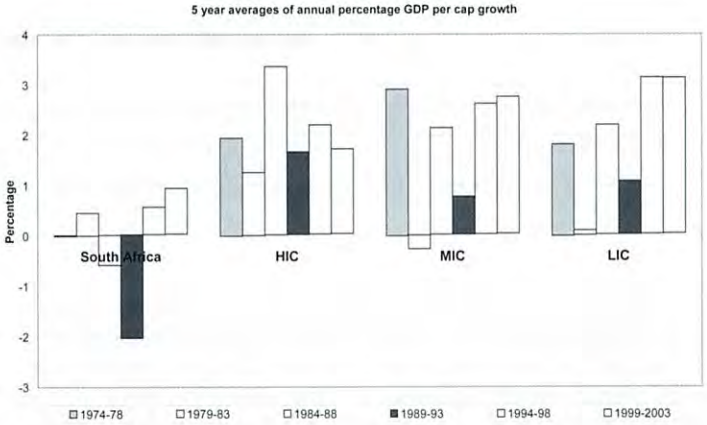
- first, we compare growth in GDP per capita and investment (gross fixed capital formation (GFCF) as a percentage of GDP) between South Africa and aggregates of different income groups of countries.
- second, we examine the official interpretation of the performance of macro-economic policy, which, in a nutshell, says that South Africa has achieved macro-economic stability through sacrifice that has now enabled the country to grow.

We conclude that the adopted macro-economic policies have not worked and have not supported the development project but have increased financial vulnerability and entrenched structural economic weakness.

Comparison of GDP per capita and investment performance

South Africa's improved GDP per capita growth from 1994 onwards does not look so good when seen in international context. GDP per capita growth improved across high-income, middle-income and low-income country groups after 1993. However, it is clear from Figure 1 that GDP per capita growth did not improve as much in South Africa as in each of the income groups examined.

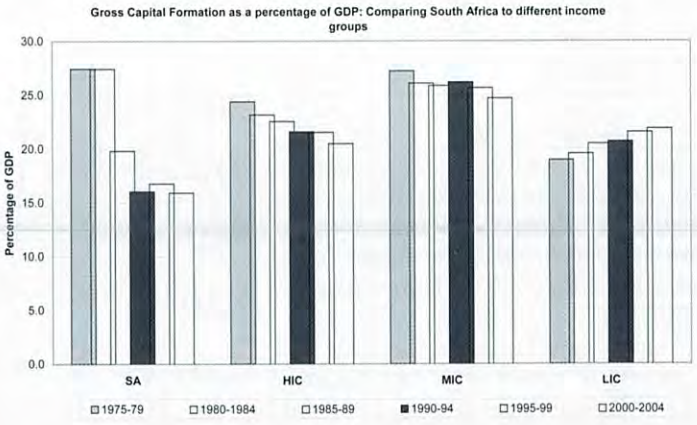
FIGURE 1



Source: period averages calculated using WDI data

Moreover, South Africa's investment performance (GFCF as a percentage of GDP) is much poorer than all of the income groups examined. (Figure 2) From 1985, South Africa's average period GFCF as a percentage of GDP remains below that of all the income groups examined. When one also considers the growth in unemployment in South Africa over the past decade, it is hard to argue that South Africa has had positive macro-economic performance. However, the government argues that their macro-economic policies have been successful and have created a foundation on which to increase domestic development.

FIGURE 2



Source: period averages calculated using WDI data

The government, in its attempts to maintain credibility, has treaded carefully in its regulation of financial markets, coupled with liberalisation of financial flows. As a result, the government has not intervened to influence the allocation of capital in the economy. This failure to intervene has been particularly problematic during the past five years,

when liquidity in the South African financial markets was particularly high due to a confluence of factors.

Portfolio investment flows were relatively high (if volatile). Interest rate cuts (except for the post-2001 currency crisis period) and years of tax cuts put increased access to credit and money into the pockets of better-off South Africans. The lack of intervention by the government resulted in severe domestic misallocation of capital towards financial speculation, housing price booms and exuberant consumption, instead of productive investment.

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The government may have reduced the budget deficit, but it failed to deal with increases in private sector levels of debt. As Ocampo (2003) notes, "[p]rivate spending booms and risky balance sheets tend to accumulate during periods of financial euphoria, indicating that economic agents may underestimate the intertemporal inconsistency that may be involved in their spending and financial strategies". This point is of particular relevance to South Africa, where private economic agents have consumed and imported, supporting growth in services, during a time when global liquidity is high and portfolio flows to South Africa are high. An important result is the high trade deficit today, which makes the maintenance of the balance of payments dependent on "hot money" inflows.

The government's story about successfully attaining macro-economic stability is a story of the reversal of an inherited, relatively high government budget deficit and public sector debt. They say, in "Toward a Ten Year Review", published in October 2003 (hereafter referred to as the ten-year review), that reversing the high deficit and debt along with increasing reserves means that, "South Africa has achieved a level of macro-economic stability not seen in the country for 40 years." (p.33) The review adds the optimistic note that "[t]hese advances create opportunities for real increases in expenditure on social services, reduce the costs and risks for all investors, and therefore lay the foundation for increased investment and growth." (ibid.)

There are two questions one may ask of the authors of the ten-year review. The first question is how they expect to increase longer-term investment, when a contractionary stance led to a serious decline in public sector investment that caused deterioration of the infrastructure and institutions necessary for investment. Future infrastructure investment would have to replace and make up for a backlog of investment expenditure, as is now happening. Following stagnation in investment in the 1980s, general government capital stock as a percentage of GDP declined further, from 61 percent in 1996 to 51 percent in 2005. And the capital stock of private enterprises as a percentage of GDP declined from 118 percent in 1996 to 109 percent in 2005.

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The second question to the authors of the ten-year review is: how do they explain poor investment, given their argument that they have attained macro-economic stability? They blame the media. They say that poor investment performance "is the result of poor information, and the inclination of the media to portray the South African story as a confusing drama, rather than a saga of steady improvement." (p.35) Rather than blame the media, the government should take responsibility for the impact of contractionary macro-economic policy on growth and investment.

Exchange rate volatility

The government has generally neglected to mention that the policies of slow deregulation of exchange controls and financial markets have meant that South Africa has to live with continued exchange rate volatility and increased financial vulnerability. While ASGISA has now highlighted exchange rate volatility as a constraint, no steps have been proposed or taken to address it.

The approach adopted by the government causes uncertainty that may be stifling long-term productive investments and be promoting more speculation in financial markets. It traps the government in a situation where exchange rates are highly volatile and where they are unable to intervene when the currency is overvalued. Exchange rates have been allowed to appreciate to the point where industry suffers, jobs are lost and export relationships are destroyed. Further, the strong currency is directly a cause of rising imports, including rapid growth in imports of consumption goods, which has led to large and unsustainable growth in the current account deficit.

Unfortunately, the policy framework that the government has adopted seems to have accepted the neo-liberal interpretation of financial and currency crises. Within this perspective, financial crises are caused by poor economic fundamentals and cronyism. The heterodox perspective, that financial crises are the result of financial instability and vulnerability caused by financial liberalisation, is ignored. (see Mohamed, 2003) Increased integration of domestic capital markets with global markets through easier convertibility of the currency and unconstrained capital inflows increases instability and volatility. (Farrel, 2001; Mohamed, 2003)

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The surge in hot money during the post-apartheid period has not been associated with increased investment but rather with higher levels of consumption, including imports of consumer goods, more speculation on the JSE, and more capital flight from South Africa. (Mohamed, 2003) Therefore, capital controls to slow down the inflows and outflows of short-term foreign capital would not hurt investment, but would reduce South Africa's vulnerability to financial crises and contagion. The high costs of holding huge levels of foreign reserves would also be avoided. In any case, the SARB has stated that it will not intervene in currency markets to stabilise the rand or to defend its value when there is a speculative attack in currency markets. Therefore, the increased reserves do not necessarily prevent volatility and currency crises. Instead, failure to control capital flows causes the SARB to rely on interest rate hikes to attract short-term foreign capital inflows required to finance the trade deficit. Implementation of capital controls would help us break the destructive cycle by tempering surges in speculative foreign capital inflows.

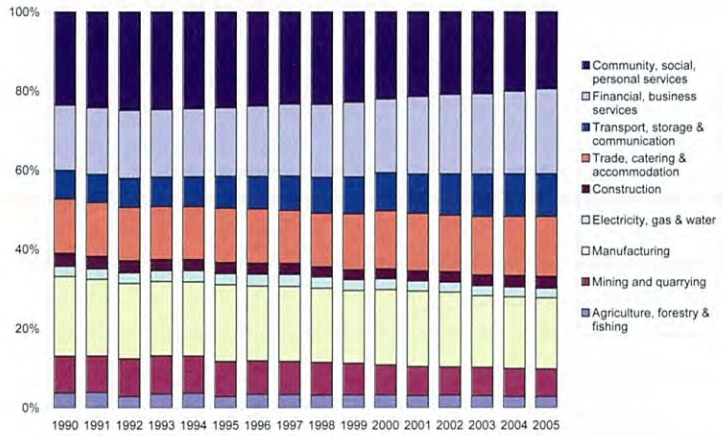
Sectoral performance and industrial diversification

When we disaggregate the changes in GDP and employment to understand the sectoral patterns better, it is evident that the major contributor to both has been services.

The shares in GDP of finance and business services, trade, catering and accommodation, and transport, storage and communication services have all increased over the past fifteen years. (Figure 3) This has been interpreted by some commentators in a positive light – as a sign of the maturing of the South African economy and its move to a post-industrial development phase in which the more labour-absorbing services sectors drive employment creation.

An important component of the questions about South Africa's growth and development trajectory thus relates to the nature of these service sector activities. Is it due to tourism, information and communication technology and business process outsourcing, which the government has placed at the centre of its growth strategy?

FIGURE 3. SECTOR SHARES IN GDP (AT BASIC PRICES)



Source: Quantec

While perhaps superficially attractive, this picture just does not stand up to scrutiny. The major increases in employment have not been in the services activities that are contributing to GDP growth. Much of the increases in services value-added has been in the telecommunications sector, which has had huge profits but shed labour, followed by finance and insurance services. Increased jobs have been in business services and wholesale and retail trade rather than finance and insurance. (Figure 4)

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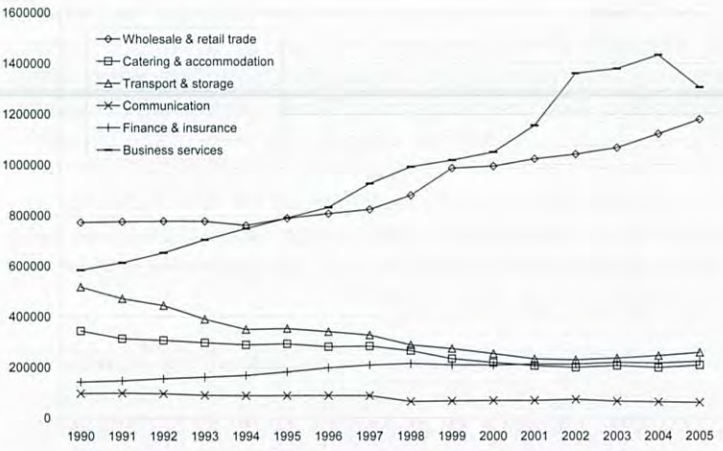
FIGURE 4. EMPLOYMENT IN SERVICES

Source: Quantec



Note: As this is formal employment, the transport jobs are likely dominated by Transnet, travel agencies and airlines.

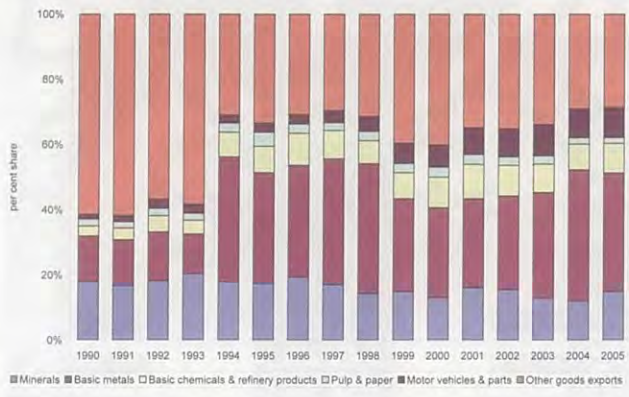
The business services grouping covers a very wide and diverse range of activities, from security and cleaning to legal and accounting services. Within business services, it is the extremely low wage activities, such as security and cleaning services, that have increased employment, meaning average remuneration has fallen as employment has increased. Moreover, during the past decade, the average remuneration per employee in business services was just R21 194 per annum (in constant 2000 rands). In addition, some of these supposed new jobs are just a result of the change in classification due to outsourcing by firms in other sectors such that the jobs are now reclassified under services. Other services subsectors that have shown GDP growth, such as security services, highlight that growth may be in non-productive activities and a symptom of underlying weakness rather than strength. Higher levels of crime and ineffective policing lead to increased spending on private security services, which is growth and employment generating, but not a major leg on which sustainable development rests.

The main conclusion is that the employment created in services is either not in fact additional jobs, or are very low waged (and largely insecure) jobs in areas such as security services. The growth in employment in security services appears particularly rapid, with the number of active security guards registered with industry regulatory bodies having increased from 115 331 in 1997 to 288 686 in 2005.

Continued lack of diversity within the secondary and primary sectors

A second aspect we highlight is the continued lack of diversification within the primary and secondary sectors. Notwithstanding the high levels of construction activity driven by increased middle class incomes, South Africa's income continues to be generated at its base from a narrow range of heavy industries with strong links to minerals processing. The starkest sign of this is from export earnings. (Figure 5) Following the increased reliance on basic metals export earnings in the mid 1990s, due to major projects such as Saldanha Steel, Columbus Stainless Steel and Alusaf, the South African economy has failed to diversify away from these energy- and resource-intensive products, with the exception of the growth of the automotive industry.

FIGURE 5. BREAKDOWN OF SOUTH AFRICA'S MERCHANDISE EXPORTS



Source: Quantec

These patterns are worrying because of the importance of diversification for sustained and broad-based growth. (Imbs and Wacziarg, 2003) In terms of sectoral manufacturing value-added, concentration levels have even increased slightly from 1999 to 2005.

Trade liberalisation and export-led growth?

Trade liberalisation has been an important part of both growth and industrial development strategies over the past fifteen years. GEAR sought to pursue an export-oriented strategy through liberalisation, while successive industrial policies have highlighted liberalisation as part of promoting exports and international competitiveness. (see for example, DTI, 2002) But the case for trade liberalisation is theoretically and empirically weak, and successful late industrialising countries have used protection as part of their overall strategies. (Rodrik, 2004; Roberts, 2000 and 2007; Shafaeddin, 2006; Amsden, 2001)

It is worth remembering that the gains from trade – of specialisation and exchange – depend on the products in which that specialisation takes place and the terms of the exchange. The relationship between trade and growth therefore depends on the changing basket of exported and imported products, and what underlies this. In other words, it is necessary to understand the basis of a country's competitive capabilities and how they evolve over time.

Since the late 1980s, South Africa has undergone a far-reaching programme of trade liberalisation. The National Party programme of removing quantitative restrictions and surcharges in the early 1990s was continued after 1994, with the average nominal tariff protection in manufacturing falling from 22.9 percent in 1994 to 8.2 percent in 2004 – in terms of effective protection, a reduction from 48 percent to 12.7 percent. (Edwards 2005a)

The capital- (and skill-) intensive nature of much of resource-based and energy intensive exports, means that liberalisation has favoured these factors of production, and trade flows have not reflected the abundance of unskilled labour, contrary to the predictions of orthodox economics.

Unsurprisingly, the liberalisation has reinforced the historical pattern of comparative advantage based on cheap energy and other resource-based exports. The one important exception in terms of export performance is motor vehicles and parts, which has had an incentive programme premised on continued, albeit reduced, protection. The capital- (and skill-) intensive nature of much of resource-based and energy intensive exports, including steel and aluminium, means that liberalisation has favoured these factors of production, and

trade flows have not reflected the abundance of unskilled labour, contrary to the predictions of orthodox economics.

The attempts to explain these outcomes have ranged from denialism to laying the blame misleadingly at the door of "technology". Some economists sought to deny that there had been any meaningful liberalisation. (Fedderke and Vaze, 2001) This was based on the measurement of tariff collection rates and thus completely ignored the effects of eliminating quantitative restrictions and of reducing prohibitively high tariffs (where the tariff was so high that there were no imports and thus no tariff revenue collected).

The second set of attempted explanations stuck to the assumptions of neo-classical trade theory, namely, perfect competition, perfectly mobile factors and freely available technology. (Fedderke et al., 2001; Edwards, 2001)[ii] In these studies, "technology" is used as a catch-all term for all productivity improvements, and these effects are viewed as entirely separate from the trade effects. In this framework, the technology/productivity variable is found to "mandate" negative earnings to labour (and capital). Having got the supposed culprit of technology out of the way, trade liberalisation is found to have increased returns to labour and capital, if it were not for the unions pushing for higher wages and preventing people moving easily from one sector to another (by being fired in the first sector, of course).

Productivity would be expected to improve over time, and productivity improvement is generally good for sustainable growth. Blaming it for employment loss is really to acknowledge the failure to understand the real issues, such as weak domestic demand, macro-economic policy and the structure of production. There is evidence that, aside from the very capital-intensive resource-based sectors, investment in new capital equipment and in training by firms *is* associated with higher growth in output and employment. (Machaka and Roberts, 2006) At issue is whether the economic environment favours the development of competitive capabilities in broad-based manufacturing with the potential to absorb labour as part of an overall expansion path. Technology application in manufacturing will tend to reflect the previous patterns of investment, which, in South Africa, has been heavily biased to the resource-based heavy industries.

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To understand technology properly suggests relaxing the assumption that technologies are freely available to all and instead to understand technology as an area with severe market imperfections. This means that technologies tend to be bound up with the strategies of companies and previous decisions. An important influence on technological capabilities is therefore past demand patterns. For example, South Africa's capabilities in basic chemicals are integrally related to the apartheid regime's support for the oil from coal processes of Sasol that led to a whole range of spin-off technological capabilities. Similarly, the capabilities in machinery and equipment are related to the need to supply the mining industry and particular areas in which South Africa has been a world leader, such as deep mining.

Finally, the proponents of trade liberalisation accept that it means that factors of production must shift between different sectors, from ones where there is a comparative disadvantage to ones where there is an advantage, in order to achieve the possible gains. Unemployment can result if factors of production are not perfectly mobile – in other words, if it is not easy for a footwear worker to retrain to become a plastics machine operator, then a decline in the footwear industry will leave people without a job.

KEY CONSIDERATIONS FOR GROWTH AND DEVELOPMENT

Post-apartheid South African corporate structure and global financialisation

There has been massive restructuring of the South African corporate sector since 1994. Undoubtedly, the transition to democracy and the changed power relations between the powerful white-controlled corporate sector and the new government elected by the black majority is an important reason for the corporate restructuring. This restructuring was also shaped by changes in the global economy, especially the changing global financial system after the collapse of the Bretton Woods arrangements.

In a nutshell, the effect of financialisation has been to increase financial speculative activities, impede economic growth and has led to a more unequal distribution of resources.

The "golden age" of capitalism, where the real sector was supported by the financial sector, has been replaced by a neo-liberal system where finance dominates the real sector. An important element of this change is *financialisation*, which refers to the huge growth of the role and contribution of the financial sector in the economy, and significant growth in the share of income of non-financial firms from financial assets. In a nutshell, the effect of financialisation has been to increase financial speculative activities, impede economic growth and has led to a more unequal distribution of resources. (see Dumenil and Levy, 2001, and Krippner, 2002)

Two important changes occurred in the global economy during the 1990s. The first was the rise to prominence of institutional investors and the shareholder value movement[iii] The rise of institutional investors in the US, starting in the 1970s, has led to a situation where, on average, US stocks are held for just one year. (Crotty, 2003) In addition, an increasing share of industrial company revenues is from financial, not productive, assets.

The second change was the surge in merger and acquisition (M&A) activity from the 1990s. There are a number of reasons for this global restructuring, which concentrated global businesses and caused them to focus on core businesses. The prominence of institutional investors and the shareholder value movement was central to this restructuring because they demanded simpler structures, while non-financial corporations became more dependent on financial markets to finance their expansion, including through M&As. Much of the funds for the new global giants was thus sourced from institutional investors, who invest their capital into big companies that have familiar brands, large market share, high research and development (R&D) spending and focus on their core activities.

Both these changes to the global economy had profound impacts on the structure of the South African corporate sector. Since 1994, the South African corporate sector has engaged in the following activities:

- conglomerate unbundling and restructuring
- consolidation within sectors by conglomerates, as part of ensuring stronger focus on core business and better strategic direction, which has also increased market concentration
- internationalisation, mostly outward, by firms which moved their primary listing overseas, and foreign acquisitions by South African listed firms
- black economic empowerment deals, first, through special purpose vehicles for financing, and second, more recently, in areas where government policy has provided a specific impetus.

Nolan (2003) points out that total global mergers activity grew from over US$150 billion in 1992 to over $3 300 billion in 1999. Large South African companies were caught up in this process of restructuring. The offshore listing of major South African corporations from 1997 can be seen within the context of this merger frenzy. The result was a spectacular growth in M&A activity in South Africa. According to Ernst and Young data, there was an increase from 136 M&A deals in 1994 to a peak of 605 in 1998, followed by an average of 530 M&As from 1999 to 2002.

Most of the corporate pyramid structures, used by the powerful families in South Africa to control the "minerals and energy complex" (MEC) at the heart of the economy, were restructured and disentangled. This restructuring should be seen within the context of global markets being restructured, where global market share was reapportioned to the newly merged global giants. The wealthy and powerful in South Africa did not want to be left out of this process. They wanted to ensure not only that they got their share of the international market in minerals by internationalising their operations, but also to consolidate and secure the viability of their South African assets.

At the same time, South Africa was undergoing a transition from apartheid to democracy and there was contestation about the future economic policy of the country. The changes in South Africa meant that many of the wealthy and the large corporations wanted to move their assets out of reach of the new government. The restructuring of global assets and the transition to democracy are important reasons for the push by a number of large corporations to move their primary listings overseas. Also capital flight had continued to be high throughout the 1990s, indicating that wealthy South Africans wanted to increase their wealth offshore. A company that moved its primary listing offshore would be able to move a large amount of capital out of South Africa legally because they would not be bound by exchange control restrictions on residents. Large amounts of capital could leave the country in the form of dividends or other payments.

An important consequence of the restructuring of the economy due to the political changes in the 1990s and global business restructuring is that the South African economy has become more concentrated. The fact that large South African corporations have become internationalised through mergers and acquisition, largely to ensure more focus on core business, means that this concentration has been especially in the existing commodities base of the economy. In other words, the restructuring from the 1990s has made the economy more concentrated and more dependent on the MEC.

The fact that large South African corporations have become internationalised through mergers and acquisition, largely to ensure more focus on core business, means that this concentration has been especially in the existing commodities base of the economy.

South Africa's entrenched industrial structure and the minerals-energy complex

As already argued, despite trade liberalisation and sharply higher real interest rates, the main feature of developments in the 1990s is the *continued* better performance of capital- and resource-intensive industries. The lack of diversification is emphasised by the investment record. Manufacturing investment outside of the heavy industries of coke and refineries, basic chemicals, basic iron and steel, basic non-ferrous metals and motor vehicles (which together accounted for more than half of manufacturing GDFI in 2005) has hardly changed since 1995. (Roberts, 2007)

Liberalisation of both trade and capital flows cannot change this, and indeed has tended to reinforce the pattern as the currency tends to overvaluation and volatility. For manufacturers producing traded goods, the volatility means it is very difficult to predict earnings from any given investment decision, increasing uncertainty and risk, and working against new investments in expanded capacity. In this context, firms with established capabilities and scale are at an advantage, and government policies matter in reaching this threshold. Firms that have developed productive strengths are able to re-invest and continue to grow their businesses, exemplified by Sasol and Mittal Steel South Africa. Sasol leads local industry in ongoing R&D spending to continuously improve its capabilities.

While the apartheid state supported these industries for strategic reasons, the patterns of industrial development have been further reinforced by Industrial Development Corporation (IDC) lending in the mid-1990s, as well as government incentives. (Roberts, 2007) IDC lending went predominantly to large-scale capital-intensive operations such as the Saldanha steel plant and Alusaf aluminium smelter. One of the largest incentive programmes, the Strategic Investment Projects (SIPs) incentive was targeted at large investments that the government considers to be important for future competitiveness of South Africa, with the majority of the value of the allowances accounted for by basic chemicals and basic metals, mainly to the well-established lead firms.

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Two distinct challenges for South Africa's economic development flow from the minerals endowment. The first is the ongoing impact of resource earnings from higher prices and increased exploitation of minerals such as platinum, coal and iron ore. As an exporter of natural resources and an importer of manufactured products, the freely floating exchange rate implies that South African labour costs in international currency reflect the platinum windfall and not the local skills and education base of the country. Together with large portfolio capital flows, this also implies that the currency will continue to be volatile, reacting sharply to movements in international prices of metals and minerals.

The second issue is the linkages from mining and minerals to particular industries, and the influence of minerals interests on policy. While the combination of past government support aligned to the advantages of cheap energy have underpinned investments in production capacity, the strategy of these firms has been to extract maximum profits from their entrenched monopoly positions. (Competition Tribunal 2007) This behaviour directly inhibits the growth of the more basic and labour intensive products, whose competitiveness depends on the pricing of the input.

These dynamics are consistent with Fine and Rustomjee's characterisation of the "minerals and energy complex" (MEC) as being at the heart of South Africa's industrial development – both in descriptive terms and, more importantly, as a system of accumulation, while at the same time suggesting that South Africa's industrial development remains limited outside the areas of its direct interest (notwithstanding the motor industry's development).

It is important, however, to recognise that the MEC

characterisation is not necessarily determinist. Different and competing interests influence government policy, and changing industrial realities mean that big business groupings have to adapt. In this regard, the BEE strategy has both impacted on resource-based operations and is reinforcing their interests in the broader policy arena. The promotion of black ownership through the mining charter and related legislation may appear to weaken the influence of the MEC by subjecting it to intervention by the state, but the disproportionate interests held by black business in mining, compared to other areas of the economy, will strengthen not weaken resource-based interests in government policy formulation.

Another important evolution is linked to the internationalisation of activities. This encompasses both internationalisation of South African minerals-oriented conglomerates, such as Anglo-American and Gencor, and foreign interests. The attraction of foreign direct investment (FDI) into minerals-processing, in terms of South Africa's "competitive advantage", has been one strand of the government's policy, exemplified by the aluminium smelter planned for Coega. This has been particularly linked with the importance of cheap energy in patterns of industrial development, despite there no longer being a surplus of generation capacity.

CONCLUSION

The economic policies of the post-apartheid government have not adequately addressed the inherited structural and institutional weaknesses of the South African economy. As a result, capital accumulated in South Africa during the post-apartheid era largely continues to be allocated to the resources sector, contributes to speculation in financial and other asset markets, or leaves the economy.

The policy environment shapes the type of economic trajectory possible for South Africa. Unless there is a concerted effort by the state to restructure the economy, this trajectory will continue to be with the dominant MEC activities and with growth in sectors like finance and communications (which are also sectors where oligopolistic firms can extract high rents). However, this type of growth will be constrained because it will occur within an inherited institutional framework that seems to perpetuate high levels of unemployment and inequality.

Macro-economic policy has clearly mattered for the growth path of the South African economy. Our analysis indicates that policies have discouraged productive investment, especially in diversified tradable goods. This is true of interest rate policies, which were pro-cyclical, encouraged short-term capital inflows and a volatile and all too often overvalued currency. An obsession with reducing the budget deficit, rather than the sustainability of government finances, led to a collapse in government investment, while the changing structure of taxation supported the recent consumption boom, much of it fuelling increased imports. Overall, as with other countries following the standard macro-economic prescriptions, South Africa's performance has been poor.

The macro-economic policies are directly tied to a growth trajectory that has favoured services. However, much of the job creation in these activities has been in wholesale and retail trade and in business services, with the latter including growth of jobs in security and cleaning services. These jobs are generally low wage and insecure, while security services jobs reflect the high crime levels and perceived weaknesses of the police. As a result, a significant proportion of the services contribution to GDP growth is not welfare enhancing, promotes labour insecurity, increases inequality and poverty and could potentially stifle aggregate demand of the poorest in society.

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Also of concern, and with far-reaching implications for long-term economic development, is the increasing financialisation and international concentration of global business and its implications for large South African corporations. The growing importance of institutional investors with relatively short-term horizons, together with the continuing massive wave of mergers and acquisitions,

puts immense pressures on corporations to become more orientated to short-term profits and less to longer-term investment strategies. In addition, corporations have conceded to institutional investors' demands that shareholder value will increase if they restructure to focus on core business. As a result, large South African corporations have internationalised and restructured, and many have moved their listings offshore to become *de facto* foreign investors in South Africa. An important consequence of this development is that large South African corporations that grew because of their exploitation of South African mineral wealth and harsh exploitation of black labour are able to sidestep the project to develop the South African economy and their threat to disinvest has grown.

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At the same time, the economy has become more concentrated and dependent on the MEC. Large corporations have selectively withdrawn from many downstream value-added sectors and focused on what they define as core business. To make matters worse, long-term investment in the economy is further constrained by the very high level of foreign trade in South African equities and bonds, which increases currency volatility, financial fragility and susceptibility to financial contagion. The rand's position as one of the most highly traded "emerging market" currencies is in no way justified by levels of real economic activity in the South African economy. Nor is this activity in financial markets related to improved investment in real economic activity. The increases in short-term portfolio flows during the 1990s led to more credit to the private sector, but this growth in private debt was associated with more consumption of imported goods and more speculation in financial and housing markets rather than with productive investment.

Notwithstanding the changes in conglomerate ownership with overseas listings, and the unbundling and re-bundling that has taken place, the South African economy remains anchored by resource-based activities. Indeed, macro-economic policies and trade liberalisation have further impeded the diversification from these activities instead of supporting the "dynamic restructuring of productive structures" identified by Ocampo.

In addition, in almost any given sub-sector or industry, the outcomes in terms of production, employment and investment depend on the decisions of a very few firms. Key to developing a policy agenda is to understand the ways in which policies influence the orientation of these firms and, more broadly, the evolving pattern of capitalist development in South Africa. A developmental state is one where the dominant platform seeks to change this development path through taking on vested interests and, in a small open economy like South Africa, strategically engaging with large internationalised corporations. In this regard, policy levers are required that will influence firm behaviour, such as export duties and stabilisation funds for mineral earnings, as utilised in other developing countries.

Our contribution to a vision for the future structure of the economy, that is consistent with a democratic and economically just South Africa, is to argue that South Africa requires a diversified industrial base, where we move up the value-added chain, as our economy develops the necessary wealth, skills and capacity. We want manufacturing and services sectors that create employment and provide opportunities for upgrading of skills so that labour and management can assist movement up the value-added chain. Of course, we need to ensure that the wealth generated in the country is not wasted, totally consumed or directed to speculation, but is invested in diversifying and deepening our industrial and skills base. Within this context, an initiative such as ASGISA is not enough. We need a newly focused transformative vision, and a reorientation of policy (and government effort) towards achieving that vision.

We need to ensure that the wealth generated in the country is not wasted, totally consumed or directed to speculation, but is invested in diversifying and deepening our industrial and skills base.

NOTES

i) This article is a shortened version of a paper presented at the DPRU/TIPS Annual Forum, October 2006. Interested readers are referred to the longer paper for full references and a more extensive analysis, available at www.tips.org.za

ii) Although, in a later piece, Edwards (2005b) has come to accept that trade liberalisation has had a negative impact on labour, "mandating" a decline in wages of 47 percent in semi- and unskilled manufacturing jobs, while high levels of unemployment are still blamed on real wage rigidity in the face of declining "labour demand due to skill-biased technological change and trade liberalisation".

iii) The growth in importance of the business media and their influence over business is also significant.

ECONOMICS OF THE DEVELOPMENTAL STATE

BY MOHAMED JAHED AND SUSAN KIMATHI

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This paper synthesises the literature and practises of the developmental state as illustrated by the East Asian economies. The first section outlines the theoretical framework, the second section discusses three interpretations of the developmental state (neo-classical, neo-liberal and neo-Keynesian), while the conclusion highlights the economic management strategies that we consider necessary for development.

WHAT MAKES A STATE "DEVELOPMENTAL"?

Chalmers Johnson coined the term "developmental state" in his 1982 analysis of the collaboration of state and market that accounted for Japan's post-Second World War economic boom. However, the economic characteristics of a developmental state have been widely debated. The most significant interpretations fall into three strands: neo-classical, neo-liberal and neo-Keynesian. We shall discuss these interpretations, their implications and their shortcomings in order to argue that state intervention is crucial for development.

It is important to note that a state can intervene in the economy without being a "developmental" state. Using the policies of Japan and the United States as illustrative, Johnson identified a number of differences between developmental and regulatory states. The two guiding principles for determining whether or not a state is developmental are the reason for economic intervention and the manner in which it does so. States can intervene for many reasons, such as defence, environmental protection or the administration of justice, and use various tools, such as price ceilings and legislation. Where states intervene for purposes other than to spur development, the state is said to be a *regulatory* or *market-oriented* state, and not a developmental one. Thus, the characterisation of a state as developmental is determined on the basis of "why intervene?" and "with what policy instruments?". A developmental state is one that has a *developmental orientation* and consequently *adopts developmental functions.* The state's economic policies are formulated and adopted on the basis of their ability to promote development rather than to regulate the economic actors.

We highlight the differences accentuated by Johnson particularly because of Thandika Mkandawire's argument (discussed below) that such a strict definition has led to undeserving vilification of African states that are striving otherwise to develop in their own ways under difficult circumstances.

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The differences between a developmental and a regulatory state, according to Johnson, are as follows:

- a developmental state determines the desired national income and the means to achieve it. A regulatory state will let market forces determine economic outcome, seeking only to regulate the market rather than direct it
- while a developmental state concerns itself with setting substantive economic and social goals, the regulatory state only concerns itself with the rules of economic competition, such as pricing mechanisms
- a developmental state begins by establishing what industries ought to exist in an economy, which existing industries are relevant (or not) for economic prosperity, and how the desired industries can be fostered. A regulatory or market-oriented state leaves these matters to market competition.
- economic policy-making in developmental states gives precedence to national industrial policies, with an emphasis on making domestic industries internationally competitive. On the other hand, a regulatory state gives precedence to policies that emphasise rules and reciprocal concessions. Trade policies, for instance, may focus on strengthening political relationships rather than economic competitiveness.
- in a developmental state, bureaucrats are not concerned with externalities (i.e. the non-economic consequences of economic activities, such as pollution), if the externalities are not part of the national goals. Bureaucrats in a developmental state are satisfied when

their national goals are met, irrespective of secondary effects. A regulatory state is, on the other hand, concerned with the effects of externalities and may attempt to regulate economic agents whose operations may result in negative externalities
- Developmental states use *effectiveness* as its evaluative criterion while regulatory states look for *efficiency*.

These differences point to key considerations for policy formulation for developmental states. In essence, a state that considers itself developmental should harness all forces in the economy to meet its pre-determined national objective.

THEORETICAL INTERPRETATIONS

The discipline of economics revolves around production, distribution and optimal allocation of resources to satisfy numerous needs and wants. The state and the market are two key actors that shape the economic activities of a country. As we shall discuss, the optimal level of state involvement remains in debate. There are three main schools of economic theory on the role of the state in economic development: neo-classical, neo-liberal and neo-Keynesian (or revisionist).

Neo-classical

The neo-classical school of thought believes that markets can work on their own with competition as the driving force. The state's role in an economy is thus confined to ensuring law and order and providing public goods, such as infrastructure. It has no direct role in economic exchanges and activities. Production and capital formation decisions are, by and large, decided through mechanisms of demand and supply. Neo-classicists accept government intervention only to avert short-term crises. Any attempt to manage an economy in the long run will result in severe shocks, frustrate the workings of the market and distort growth. Allowing markets a free rein is, according to these arguments, a necessary condition for economic advancement.

This perspective of development in East Asia is presented by Sebastian Edwards (1988) and Charles Wolf Jr (1988). They claim that the successful economies benefited from policies that gave markets leeway while limiting the role of state in economic decision making. Chen (1979, cited in Edwards) emphasised the "night watchman" role of the state, stating, "what the state has provided is simply a suitable environment for the entrepreneurs to perform their functions". In this argument, the state provides suitable infrastructure but leaves key aspects of decision-making, such as production decisions, to the market.

The neo-classical approach generally advocates that forces of demand and supply are sufficient to determine levels of output, prices and income distribution, and, since the neo-classical economics uses hypothetical values, macro-economic stability is considered key in achieving growth. Governments should therefore focus on stabilising prices of inputs and outputs, exchange rates and interest rates. Similar incentives for selling in the domestic and foreign markets should prevail so that inputs can flow on the basis of comparative advantage. (Edwards, 1988)

The assumption underlying the neo-classical approach is that individuals will make rational choices based on knowledge acquired through widely available information. However, the blind spot in this approach has been elaborated by new institutional economics (NIE) theorists Douglass North (2005) and Oliver Williamson (2000), who reason that individuals do not always make rational choices: they may not take into account the social costs of their choices, or they may have insufficient relevant information, or limited mental abilities to process that information.

Another objection to the neo-classical perspective on economic development comes from the international arena, where the interests of a nation can only be articulated by the state. Weighed against turbulence in the global economic system, neo-classical thinking fails to show how an economy may be cushioned against international forces if governments do not intervene in economic decisions. Neo-classicists assume that market failures will correct themselves in the long run, but empirical evidence from Africa's experience with structural adjustment programmes (SAPs) reinforces the belief that government intervention is necessary for sustained economic prosperity.

Neo-classicists assume that market failures will correct themselves in the long run, but empirical evidence from Africa's experience with structural adjustment programmes reinforces the belief that government intervention is necessary for sustained economic prosperity.

Neo-liberal

The neo-liberal (or neo-classical liberal) interpretation of the developmental state is well illustrated by the policies of the World Bank. Its 1981 Berg Report identified three key areas

that accounted for sub-Saharan Africa's economic decline: structural deficiencies, external shocks to African economies, and severe internal policy deficiencies that exacerbated the effects of the external shocks.

Their SAPs, prescribed for countries that desired foreign aid, curtailed the economic and social role of the state in order to pave the way for market-driven development. Prior to this minimalist view, in the 50s and 60s, the state had been seen as a key driver of economic development, necessary for fostering structural changes, assisting in the transformation of the agriculture sectors, providing infrastructure and, most importantly, playing an active and interventionist role in industrialisation. However, soon after independence, many African countries entered economic slumps – driven by both internal and external factors – that put this active role of the state into question. Although a detailed discussion of the economic decline is beyond the scope of this paper, we wish to point out that SAPs were developed to overcome Africa's economic difficulties, based on the misconceived assumption that the economic development of the East Asian countries was due to the minimal role played by their states.

The Bank's 1991 *World Development Report* argued that "big states" were responsible for poor economic performance. African states were advised that they "needed to do less in those areas where markets work", such as production, but to "do more in those areas where markets cannot be relied upon", such as the provision of public goods. Using instruments other than the market to guide resource allocation had caused governments to reduce the competitive discipline of the market; had put resources into sectors that had low productivity and were internationally uncompetitive; and, overall, resulted in corruption. Governments should concentrate in areas such as "defining and protecting property rights, providing effective legal, judicial and regulatory systems, improving the efficiency of civil servants and protecting the environment". Markets were assumed to have the ability to promote development as long as the states did not interfere with resource allocation: this was the era of neo-liberal orthodoxy in economic management. It didn't work.

Following the failure of the SAPs, the Bank recognised that states had a central role to play to facilitate economic development. It reformulated the problem of developing countries as one of "poor governance", and the state was called to play a more active role in the development process.

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The World Bank admittedly learned from Africa that, while the industrial policies pursued by the developmental states in Asia stimulated the market, actual development had to be guided by the state. The multilateral and bilateral donors who followed the Washington consensus's advocacy of privatisation and deregulation in developing countries neglected the key importance of the international system in the success of industrial policies. Development does not occur in a vacuum. National efforts must be buttressed by favourable circumstances in the international arena.

THE NEO-KEYNESIAN ECONOMISTS

In the neo-Keynesian orthodoxy, markets are perceived to have inherent weaknesses that need to be corrected. Markets, if left alone, can be unstable and can initiate economic calamities of gigantic magnitude. State intervention is seen as key for accelerated economic growth, both in the short-run and in the long-run. The concept of a "developmental state" thus falls within the neo-Keynesian paradigm.

Neo-Keynesian (or "revisionist") economists have argued convincingly that the East Asian states played a distinctive role in shaping their development, steering their economies towards a predetermined national goal (e.g. Amsden, 1989; Mkandawire, 2001; Weiss, 1998). We shall discuss key ideas advanced by each author, but, since the revisionist literature builds from Johnson's conceptualisation of the developmental state, we must start there.

Chalmers Johnson: *Growth is the goal*

According to Johnson, a developmental state's intervention in the economy is to be driven by a developmental agenda. The critical element therefore is not economic policy *per se*, but the continued ability of the state to mobilise the nation towards economic development. Fundamentally, the state guides development by steering all economic actors towards a common pre-identified national goal of rapid growth. A developmental state must give first precedence to policies that create wealth rather than to those concerned with social distribution. Accordingly, in Johnson's words, "a state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state and only then a regulatory state, a welfare state, an equality state, or whatever other kind of a functional state a society may wish to adopt." Put differently, a developmental state must ensure the growth of the economy and only thereafter can it start thinking of less important goals of welfare and equality.

In Johnson's model of a developmental state, the goals of the state should:

- formulate growth policies without introducing conflict between social and investment goals
- be non-committal toward equality and social welfare issues
- focus on raising living standards through creating jobs as a spill-over of economic growth, and not through a fiscal distribution policy such as welfare
- make specific reference to the growth and competitiveness of the economy.

For this reason, bureaucratic elites use external references as models for emulation. It is the state bureaucracies that are responsible for economic goal-setting to guide the market. The state recruits elite economic bureaucrats from the best managerial talent available and their decisions are respected. These bureaucrats largely consult and co-operate with private businesses through close institutional links, which are established for the specific purpose of consulting and exchanging information before reaching a consensus on goals.

The bureaucrats and politicians enjoy a high degree of autonomy. In Johnson's words, "the politicians reign and the bureaucrats rule." The nature of the political system is such that bureaucrats have enough room to make decisions and act in a manner that enhances effectiveness in the economy. The politicians only legitimise the bureaucrats' decisions.

To create an enabling public-private milieu, the state upholds property rights and its policies fundamentally reflect a commitment to private property recognition. Perhaps more fundamental is the need for a strategic industrial policy that seeks to promote the development of domestic industries to become internationally competitive.

Alice Amsden: *The governed market*

Johnson's original formulation had been based exclusively on Japan's experience. In 1989, Alice Amsden built on his work in her *Asia's Next Giant: South Korea and Late Industrialization* (see also Wade, 1990) She showed that states were behind the success of the East Asian economies, and that government intervention is a necessity for development. Without it, market failures are enough to halt development. Amsden asserts, "economic expansion depends on state interventions that direct economic activity towards greater investment. State intervention is necessary even in the most plausive cases of comparative advantage". In this view, although industries may be given some privileges (for instance, be allowed to pay low wages as an incentive), these are balanced by imposed responsibilities to foster development.

Amsden's account of Korea proposes a "governed market" theory of industrialisation, in which the economic performance of East Asia is explained by high levels of investment in strategic industries and the exposure of industries to foreign markets. Neo-classical thinkers would argue that these investments would have occurred even without government intervention but, in this case, the government purposefully formulated policies that governed the process of resource allocation, and created a production and investment profile that would not have occurred in a free market. The government used policies around incentives, controls and mechanisms to spread risk. In addition, the government set out specific political, institutional and organisational arrangements pertaining to the state and the private sector, as well as mutual interactions between the two actors.

Industrialisation in Korea targeted a few select industries that were considered strategic for development. These industries were highly subsidised and directed and subsequently exposed to international markets. Some industries that were not among the select few experienced only intermittent policy intervention, while others were exposed to market competition quite unaided. It can therefore be seen that Korea had a mixed approach in economic management. Part of their approach was purely neo-classical (operating under market forces) while parts of it – the select few strategic industries – were managed with neo-Keynesian methods. The state retained much control of the economy, to ensure that the few selected industries would produce sufficiently to cushion whatever negative economic effects came from sectors that had not been subsidised. This mixed approach in the Korean economy shows that there are no clear-cut economic policy options. Rather, states should be open to managing their economies according to the circumstances and threats in the local and international system.

The Korean government instilled discipline in the private sectors by stringently requiring high-level performance from the subsidised industries. The criteria for choosing which industries to subsidise included: high income elasticity of demand for the industry's products in international markets; the potential of the industry to enhance labour productivity; and the potential for rapid technological development of the industry. Good performers were rewarded while poor performers were penalised, and the government deliberately avoided bailing out firms in otherwise profitable industries that performed badly due to poor management.

The Korean government also used industrial licensing policies to restrict market entry to the strategic industries. This restriction made firms within the industry compete for market share and encouraged co-operation among the various firms. Further, the government discouraged monopoly by setting price controls that were negotiated annually. The financial system was also regulated to check capital flight. Such was the discipline required from enterprises in the Korean economy.

It is not just the incentives that were crucial for the development of the Korean economy but also, more importantly, the high level of discipline required from private actors.

The government of Korea also invested heavily in education and human capital formation while avoiding any direct state subsidy relating to welfare. The state's role has been in production and capital formation without pledging any allegiance to direct welfare matters. The central thesis of Korean economic management is that the government did not only give incentives to private investors in strategic industries (as the African governments did), but it also required high level performance as a condition for subsidy. It is not just the incentives that were crucial for the development of the Korean economy but also, more importantly, the high level of

discipline required from private actors. This bolstered their ability to enhance the productivity of the incentives, yielding a multiplier effect in the economy.

Linda Weiss: *Embedded and insulated*

In *The Myth of Powerless State* (1998), Linda Weiss argues that a developmental state draws its strength from a combination of its *embeddedness* in the society – its ability work with business and the broader society towards generating internationally competitive industries (irrespective of whether such co-operation is voluntary or compelled) – and its *insulation* from the special interests of other actors.

An optimal combination of embeddedness and insulation is necessary for a state to be strong enough to drive a developmental agenda. A state that is only embedded will likely breed technocratic and rent-seeking behaviours that undermine development prospects. A state that is only insulated will impose ill-informed policies on the private sector – again, derailing development. An embedded developmental state uses its autonomy to consult, negotiate and obtain consensus on national goals and the ways to achieve them.

Weiss further cautions that when a state is more embedded in the larger society than in the industrial sector, for instance through social distribution, it faces a high risk of developmental failure. Citing the case of Sweden, she demonstrates that such a state may manage employment and distribution well, but fail to stimulate industrial growth, thereby crippling the developmental capacity of the nation.

Bureaucratic autonomy

Another aspect of the developmental state, mentioned above, that merits discussion is the autonomy of political and economic bureaucrats. Johnson makes a crucial observation that the credibility of policy makers is an important determinant of the success of developmental economic policies.

The bureaucrats were thus imbued with a strong sense of mission, and with leadership that instilled the desire to achieve unequalled performance towards national goals. These elites appreciated their obligation to deliver and lived up to the challenge to maintain their standards.

In Japan, for instance, bureaucratic autonomy was acquired, nurtured and subsequently directed towards national goals through a meticulous recruitment process that attracted high-ranking persons and the best managerial talent. The vigorous standards of entry ensured a high degree of capability, and generated a sense of unity and common identity among the bureaucrats themselves. The bureaucrats were thus imbued with a strong sense of mission, and with leadership that instilled the desire to achieve unequalled performance towards national goals. These elites appreciated their obligation to deliver and lived up to the challenge to maintain their standards. The size of the elites was also strategically small by international standards in order to contain the control problems that are common in large bureaucracies.

The elite bureaucrats usually retired early from their positions and re-entered the economy either as politicians or in private firms, thus developing a high professional standard in political, economic and private circles. The circulation of elites also generated a strong sense of co-operation among bureaucrats, entrepreneurs and executives.

Thandika Mkandawire: *Africa is not Asia*

The discussion in this paper has shown that extremist policies, either those that allow the market a free rein or those that advocate radical state intervention, are inappropriate. But the preferred economic policies of a developmental state also differ between contexts: what would work to develop African countries may be quite different from the type of economic management that worked in East Asia.

This statement is consistent with sentiments of Thandika Mkandawire. He discusses the variations of African economies in his 2001 paper, "Thinking about developmental states in Africa", and observes that African states *have* been developmental, even though their efforts have not been recognised. He blames this on the unfair benchmarking of African states with the East Asian example.

Mkandawire contends that the term "developmental state" doesn't only apply to those that have attained economic growth, but also includes states that "attempt to deploy administrative and political resources to the task of economic development", but are not able to grow due to external factors, bad luck or miscalculation. He condemns the comparison of states in Africa with well-to-do ones, as well as the sense of despondence or hopelessness that this comparison has brought. In the African context, any state that engineers appropriate institutional structure in order to spur growth merits recognition as a developmental state. African states should determine what works for them in the light of their circumstances rather than emulate the East Asian models unaltered.

COMMON ATTRIBUTES

We have used a synthesis of literature and practice to understand the economic characteristics of a developmental state. Our analysis has identified some attributes that are common and key. Specifically, in countries that have managed to harness their populace towards a national development agenda:

- the state determined a national goal which guided its policy formulation
- policies to promote growth and competitiveness took precedence over all others
- industrial policies favourable to growth were the starting points in policy formulation

- the state engineered political and economic institutions that promoted growth, including a well-managed bureaucracy with the capacity to make coherent economic decisions
- a meticulous recruitment exercise and a proper reward system attracted and retained bureaucrats of high calibre who were respected by the private actors in the economy
- public-private co-operation towards achieving national goals was achieved through consultation with the private sectors when setting the goals.

More importantly, we have drawn from the analyses the lesson that, although states have played an active role to stimulate their economies and enable businesses to become internationally competitive, there is no single economic recipe that must be followed by countries in pursuit of development. The intervention of the developmental state is, in essence, a neo-Keynesian approach to economic management, where the state recognises that markets, on their own, can fail to spur development. The state then actively intervenes to shape the market forces. The theoretical re-interpretation of the East Asian experience away from neo-liberal orthodoxy restores the state as a key player in economic development. However, the degrees to which the government intervenes, and the policy instruments it uses to do so, are determined by prevailing social and economic conditions. There seem to be multiple paths to growth, and states need to be flexible enough to adopt and retain policies that work and to abandon those that fail to produce – due to, for instance, changed economic parameters locally or in the international system.

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THE DEVELOPMENTAL STATE IN A GLOBAL AGE

Globalisation has expanded the role of the state in economic governance. Firstly, it has increased the potential for economic volatility and, secondly, the emergence of a knowledge-based economy has increased the value of social and human capital against a declining level of physical capital. The state is also required to govern the externalities of globalisation such as the resulting digital divide.

But globalisation has also undercut the ability of states to manipulate the economy through macro-economic (e.g. fiscal and monetary) policies. The global interdependence of people, information and ideas requires states to estimate the global and local implications of their policies. For instance, even monetary and fiscal policies can no longer be formulated purely on the basis of national interest. Rules governing membership in international institutions such as World Trade Organisation and International Monetary Fund require that states move beyond narrow national focus.

At a national level, the state's power to use monetary and fiscal policy to promote the national interest is limited by high capital mobility, as investors tend to "vote with their feet". States cannot be overly interventionist without losing in a globalising world.

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On the other hand, states cannot adopt a neo-liberal position that leaves the market to shape development. In Africa in particular, where inequalities are glaring, without state intervention markets can only make the inequality worse. Markets do not consider the social cost of their activities. Negative externalities are likely to harm economies if markets are accorded a free rein.

At an international level, the role of the state cannot be over-emphasised. States must provide macro-economic stability in order to compete effectively for global capital that is otherwise quite mobile. States also negotiate the rules of the international marketplace, which have implications for exports and imports and therefore the balance of trade. The state should ensure effective and secure financial systems that are capable of tracking the balance of payment but are also not regressive enough to encourage a black market. The state also determines a country's openness to the foreign technology that is fundamental for development.

States have a critical role to play in fostering development. Neither a liberal nor an overly interventionist state will manage to achieve sustainable development. States must formulate economic policies based on their local circumstances, implement the policies and then monitor them regularly and continuously.

Finally, it is also not necessary to be excessively conscious of whether a state is developmental or not since various contextual issues may undermine its efforts. Future scholars and policy makers will determine whether the state was effectively developmental. What matters is whether a country is on the path of sustainable development.

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MONDI IS WRONG!

BY ALAN HIRSCH

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I would like to respond to some of the comments and claims made by Industrial Development Corporation (IDC) chief economist Lumkile Mondi in his New Agenda interview ("Industrial Challenges", New Agenda, Issue 27, Third Quarter 2007).

First, Mondi suggests that the government's economic policies have neglected supply-side issues, and that the state had a "poor record of spending" between 1994 and 2000. In the 1990s, we instituted a range of supply-side programmes, including the tax holiday programme, the small and medium enterprise development programme (SMEDP), the revised support programme for industrial innovation (SPII) programme, the technology for human resources for industry programme (THRIP), and a range of small business support programmes. The IDC itself had the global player programme to support industries that were facing tariff cuts. Not all of these programmes were equally successful, but some certainly were. The government spent billions of rands in grants and tax relief to support industrial investment in this period.

If you study trends in business confidence, you will see that it was strong during the mid-1990s, including after the growth, employment and redistribution (GEAR) programme was introduced. The fall in investment and business confidence happened with the sharp rise in interest rates from 1997 onwards, especially with the Asian and Russian financial crises in 1998. Mondi is mistaken to think that fiscal policy was the culprit – it was undoubtedly monetary policy that damaged our performance in that era.

He also claims that the government has aligned itself with the views of the Washington Consensus, rather than playing an active developmental role in South Africa. This is obviously nonsense. The government-driven housing programme in the 1990s was one of the biggest in the world, relative to our economic size. The extension of public infrastructure services to the poor was very rapid in the late 1990s and early 2000s – access to electricity and water, for example. The revised social grant programmes introduced in the early 2000s are huge by any standard. There are currently 12 million recipients of social grants in South Africa, nearly a quarter of the population – possibly the largest social support programme in any developing country of our size and level of development. Access to sanitation increased from 5 million to 9 million households, electricity access grew from 4.5 to 9.6 million households, access to formal housing from 5.8 to 8.9 million households, and access to potable water from 6.3 million to 10.8 million households, all during the decade after 1994.

South Africa has never followed the dictates of the Bretton Woods institutions. We resisted the World Bank's proposals to borrow heavily in the mid-1990s because we knew the money would not be used efficiently at that time, as the state was not yet transformed or capable. In the 2000s, we reaped the rewards with huge increases in government spending, starting in 2001-02.

South Africa has never followed the dictates of the Bretton Woods institutions.

Third, he says that the IDC has been "de-capacitated" by the democratic government. I have no idea what he means. I was a member of the IDC board from 1996 to 1998, representing the government, and we made large investments in projects in South Africa and Mozambique. The minister of trade and industry presented the IDC with a clear and unambiguous mandate in 1996: to develop the economy of South Africa and the southern African region, and to focus on black businesses and smaller businesses. By the way, the IDC was the pioneer financial institution, with Sanlam, in black economic empowerment transactions. The investments in Mozambique helped dramatically to boost growth and confidence in that country which had gone through decades of revolutionary and civil war. It is true that the IDC tends to be conservative of its balance sheet, even now. Still, the IDC was not funded by the government at any point since the 1940s. Should the government be re-capitalising an organisation with well over R30 billion in assets or putting more money into education and healthcare?

Mondi also made comments in the interview relating to the privatisation and competitiveness of parastatals. His comment on privatisation is nonsensical as none of the institutions mentioned, nor the IDC, were privatised. As for competition, we have brought in several foreign investors in steel and telecommunications. Competition is now accelerating in the telecommunications sector, though this ideally should have happened earlier. We need to reduce prices further in the sectors mentioned by Mondi. It's a pity that the IDC has not contributed more effectively to this effort.

Overall, I do agree that the government and the development finance institutions (DFIs) can do a lot more to support industrial development. Our policies are clearly stated in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), in the National Industrial Policy Framework, and in the current Industrial Policy Action Plan. We have made considerable efforts, well beyond the automotive sector, some of which are bearing fruit. The rapid rise in investment and employment in the manufacturing sector in recent years is an exciting positive trend. The IDC is a key agent in these strategies and is a strong partner of the government.

LAND REFORM FOR DEVELOPMENT

BY DIRK DU TOIT

The author is the deputy minister for agriculture and land affairs (DLA) in South Africa. This article is adapted from his speech during the DLA budget debate in Parliament, 18 May 2007

It's always difficult to speak following some members of the opposition. They make me understand why people sometimes get angry. But they also clarify what the differences really are between us. They say that we must solve the problem of agriculture. In that statement itself, the ideological differences are already given. Gramsci, the great writer, would have said that they are "reifying". In order to come to any real interaction and speak to each other, we must know on what we differ. The real difference here is that the ANC has a developmental perspective. Instead of saying the "agriculture problem" will be solved, we would say the "developmental problem" must be solved.

The problem at the moment in this country – and everywhere in the developing countries – is that the developmental context is changing very quickly. This means that the environment in which the DLA planners and municipal managers and politicians must operate is becoming extremely complex and very difficult to work in. But no person should remain the same in their lifetime.

STRAUSS COMMISSION REVISITED

I recently looked carefully again at the Strauss Commission's (1996) report on rural finance. The problems noted there need further attention from the government. Firstly, the report fundamentally said that, if you are working in a developmental environment and you've got developmental objectives, you need funding from the state. No developmental financial institution should be under-funded.

Instead of saying the "agriculture problem" will be solved, we would say the "developmental problem" must be solved.

The second important thing that the Commission said – I'm recalling from memory, from a few weeks ago – is that the monitoring and evaluation functions, and the co-ordination between different developmental financial institutions, actually need a type of council where these developmental financial institutions can sit, evaluate each other and control the situation. I think we need this, and I know that the Treasury is working on new programmes for developmental financial institutions in general.

I have listened carefully to members of the opposition in parliament, who are the great privatisers and deregulators of agriculture, and they are asking us for more protection. But I won't say it's a socialist approach! I only heard them talking about development and support for people who are *already* developed and supported. Perhaps I didn't hear all that they intended to say.

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MORE THAN JUST LAND

What is our mission? It's very simple; we know it. Our mission is to support the implementation of policies so that we can have successful agricultural and agrarian reform. What is the objective of that? We shouldn't lose sight of this: it is to reduce poverty, to enhance livelihood security, to boost economic growth, and to enable food security and sustainable livelihoods. That has been our programme from the beginning. We shouldn't lose sight of this.

Earlier in the debate, Ms Ngwenya was repeating what the Food and Agriculture Organisation (FAO) already said in 2006. In brief, access to land is essential, but it is not enough. Further, section 25 of the South African Constitution, read together with section 24(b), requires the state to take measures to achieve land, water and other related reforms to guarantee the right to healthy and safe living. Access to land is the basic, fundamental requirement, but you can't do just that. You must do more.

The state is constitutionally obliged to ensure that the objectives of land reform are achieved, but everyone in this country must see this as his or her business. That's the only way that we can really call it a national programme. This is a national task.

STRATEGIC DEVELOPMENT

What are the findings that we've seen from international experience? We've seen that market-related approaches tend to focus more on land acquisition and less on the requisite settlement support that must accompany it. In South Africa, just like anywhere else, land acquisition is a highly charged political process. We must accept that as a fact. But often, the principal focus is just on changing inequitable land ownership,

and less on what comes after, as if everything can end once you've signed land over to previously disadvantaged people. It is not like that. There must also be access to markets, to credit, to technology and to training. If you don't have these in place, then people who settle on land may find themselves in a state of deepened poverty – and poverty is actually what we are trying to address.

Experience shows that effective land reform requires the means to make the land useful or productive. This is ANC policy: land reform requires the means to make the land useful. There is an interplay of natural and social resources, of human, physical and financial capital. We are trying to get to that situation where our support systems are more effective. We've got some very successful emerging black farmers. We know that, but we must bring the failure rate down.

A comprehensive approach towards land reform means access to water. It means access to agricultural inputs, to markets, research, extension services. It means the expansion and diversification of employment opportunities. It means the full and equitable integration of women into these developmental land-related projects. Without this, it won't work. It means the participation in the settlement processes of the beneficiaries who are participating in it. It means the facilitation of macro- and micro-economic policies: the fiscal policies, the pricing policies, the trade and industrial policies. We have done well in that.

It means that you must be able to use the livelihood assets and resources of rural households. You must be able to leverage the natural resources, the land, water, forests and soil. You must leverage the financial services that are available to people. All these things are the subjects of intensive strategic and technical development at the moment with our top management. All of our work goes into these different developmental environments. There are very promising area-based strategies coming to the fore. We had a long meeting yesterday on special purpose vehicles (SPVs) for infrastructure and capacity development, which, I think, will be brought before the portfolio committee very soon.

If land is restored, but this does *not* result in secure rights; if it doesn't make meaningful contribution to household security, if it doesn't provide access to services, supports and benefits; if it doesn't reduce the vulnerability of people living in rural areas; if it doesn't contribute to local economic development – then we will have failed in land reform.

The main thing is this: if land is restored, for example by restitution, but this does *not* result in secure rights; if it doesn't make a meaningful contribution to household security, if it doesn't provide access to services, supports and benefits; if it doesn't reduce the vulnerability of people living in rural areas; if it doesn't contribute to local economic development – then we will have failed in land reform.

ON THE ROAD

Let me say again that I regard this as a national task. It's a task for all of us. Perhaps you have a different viewpoint. Perhaps your methodology is different. Perhaps your political rhetoric is different (and I sometimes think this is the only problem we have). Can we just move in this direction? There are very good examples in this country of gifted champions working in the field. Go and look at what happened in Bester's [farm in Ladysmith], in KwaZulu-Natal! There are gifted champions among the beneficiaries, gifted champions among commercial farm owners, and quite impressive champions amongst our officials, who have sat for months and months through very long hours of negotiations for the solution of successful projects.

Moving in this direction, we are laying the base for economic and developmental land reform. We can demonstrate that by implementing our planned reform and by changing the way in which rural land is being used, comprehensive land reform will be an effective investment for the country and the state: South Africa as a whole will gain from it. That will happen! And it is happening.

MARGARET LEGUM

We pay tribute to Margaret Legum, a remarkable personality who passed away earlier this month after an operation in a Cape Town hospital. Margaret Legum was a lifelong activist for social justice, and was committed to the emancipation of the historically disadvantaged. She was a member of the Muizenberg branch of the African National Congress and deeply involved in church and social work in Gugulethu.

However she will also be remembered as a radical economist who was published regularly in the press. She had a wide circle of admirers for her outspoken criticism of the injustices of globalization and for her fervent advocacy of a new world economic order. She led the SA New Economics Network (SANE), and taught a variety of economic courses at UCT and elsewhere.

She was a remarkable individual who was driven by a passion for a better deal for the poor. She never accepted platitudes about economics and was a relentless critic of market fundamentalism. She was unconventional in many ways, never hesitated to change orthodox explanations, and always strove to throw new light on issues.

In all her activities she was always striving to make a difference. We owe it to her memory to keep that spirit alive. Our society is much the poorer for her passing.

Ben Turok

THE GRAND AFRICAN DEBATE:

UNITED STATES OF AFRICA, AFRICAN UNION GOVERNMENT OR UNION OF AFRICAN STATES?

BY CHRIS LANDSBERG

The author is director of the Centre for Policy Studies and extra-ordinary research professor at the University of Johannesburg

In the post-apartheid, post-Cold War, post-colonial era of the late 20th and the early 21st century, the pan-African focus shifted toward three fundamental questions:

- *how, at the continental, sub-regional and national levels, should Africans be governed?*
- *the unresolved question of African citizenship. Who is an African, and who really benefits from being African?*
- *what kind of development trajectory should Africa pursue?*

These questions formed the backdrop to the African Union (AU) Summit in Accra, Ghana, which convened at the beginning of July 2007. The Accra Summit was dedicated to the question of continental order-formation in Africa, and, specifically, whether the continent should establish an executive government at the continental level and accelerate towards a United States of Africa (USAf).

THE CONTEXT

Heads of states and government, and their delegations, recently descended on the capital of Ghana, Accra, to participate in the "Grand African Debate". The 2007 debate was reminiscent of the Grand Debate of the early-1960s, which pitted three contending groups of African statesmen against each other:

- The **Casablanca Group**, consisting of Ghana, Mali, Guinea, the United Arab Republic and Algeria, supported by Kwame Nkrumah and notable intellectuals such as Cheikh Anta Diop
- The **Brazzaville Group** of former French and Belgian colonies: the Central African Republic, Cameroon, the Ivory Coast, the People's Republic of Congo, Dahomey, Mauritius, Gabon, Upper Volta, Senegal, Niger, Chad and Madagascar
- The **Monrovia Group**, consisting of Nigeria, Sierra Leone, Liberia, Togo, Ethiopia, Somalia, Tanzania, Kenya and Tunisia, among others.

At the heart of the 1960s' debate was the political order that should prevail in Africa, and whether, at the time of the onset of decolonisation in the continent, Africa should form an integrated federal union of states and a central command, or instead adopt the sovereignty of states as the hallmark of the continental order and pursue ideals of unity and solidarity. In the end, ninety percent of the views of the moderate Monrovia Group were contained in the Organisation of African Unity (OAU) Charter of 1963.

During the Accra AU Summit, African leaders picked up the grand debate once more, and this time around, the focus was on three scenarios:

- the establishment of an African Union Government (AUG)
- the establishment of a United States of Africa (USAf), or
- the continuation of the plan to put in place the building blocks of a Union of African States (UAS).

TOWARDS AN AFRICAN UNION GOVERNMENT

The 2007 Grand African Debate was triggered by a 2006 document, "An African Union Government: Towards a United States of Africa", released for discussion and debate by the AU Commission in Addis Ababa in January 2007. (See also "Framework of an African Union Government" in *New Agenda* 27)

It spells out three phases en route to achieving the ultimate goal of a USAf:

- phase 1 – 2007-2009. The establishment of the AUG
- phase 2 – 2009-2012. The Union Government is made fully operational and constitutionally grounded, and the basis for a USAf begins
- phase 3 – 2012-2015. All required structures of the USAf are put in place at the continental, regional and national levels.

The bedrock of the Union Government, as spelled out in the strategic January 2007 document, will be "shared sovereignty between the Union Government and independent states of Africa". The goal will be to devise common policy standards, harmonised approaches and joint negotiations on continental and global issues. The document singles out sixteen areas for common negotiation and policy, with some of the most important being essential social services; agricultural and industrial development; trade; governance and democratisation; external relations and foreign policy; and defence.

The AUG proposals call for the "re-engineering" of the pan-African state. It recommends the extension of the presidency of the assembly of heads of states and government (AHSG) from one to three years, and suggests that the president of the Assembly need not be a sitting head of state. It declares that the executive council should be expanded to include chairpersons of ministerial councils and that the permanent representatives committee (PRC) should also become an implementation agent of the Union Government.

UNITED STATES OF AFRICA (USAF)

Proposals for a United States of Africa (USAf) are much the same as those advanced by Ghana's first president, Kwame Nkrumah, and the Casablanca Group some four and a half decades ago. Then and now, the proposal is for the immediate and total integration of the African continent through a single continental government with all the requisite institutions. It is envisioned that there will be central government, with a common defence commission, a common foreign policy and diplomacy, a common currency or African monetary zone, an African central bank, and, significantly, it calls for a common African citizenship.

The bedrock of this paradigm is a supra-nationalism in which sovereignty will have to be sacrificed. What will be established is a continental federation: a supra-national "state of states" or "nation of nations". This common, centralised Africa will also boast an African standing force – what Nkrumah called an "African high command" – and a shared continental infrastructure, including regional and trans-African highways. It will also allow for the free movement of African people, facilitated by an African passport. A constitution of the United Africa, or of the United States of Africa, will govern the USAf.

UNION OF AFRICAN STATES (UAS)

The Union of African States (UAS) model is captured in a number of key documents, the most salient being the Constitutive Act of the OAU, adopted in Lomé in 2000. The UAS idea is premised on the "equality of sovereignty" or the "sovereign equality of African states". This model favours a community of African states with the goal of gradually building up consensus around shared political, economic and developmental institutions; there should be agreement amongst member states to live by such common shared norms, values and principles.

For the proponents of a UAS, the continent has established – in less than a decade – an impressive array of institutions and negotiated common programmes, all based on a strong normative architecture in support of democracy, development, good governance and the responsibility to protect each other.

The continent has established – in less than a decade – an impressive array of institutions and negotiated common programmes, all based on a strong normative architecture in support of democracy, development, good governance and the responsibility to protect each other.

- The AU's most important representative institutions are the Pan-African Parliament (PAP) and the Economic, Social and Cultural Council (ECOSOCC). ECOSOCC is composed of civil society organisations (CSOs) of member states, with advisory powers in all the organs of the AU, albeit that it is currently weak and constantly undermined by governments and governmental representatives.
- The continent's socio-economic development plan, the New Partnership for Africa's Development (Nepad), adopted in October 2001, is essentially a modernisation development strategy that seeks to bring about growth, infrastructure development and peace and security by promoting a partnership between Africa and the industrialised powers, notably the G8 and the European Union (EU). Ghana, South Africa and the African Development Bank (ADB) launched the African Infrastructure Development Fund with a value of US$650 million to boost the continent's modernisation drives.
- The African Peer Review Mechanism (APRM), inaugurated in 2003, is Africa's most innovative governance instrument to date, calling as it does for mutual assessments between governments and CSOs in the areas of political governance, economic and corporate governance, and socio-economic development (including education, health care, public participation, and poverty alleviation). Both NEPAD and the AU regard regional economic communities (RECs) as the building blocks of a Union of African States. For the proponents of a UAS, the RECs should be consolidated to form this union. In short, the supporters of a UAS emphasise consolidation.

THE 2007 GRAND DEBATE

The much-anticipated 2007 AU Summit revealed three dominant positions advanced by heads of states and governments and their delegations, largely in line with how African governments pursued the Grand Debate in the early-1960s. At the heart of the debate was the question of how to "deepen and implement effective continental integration". Some of the divergences, convergences and undercurrents among the three factions are contained in documents such as the AU Executive Council's "Draft Report" and its "Audit Review of the African Union: Cost Estimate" (both published in May 2007). The three groupings could be characterised as the conservatives, the progressive continentalists and the radical Pan-Africanists.

THE CONSERVATIVES

This group favours the status quo, arguing for continental integration within the context of the current AU agenda as spelled out in the AU Constitutive Act, and as agreed to by leaders over the past six years.

For them, the AU should not rush into establishing either an AU government or a United States of Africa. Among the many conservative Africans are those governments with an

obsessive belief in the sovereign independence of African states. Conservative leaders and governments are not willing to surrender any aspect of their sovereignty to the AU; in this sense the AU is no different to its predecessor, the OAU. For them, AU organs have no clearly defined mandates to address issues of regional integration, and are weak in dealing with the continental integration agenda.

Conservatives are not in favour of the free movement of the African people at the continental level. Many of them do not even subscribe to accepted governance standards as set by the AU, especially democratic values such as respect for human rights, good governance and democracy. These conservatives argue that the AU in its current form should be given the necessary capacity to deepen regional integration. Yet many of these states do not even contribute to the AU's financial and human resources pool to strengthen its capacity to implement its agendas effectively.

THE PROGRESSIVE CONTINENTALISTS

This group holds the "gradualists", including South Africa and Nigeria, and was joined by Uganda, Ethiopia and a majority of African leaders – it should be noted that Uganda originally started off as a radical. The PAP also came out in favour of consolidation when it released its all-important document "Pan-African Parliament Position Paper on the African Union Government", in May 2007. The matter was also considered during the PAP's Seventh Ordinary Session of 7-18 May 2007.

The progressive continentalists argue that the AU's integration agenda should be consolidated and its institutions strengthened, finalised and harmonised, but they also support the idea of moving towards the establishment of an AUG as part of an interim transitional arrangement. The progressives agree that it may take a while to get buy-in from African states to establish an AUG, and that the continent will operate for a long time to come as a union of independent African states. But they nonetheless support a two-pronged approach that focuses on strengthening the idea of a Union of African States, with regional economic communities (RECs) as the pillars of the Union, while the building blocks of an AUG will be put in place steadily. This group desires to build on the gains already made in Africa's integration within the context of the AU, while simultaneously refining and developing areas that lag behind in the process of integration.

The progressive continentalists shun mono-causal or zero-sum options. For them, it is important to continue with developmental approaches towards integration by focusing on critical sectors that could yield immediate benefits. South Africa, its SADC partners, Nigeria, Egypt, Algeria, Ghana, Kenya, Uganda and others favour a programmatic integration approach to foster continental political and economic consciousness through the RECs. The progressives are not in denial about the fact that sovereignty remains the fundamental basis for order in Africa, but they say that it is important to re-examine the question of sovereignty, in particular, issues around where states could cede bits of sovereignty so as to strengthen the AU and continental bodies.

The progressives are not in denial about the fact that sovereignty remains the fundamental basis for order in Africa, but they say that it is important to re-examine the question of sovereignty, in particular, issues around where states could cede bits of sovereignty so as to strengthen the AU and continental bodies.

THE RADICAL PAN-AFRICANISTS

This is the "romantic" group that included Libya and Senegal. On the eve of the summit, Libyan president Muammar Gadafi fiercely lobbied Gabon, Mali, Côte d'Ivoire and Liberia with his use of "cheque book diplomacy"; the Brother Leader succeeded in persuading these leaders to support the idea of fast-tracking a continental federal system. Sudan's president Bashir also supported the radicals, as did the AU Commission chairperson, Professor Alpha Konare.

Gadafi's group wishes to see the process for establishing a federalist United States of Africa fast-tracked as a matter of urgency, and is keen to see the dreams of the Casablanca Group of the early-1960s ultimately fulfilled. The USAf's supra-nationalism proposes a continental authority that is higher than that of African nation-states and capable of imposing its will on states. Continental federalism will be the order of the day, where sovereignty is shared between a central, continental authority and peripheral states. An AUG will be a transitional route to a USAf. Proponents of a USAf envisage the ideal of a federation of states as an almost immediate occurrence, not a long-term culmination of a process. They do not have a problem with the creation of an AU government, but see it as a mere transitory phase in the establishment of the United States of Africa. The radicals favour a transcending of the post-colonial African state – the nature of the African state is at the heart of their concerns and considerations. This post-colonial African state will become subjected to a supra-national African state. In short, the ultimate goal of the radicals is federal unity.

WHERE ARE THE AFRICAN PEOPLES?

What stands out in all three models spelled out above is that they all are driven exclusively by heads of state and governments, and by governing elites. This project is thus happening with the total exclusion of African citizens. Needless to say, any pan-continental project that excludes the masses of people is bound to fail. To date, the "Grand African Debate" has not been informed by any consultations with the public. Yet such a debate urgently needs Africa-wide CSO engagement.

To date, the "Grand African Debate" has not been informed by any consultations with the public. Yet such a debate urgently needs Africa-wide CSO engagement.

To be sure, non-governmental organisations (NGOs) throughout the continent have been slow to pick up the debate. In a paper titled "Proposal for continental government" (May 2007), Oxfam's pan-African advisor, Irungu Houghton, argued that it is crucial for NGOs and CSOs to create spaces for multi-country public debates, including e-interviews and newspaper columns by CSO experts, mass media and radio popularisation, griot performances and key government lobbying. The ultimate goal, in short, is a mobilisation of affected peoples' voices.

This also means the empowerment of the continent's parliamentary institutions, such as the PAP, and also regional legislative bodies like the East African Legislative Assembly, while the SADC Parliamentary Forum transitions into a full-fledged southern African parliament linked to the PAP. But these are issues that remain to be settled in the follow-up to Accra, which set in train a process that must be reported back to the summit assembly in 2008.

The question is whether or not the Accra Grand Debate marks yet another episodic focus on unity or constitutes the beginning of a more sustained debate accompanied by long-term strategic planning.

GRAND DEBATE, GRAND FINALE?

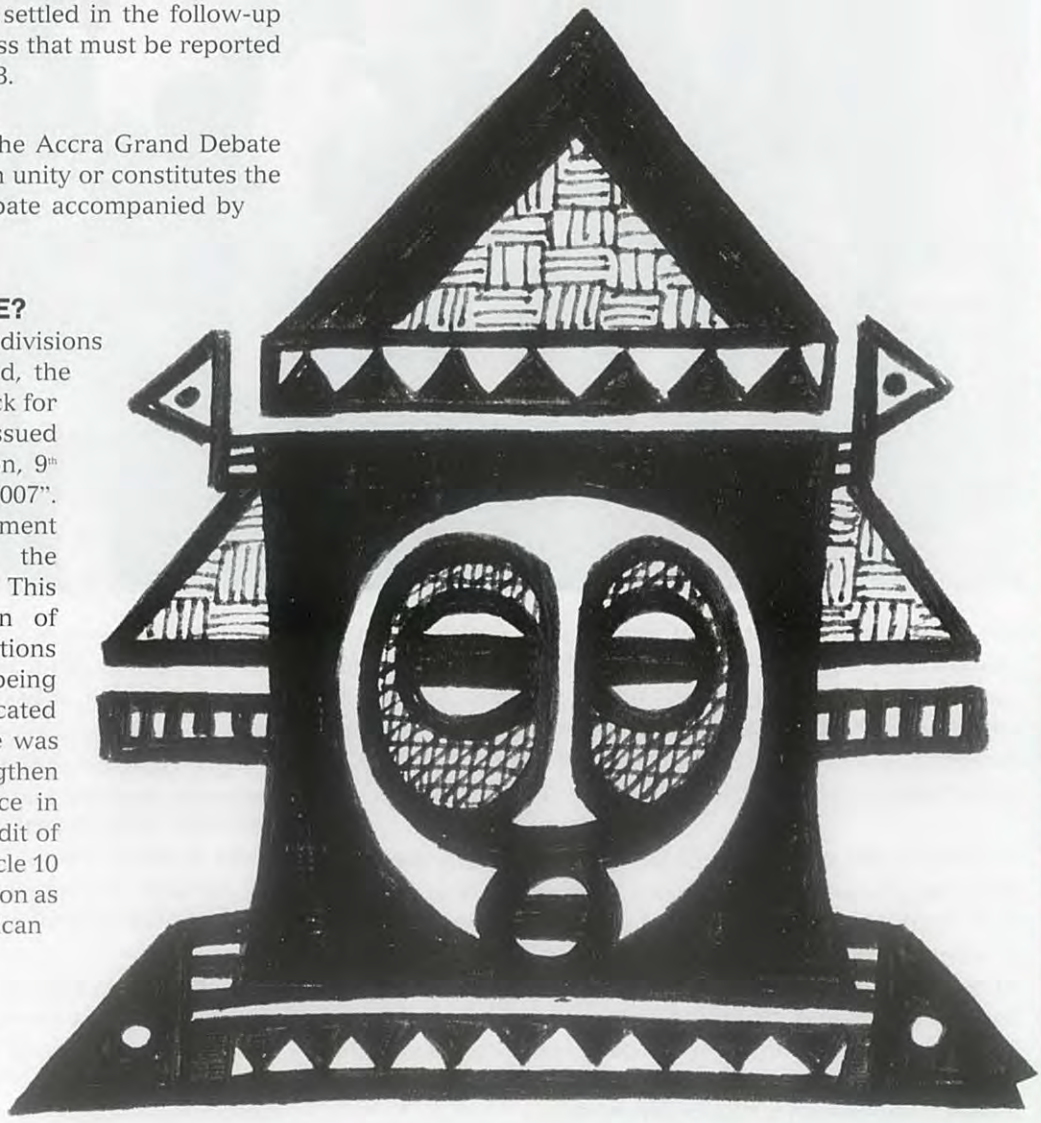
The July Summit was marked by deep divisions and heated debate, and, in the end, the leaders agreed to refer the issue back for further "consultation". The summit issued a very short "AU Accra Declaration, 9th AU Summit, Accra, Ghana, 3 July 2007". The key decision was a commitment to "rationalise and strengthen the regional economic communities." This is crucial, given the proliferation of RECs, their overlapping jurisdictions and their identity dilemmas over being "security communities" or fully dedicated "economic communities". But there was also an implied intention to strengthen the AU at its centre of governance in Addis Ababa, by conducting "an audit of the executive council in terms of article 10 of the Constitutive Act, the commission as well as the other organs of the African Union".

On the question of accelerating the pace of transformation toward continental governance, a ministerial committee is to be established to report back to the heads of state and government on the following:

- the elements of a Union government and how it would relate to national governments
- identify a Union government's "domains of competence" and impact on national-state sovereignty
- define the relationship between a Union government and RECs
- elaborate on timeframes for establishing a Union government and an implementation road map
- identify sources of additional financing of the AU.

Of at least equal importance will be whether or not the recommendations will encourage a longer-term, on-going process of broadly consultative strategic planning that takes the issue of a Union government out of the exclusive realm of heads-of-state.

One thing is for certain: it is "*a luta continua!*", and the Grand Debate will be conducted over and over again in the course of this century. So let us prepare for the Grand Debate... revisited.



FAULT LINES IN THE DRC TRANSITION: DEMOCRACY GRAFTED ONTO FRAGILE FOUNDATIONS

BY SUSAN BOOYSEN

The author is a professor in the Graduate School of Public and Development Management, University of the Witwatersrand

The Democratic Republic of the Congo (DRC)'s largely credible and legitimate elections of 2005-2007 constituted major landmarks in a frequently fragile and fault-line riddled transition. Yet, within the reality of seismic shifts towards democratisation, fragments of the old order continue to undermine the new layer of multi-partyism and elections.

In 2004, in the maelstrom of DRC peace-making and with elections looming, David Moore warned in *New Agenda* that "[o]nly the most naïve of observers can expect 'peace' to arise majestically out of the DRC war. It is a war deeply entrenched in bloody processes of primitive accumulation flowing far beyond the DRC's porous boundaries". (Moore, 2004: 90) By 2007, with the series of elections completed, this caution could be updated, as competing forces continue to threaten the country's fragile democracy.

Such challenges, although not unique to the DRC's transition, combine in a formidable complex of forces that compete with elections and their associated political and governmental practices. These forces mockingly challenge this newfound democracy to show how different it is from the politics of the preceding decades. This analysis draws attention to the issues that need to be addressed to ensure that democracy in the DRC will have a chance to become meaningfully entrenched.

NOT THE ONLY GAME IN TOWN

Although the elections of the mid-2000s irrevocably changed the DRC, we know from experience that founding elections hardly ever mark unambiguous transitions from the past. Newcomers to the electoral game have to continue along a path of gradual transition. Stable and consolidated democracies will, at best, follow some time later.

These observations link into transitional theorists' frequent reference to Juan Linz's assertion that democratisation is definitive when elections are characterised as "the only game in town". Yet, at foundational moments in transitions, the dynamic for democracy would only have some level of predominance over competing forces.

Elections in continuously transitional societies, such as the DRC, differ in the extent to which the founding election contests the modes of the old *status quo* and asserts the predominance of the operational modes democracy: of elections, parties and parliaments in a sovereign government.

The DRC transition thus far appears to be a case of a multi-party democracy – established through largely successful elections – that has been grafted onto several other "games" that continuously compete with it.

The main competitive forces at work are:

- continuous war and threats of war
- widespread penetration of the mineral economy of the DRC by international economic forces, either acting on their own or in concert with power circles of national or provincial politicians
- pervasive international involvement in all phases of the electoral process
- power-assertive, perhaps authoritarian, political practices imposed on post-election politics.

After an overview of the landscape of electoral results, the rest of this analysis elaborates the nature of the competing currents in post-election DRC.

A COMPLEX POST-ELECTION SITUATION

The series of elections and referenda in the 2005 to 2007 period demonstrated a willingness, on the part of most of the DRC's population and many of the leaders, to move away from war, revolts and misrule and to give elections and democracy a chance. Indicators included high participation rates, ranging between 63 and 71 percent, a multitude of candidacies, the relative peacefulness of elections, the fact that there were openings for elections held in otherwise war-ridden areas, wide-ranging tolerance of campaigning, and general acceptance of the results.

This willingness was palpable, even though it seemed to be a case of "elections of limited expectations". Voters often doubted whether elections would have an impact on governance and be the harbinger of development (Booysen, 2006), believing that the choice between the two main presidential candidates was one of choosing "between malaria and cholera". (Booysen, 2007)

The change that the elections did bring is most tangible when compared with the more tentative election trends in the post-independence period, including the coup and authoritarianism of Mobutu Sese Seko, and the two wars spanning the years of 1996 to 2003. As is often noted, 2006 saw the first meaningful Congolese elections in roughly four decades. The terrain was prepared through negotiations, the final global and inclusive peace accord (the "Sun City Accord") and three years of inclusive interim government – although this inclusiveness did more for peace than for the introduction of functional government.

The results of the parliamentary election indicated both the fractionalised nature of party politics – party support ranged from 22 percent down to 0.2 percent for the 29 parties that won one seat each – and the unequal power of the two multi-party alliances formed to contest the run-off presidential election. The 500 parliamentary seats were split between 67 parties and 63 independent candidates. Fifty-four parties won between one and four seats in parliament.

Coalition-building to constitute a parliamentary majority resulted. Joseph Kabila's presidential alliance, the *Alliance pour la Majorité Présidentielle* (AMP), was mirrored in its parliamentary alliance of 31 parties, plus a range of independents. The AMP secured the National Assembly majority with 332 of the 500 members. The majority alliance's dominance was further established in the 108-seat senate. Jean-Pierre Bemba's presidential election alliance, the *Union pour le Nation* (UN), won 18 seats compared with the AMP's 56. The constitution specifies that the president shall ask the leader of the majority party (or alliance) in parliament to appoint the country's prime minister. Antoine Gizenga, the third-strongest presidential candidate, whose AMP participation helped secure Kabila's presidency, was rewarded with the premiership. The May 2007 poll for president of the senate determined that this powerful position would go to Léon Kengo wa Dendo.

The DRC's complex electoral landscape was already apparent in the first round of the presidential election. No candidate achieved the required outright majority. The three strongest candidates were Kabila (45 percent), Bemba (20 percent) and Gizenga (13 percent). The next four contenders won between 4.7 and 1.6 percent support individually. The runoff presidential result gave Kabila a winning margin of 16 percent (2.6 million votes). Given that he was in alliance with Gizenga and fourth-placed presidential hopeful Nzanga Mobutu, the 58 percent victory was a notable 5 percent below the combined first-round totals of the three AMP partners. Bemba grew his first-round support from 20 to 42 percent. His support was somewhat bolstered through his alliance with presidential candidate Oscar Kashala, and substantially enhanced by votes that were more anti-Kabila than pro-Bemba.

At the provincial level, Bemba's *Mouvement pour la Libération du Congo* (MLC) and Kabila's *Partie du Peuple pour la Réconstruction et la Démocratie* (PPRD) were the two major winners, with a multitude of other political parties gaining the balance of the seats. Elections also continued with indirect elections for the Senate in early 2007, followed by voting for provincial governors and their deputies. Local level elections are expected in 2008.

The elections thus proved that the war-weary population embraced elections, and that political leaders – mostly recent converts from rebels to democrats – were prepared to play the electoral game and accept the results.

The elections thus proved that the war-weary population embraced elections, and that political leaders – mostly

recent converts from rebels to democrats – were prepared to play the electoral game and accept the results. This was despite instances of resistance due to beliefs that pro-AMP rigging had occurred and despite leaders' engagement in, or tolerance of, other layers of political and economic action.

COMPETING CURRENTS IN POST-ELECTION DRC

Three predominant currents compete with electoral democracy for dominance in the DRC: namely, the politics of power; war and civil rebellion; and the economy, in relation to the state and international forces. If electoral democracy is conceptualised in terms of a nexus between elections and political power, multi-partyism and political tolerance, domestic and international forces converge in all three domains to pose challenges. There is also a complex interconnectedness between war, economy and politics in the DRC.

Balance of forces in the political sphere

This section focuses on the consolidation of the power of the presidential majority alliance, marginalisation of the main opposing alliance, and political violence. What is the extent of the challenge to electoral democracy in the DRC's political sphere? Is there post-election evidence of a critical electoral mass that could prevail over any monopolisation of power, within or without the shell of elections?

The new democracy's strengths are evident in the turnaround from preceding decades' aborted attempts at democracy to relatively successful elections in the mid-2000s. Yet these substantial feats remain in need of consolidation. Some of the vulnerabilities include popular cynicism about the effect of elections on everyday life and the non-inclusive nature of post-election appointments. Emerging trends contrast with the international community's earlier entreaties that parties be accommodating and inclusive, despite the 2006 constitution's silence on power-sharing. The post-election phase was also less visibly penetrated politically by the previously omnipresent international actors. The Western powers gave tacit support to the governing alliance's actions.

The composition of the first post-election national executive, as well as appointments to other key institutions, attested to the consolidation of the winning presidential alliance's power and, inversely, the mounting marginalisation of the opposition. Kabila's cabinet was constituted from the ranks of the AMP presidential alliance. The opposition was also excluded from appointments in other key institutions. Kabila's own PPRD took 15 places (including defence, interior, energy and agriculture) in the 34-member cabinet. The rest of his alliance members got 18 seats (and the president the remaining one). The AMP refused to admit Bemba's UN to chairmanships of parliamentary committees, thereby limiting the chance that Bemba followers would help make the new institutions work. Furthermore, a former Kabila adviser was named head of the national assembly.

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With power being constitutionally split among national, provincial and local institutions, there was doubt as to the capacity of Congolese leadership to establish authority over the provinces. This stemmed from several factors, including differential popular support for the new institutions, as measured by electoral participation rates, across the current 11 provinces (to be reconstituted into 25 in 2009). In the east, turnout had been high and overwhelmingly in support of Kabila. In the west, only about half of the electorate voted, except in Bemba's stronghold of the Equateur province. The International Crisis Group (ICG, 2007) expressed concern that, despite winning five provincial assembly elections, opposition parties were virtually excluded from provincial governorships.

Fears started surfacing in early 2007 that the opposition could revolt. Bemba warned that "abuses and corruption" could undermine democracy, and that the opposition could call strikes and protests. These fears escalated in March with the high-casualty confrontation between Kabila's state military forces and Bemba's personal armed guard in Kinshasa. Bemba had resisted demands to disband his guard. The national army, the *Forces Armées de la République Démocratique du Congo* (FARDC), confronted Bemba's guard, which had already been shrunk from the pre-election 12 000 to approximately 1 000. With Bemba continuing to have the *de facto* status of "second big man of DRC politics" (despite by now being opposition party leader and senator), disbandment would have amounted to political surrender.

Bemba's defiance followed in the wake of government military forces having ransacked MLC offices, attacked and burnt the radio and television stations under Bemba's control, and Kabila's further consolidation of media control by closing down Bemba's television station. The state prosecutor issued a warrant for Bemba's arrest, claiming high treason. Bemba took refuge in the South African embassy and many of his troops surrendered. The Kabila victory was described as decisive. The senate granted Bemba permission to leave the DRC for a period for medical treatment in Portugal, with Bemba committing himself to refrain from engaging in politics while outside the country.

The MLC appealed to the senate for permission for Bemba to return to the DRC with immunity. His period of condoned absence expired in June 2007, without these guarantees forthcoming. The Kabila camp was seen to delay the process, hoping eventually to expel Bemba from the senate for lack of required attendance. When substantial war violence resurfaced in eastern DRC in July, speculation was sparked

that Bemba was assisting his erstwhile war partner, Uganda, to destabilise the DRC. In mid-2007, the ICG noted the recurrent use of force against Bemba supporters.

In the first half of 2007, parliamentary opposition parties generally felt they were under a post-election state of siege. They boycotted parliament for 11 days due to "intimidation, harassment and attacks" by the majority alliance's hawks. They called for guarantees of freedom of expression and their safety in the performance of parliamentary functions.

Many questions arise about whether these trends can be ascribed to the "normal" process by which the victorious party consolidated power that was won via the ballot, or whether majoritarian power was being used to annihilate the electoral opposition. The question is complicated by the fact that Bemba had retained powerful resources, such as the armed guard and media independence, that could have contributed to him asserting himself over Kabila in Kinshasa – already a Bemba power base. The trends of 2007, however, suggest that the Kabila camp went beyond containing Bemba's power and stepped into the domain of systematically subverting the opposition.

Many questions arise about whether these trends can be ascribed to the "normal" process by which the victorious party consolidated power that was won via the ballot, or whether majoritarian power was being used to annihilate the electoral opposition.

Overall, events confirmed Kabila's growing grip on power in the DRC. It appeared that the elections' transformation of warriors into democrats was largely a case of elections being added to the repertoire of "weapons".

Balance of forces in war, peace and elections

It is not unusual for countries to move from war into constitutional negotiations accompanied by lessened hostilities, elections and the launch of brittle liberal-democratic dispensations. It is exceptional, however, to have the DRC's particular combination of a *tentative (and partial) peace* and a *provisional embrace of elections and democratic practice*. This section explores the main security and peace fault lines in the DRC.

The ever-present threat of a return to war – given the persistence of imperfect militia demobilisation, private armies, and the illegitimacy and, as Boshoff (2006) concludes, partial integration of the *Forces Armées de la Republic Democratic du Congo* (FARDC) – was the major security threat in the electoral and post-electoral landscapes. Widespread reliance on international peacekeeping continued. The United Nations' mission, the *Mission de l'Organisation des Nations Unies en République Démocratique du Congo* (MONUC), remained indispensable in maintaining and advancing peace, and conducting select military interventions to help confirm the new political order. Its term was extended to the end of 2007. It was also recognised that FARDC would not, probably for another ten years, have the capacity to guarantee the integrity of porous DRC borders.

Whereas post-election conflict in western DRC revolved around the consolidation of power, the continuous conflict in eastern DRC often built on the regional war (with its accompanying identity and security issues) that is rooted in the 1994 Rwandan genocide. This conflict proved to be one of the most persistent security threats in post-election DRC. Other components of continued conflict relate to militia and bandit groups that flourished in the vacuum of FARDC failure. Elections and multi-partyism did not supersede these earlier layers of action, even if there was progress in demobilisation, security force integration and more inclusive peace agreements. Although it had been possible to hold elections across otherwise war-torn areas, both the fact of war with casualties (including civilian deaths) and the displacement of communities contradict "democracy".

The fates of the DRC and Rwanda were intricately linked in the aftermath of the 1994 Rwandan genocide, when Hutu militia established themselves in the DRC, continuing assaults on the Tutsi-dominated Rwandan government. Many of both the Tutsi and Hutu groups are also DRC citizens. The Second War of 1998-2003, which pitted the DRC against Rwanda and Uganda, became a ten-nation regional African war. Rwanda had earlier assisted Laurent Kabila drive Mobutu from power. When Rwanda and Uganda invaded in the second war, they helped remove Laurent Kabila from power, accusing the DRC government of failing to flush out rebels opposing the governments of the two countries.

The forces of General Laurent Nkunda (a Congolese Tutsi), the *Congrès National pour la Défense du Peuple* (CNDP; mostly based in North Kivu), became one of the significant militia groups to join the peace process in early 2007 after Rwandese mediation (but some months later reverted to war). FARDC in eastern DRC went through several phases, the details of which illuminate the nature of the persistent conflict. First was the pursuit of Hutu-linked groups after the integration of Nkunda's forces into FARDC in the form of the "mixed brigades". Then FARDC announced that, for humanitarian and capacity reasons, they were suspending action against the Hutu-aligned groups. Next Nkunda broke ranks and declared war on FARDC, suspecting FARDC of co-operation with Hutu forces in the DRC (the *Forces Démocratiques pour la Libération du Rwanda* (FDLR), which by now also incorporated the Interahamwe). At the time of writing, FARDC was involved in a war against Nkunda whilst, simultaneously, re-engaging against FDLR.

MONUC's Disarmament, Demobilisation and Reintegration Phase III programme continued unfolding in 2007, working mostly with Ituri armed groups such as the *Mouvement des*

Révolutionnaires Congolais (MRC) and the *Front des Nationalistes et Intégrationnistes* (FNI) – either integrating them into FARDC or back into civilian life. Enlistment in this programme, however, remained partial. Ituri warlords had joined peace initiatives in exchange for senior FARDC positions.

Progressive peace in the DRC was complicated by the low morale, poor popular legitimacy, and infrequent pay in FARDC, and also by rebel group members officially becoming demobilised yet remaining active in rebel action. In addition, displacement of the local population in the east remained high, and escalated sharply as the wars were re-ignited. The Geneva-based International Displacement Monitoring Centre noted in mid-2007 that over a million people remained displaced in eastern DRC in the post-election period.

The UN is among those that recognise that stability in the region would require that the issue of Hutu extremists in the FDLR, the defence of the Tutsi minority, and Rwanda's security concerns be addressed. In the interim, these conflicts detract from "democracy in the DRC", while for much of the rest of the country the war is in a faraway place.

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International beholdenness, captured economy and state

Full national revenue channelled into state coffers, combined with state institutions built to facilitate infrastructural and human development, would establish strong legitimation anchors for the DRC's democratic dispensation. In 2007, however, there are few signs that the government is securing links between elections and the delivery-development nexus. Indications are that the shadow world of the alternative nexus of "power figure-personal links into mineral riches" continues driving much of the DRC's politics and economy. (Emizet, 1998)

The economy is weak and heavily indebted. This contrasts with its rich endowment of scarce minerals and natural resources. Estimates are that only slightly more than half of mineral revenues have been channelled into state coffers in recent times. The constitution also prescribes a system of revenue-sharing between national and provincial governments, which ensures that the provincial governments earn fair shares of the revenues that do flow in. It also offers more power for provincial power figures to control the mineral industry.

These resource and revenue trends help build the DRC's democracy fault-line profile. On the one hand, appropriation of state resources, whether through patronage or corruption networks, is anathema to democracy. On the other hand, the state's sub-optimal facilitation of institutional and capacity building is often attributed to a lack of resources – a fault line that is not unique to the DRC and its young democracy.

Yet the extent to which minerals such as copper, coltan, gold, diamonds and uranium are pivotal to the emergence of personal mineral "kingdoms", aligned to national and provincial leaders, suggests the existence of a shadow state with personalised delivery and redistribution networks. International mining companies, as well as the continent's political and economic leaders, are key actors in this "industry". (Crisis Watch, 2005; Thornycroft, 2007) Over the decades (as illustrated by Mobutu Sese Seko's American and other Western backers) and into the present, many national and regional politicians make deals with international financial actors to exploit and export mineral wealth and timber. The derived incomes are sometimes used for military conquest and political power. International dependency and obligations also undermine democracy – leaders are first accountable to international allies, and only secondarily to electorates.

In the past decade, politicians' desire to command the DRC's mineral resources fanned the flames of the 1998-2003 regional wars. A contemporary residue is the possibility that Rwanda is supporting the Nkunda war in exchange for minerals. Similarly, much of the international interest in bringing stability to the DRC, in the form of elections and democracy, was to create an environment conducive to international trade and profitable investment. In popular expression, the vast number of candidates in the 2006 elections was often explained in terms of "Look around you... all the politicians are rich". (Booysen, 2006)

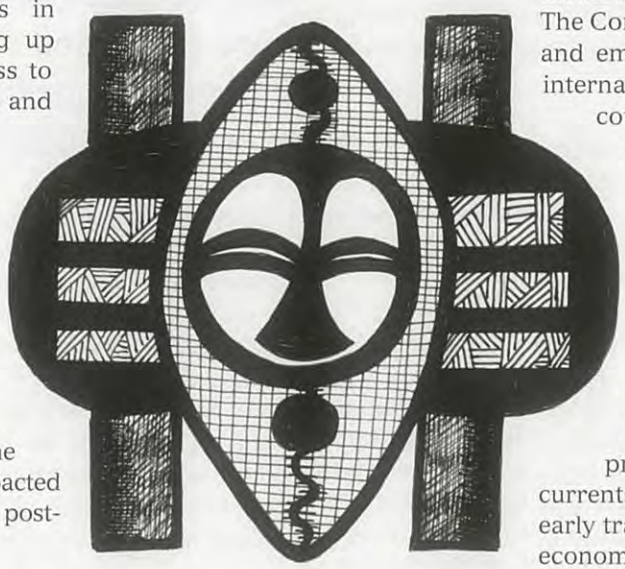
In the months subsequent to the inauguration of parliament, there was little evidence that, beyond unification of the country and improvement in the security situation, improvements of note had been realised in institutions of government. As the ICG (July 2007) notes, governing institutions had remained weak, abusive or non-existent: "Despite Kabila's strong mandate, the last months have seen the rapid paralysis of the state machinery, increased authoritarian tendencies and no decisive progress in the restoration of peace in the Kivus."

It is in this domain that South Africa had intervened, through the SA-DRC Bi-national Commission. Launched in 2004, the commission was active in the pre-election period and resumed activity in the second half of 2007. In 2005-06, much of the focus was on coaching for the development of state administration. In 2007, agreements followed in, for example, the areas of health, transport and energy.

The DRC's beholdenness to members of the international community is further illustrated in the negotiation, election and peace components of the transition. The international community, both African and Western, facilitated the negotiations and peace settlement. South Africa hosted crucial transitional negotiations, while delegates to the negotiations were known to consult continuously with their Western allies (such as the USA, France and Belgium) on the detail of agreements. The elections themselves were

virtually fully funded by the international community. The UN had an enormous role and the USA was the greatest single financier of MONUC's US$420 million-plus budget for election support. International support for the transition was sealed through the hugely expensive MONUC peacekeeping operations (estimated to have carried a $1.3 billion plus budget). MONUC's electoral division assumed responsibility for much of the election arrangements. In October 2006, the chairperson of the independent electoral commission (CEI) acknowledged that the DRC is unlikely to have sufficient funds to assume responsibility for future elections.

Part of President Joseph Kabila's legitimacy deficit in the elections was due to the perception that he had been handpicked by Western powers. The Roman Catholic Church's statement that the election result was "a Western conspiracy to grab the country's mineral wealth" found resonance among citizens. Similarly, there was the belief amongst Kinshasa residents that the post-result peace-keeping efforts in the city were the West propping up Kabila for Western business access to Congolese minerals and business and trade opportunities.



CONCLUSION

Pre-existing currents of politics, war, economy and state are continuously active beneath the surface of recently superimposed electoral democracy in the DRC and affect the electoral domain both collectively and in particular ways. This analysis explored the extent to which the three layers impacted on electoral democracy in the early post-election period of 2007.

First, it confirmed the trend that, to a large extent and with little visible change in the post-election year, the dominant economy of non-state accumulation continued. It appears likely that the war economy (with minerals and other natural resources potentially funding dissident wars and rebellions) was, at best, taking a relative breather. It is too soon to judge whether the legitimacy of the new DRC democracy will facilitate a culture in which senior political leaders stop treating state resources as private capital.

In the second place, the analysis found that war in eastern DRC appears intractable, with deep fault lines connecting into regional conflicts and insecurities and mineral exploitation. It is a continuous contradiction that the DRC can simultaneously conduct successful elections and representative democracy with, in the same areas, territorial wars and large-scale human displacement. However, given that the continuous wars are relatively province-specific, they question the authority and territorial integrity of the DRC without challenging representative democracy overall. It appears possible that the dichotomous co-existence of war and challenges to territorial control could continue indefinitely.

The most direct and immediate challenge to the DRC's electoral democracy emanates from the political domain. The analysis explored the main post-election manifestations of this challenge. Ambiguity prevails on whether the actions of the Kabila camp in Kinshasa in 2007, which consolidated power and minimised the influence of the opposition, constitutes repression and authoritarianism within the liberal-democratic shell, or whether it is merely part of the legitimate consolidation of majoritarian power.

An important question is whether the DRC democracy is strong enough to defuse historical inclinations to mobilise against Kinshasa regimes. In a country where there is a strong culture of pushing out the Kinshasa incumbents from the east, many of the essential ingredients of previous methods of removing them are still present. The Congolese population's war weariness and embrace of elections, as well as the international backing of the new order, could still be the current regime's greatest insurance against its own semi-authoritarian mopping-up operations.

Dynamics of this nature appear in all transitional democracies in varying degrees. The tipping point will be measured by the extent to which elections (and their associated institutions and processes) prevail over the competing currents, or *are positioned to prevail*, as the early transition's patterns of war, informal economies and international involvement or intervention either subside or stabilise in their current configurations.

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GOVERNANCE AND CIVIL SOCIETY IN AN ERA OF GLOBALISATION

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People are finding new ways to get involved in public life and decision making – marking a shift from representative democracy to what is often called participatory democracy. Ironically, doubts about accountability and transparency – which made up the traditional critique of global governance institutions by civil society – have been raised with regard to civil society as well. This paper analyses the current deficits of global institutions and the challenges facing transnational civil society.

It has become a truism that the old notion of governance as the exclusive domain of governments is breaking down in the era of globalisation. New non-state actors have made their appearance on the global scene and have been able to influence governance mechanisms at all levels.

At the same time, the deepening "democracy deficit" in several local and national contexts, and certainly at the global level, is now commonly recognised even by policy makers. In many democratic systems, form has largely overtaken the substance of democracy: elections may be held, but fewer and fewer people are choosing to vote and the meaningful interface between citizens and their elected representatives is minimal. Not surprisingly, public opinion surveys reveal declining levels of citizen trust in political institutions. Affiliation with traditional political parties is plummeting as traditional parties themselves are lacking internal democracy and fail to address issues that citizens believe are important. The influence of economic powers and financial elites in many political systems is also turning citizens away from traditional engagement in favour of new forms of participation.

Although faith in traditional political institutions is waning, this should not be taken as a sign of generalised citizen apathy. On the contrary, people are finding new ways to get involved in public life and decision making – marking a shift from representative democracy to what is often called participatory democracy. Many citizens are arguing for a new notion of participatory governance, able to allow for ongoing and bottom-up input into decision-making and policy formation.

The democratic deficit, global challenges and the quest for participatory governance have catapulted civil society into the international political discourse since the turn of the millennium.

The democratic deficit, global challenges and the quest for participatory governance have catapulted civil society into the international political discourse since the turn of the millennium.

Transnational civil society networks have been mobilising to democratise global governance, promote participation and advocate for different ways to tackle global challenges such as poverty, gender equality, social justice and environmental sustainability. However, growing influence and power have been accompanied by more stringent scrutiny of the actual make-up of these self-proclaimed global networks and their claim to represent the "voiceless" of the world. Ironically, doubts about accountability and transparency, which made up the traditional critique of global governance institutions by civil society, have been raised with regard to civil society as well.

Furthermore, since September 2001, sceptics of transnational civil society have been quick to announce the demise of cross-border activism, particularly the public protests that have become associated with the "anti-globalisation movement". They suggest that the movement has lost momentum and that we now live in an era in which the imperatives of the "war on terror" have defined the political terrain.

In light of this, this paper analyses the current deficits of global institutions and the challenges facing transnational civil society with a view to identifying how civic activism can truly become a driving force toward participatory global governance in today's world.

GLOBAL GOVERNANCE AND ITS DEFICITS

While the space for civic participation in the global policy-making environment is growing, the overall picture remains one where citizen voices are marginalised or are belatedly solicited after key decisions have been taken.

For instance, hundreds of civil society organisations (CSOs) have actively campaigned to support the Millennium Development Goals (MDGs). Yet, when the MDGs were developed in 2000, there was no significant input by civil society and the decision-making process was largely controlled by governmental elites under the auspices of the United Nations (UN). This lack of openness, responsiveness and participation is a defining feature of today's governance systems. Without a true sense of ownership by citizens and civic organisations, it has turned out to be quite difficult to hold governments accountable to these goals. The war in Iraq has further aggravated this gap between citizens and the systems of governance at both the national and international levels. In order to wage an illegal war, several governments blatantly disregarded the demands of their own citizens and the pleas of international institutions such as the UN.

In the current international order, global governance is undermined by four types of deficit. The first is the *democratic deficit*, related to the fact that no global governance institution is led by elected representatives. Many of the global institutions that have become increasingly powerful in our current age were constructed at a particular moment in world history that is a far cry from the context in which we currently find ourselves. Not only does the geopolitics of 1945 continue dominating the governance structures of key institutions well into the post-colonial era, but many of these public institutions appear to be operating under rules and logic that are not in keeping with the current realities confronted by citizens around the world.

Europeans control the leadership of the International Monetary Fund (IMF), while the US administration appoints the head of the World Bank without serious consultation with other countries. This system is unacceptable if one thinks that these institutions are supposed to support the poorest nations, which have no or little say over their policies. The governance arrangement, which is typified by a rule of "one dollar, one vote", is not only obsolete, but also profoundly unjust. Similarly, the UN is dominated by the five members with veto power within its Security Council (UNSC). More sadly, prospects of reform regarding the UN system are merely based on the possibility of extending the membership of the UNSC to a few more countries, rather than on a general overhaul of this obsolete (and often powerless) institution so as to give a more central role to the General Assembly.

The second problem is the *co-ordination deficit*. Global institutions often operate with little or no co-ordination with one another. For instance, decisions made by the UN do not necessarily inform the actions of other global institutions, such as the World Bank or the IMF. At the national level, finance ministers go off to the World Bank and IMF, foreign ministers to the UN, trade ministers to the World Trade Organisation (WTO), health ministers to the World Health Organisation – and the level of co-ordination as to what positions national governments take at the global level is often somewhat limited. In many countries, parliament is largely ignored in terms of how national positions are taken.

A third deficit can be described as a *compliance deficit*. If we look at the range of global conferences – which some consider as global policy-making processes – since the Earth Summit in Rio de Janeiro in 1992, when the question of the environment was first addressed by the UN, or the Beijing Women's Conference in 1995, there has been a total lack of political will to comply with these commitments made at the global level. If we were to do an analysis of all the commitments that national governments make at various global summits and how much they actually implement them in reality, the scorecard would be dismal.

If we were to do an analysis of all the commitments that national governments make at various global summits and how much they actually implement them in reality, the scorecard would be dismal.

Fourthly, global governance institutions are characterised by an *accountability deficit*. Partly due to the overall democratic deficit we discussed earlier, most global governance institutions are only accountable to the most powerful governments in today's world. Being controlled by American and European governments, both the World Bank and the IMF are *de facto* accountable only to Western elites. This deficit is crucial, as it leaves developing societies on the receiving end of decision-making processes over which they have little or no power. The structural adjustment policies (SAPs) that dominated the 1980s and 1990s are a case in point. Not only were developing nations forced to comply with policies they had not chosen, but when the SAPs miserably failed and proved to be more harmful than the problems they purported to address, developing societies from the global South had no power to hold the IMF or the World Bank accountable for their miscalculations.

These four deficits become even more worrisome when thinking about the growing challenges the world faces today, from poverty to human rights abuses and environmental disasters. For the international community to be able to tackle these problems and find effective and enduring solutions, a participatory approach must be adopted. This is where civil society, and particularly transnational civil society, becomes crucial.

TRANSNATIONAL ACTIVISM

In spite of our critique of current governance systems, we do not mean to suggest that civil society is intrinsically good and governmental institutions are intrinsically bad. On the contrary, we recognise that effective democracy needs a vibrant civil society as well as an effective and accountable government. Both bring a vital diversity to governance and provide complementarity and mutual accountability systems.

During the 1980s, many activists around the world embraced a simple but evocative slogan: "think globally; act locally".

Although inspiring, it was soon to be realised that trying to tackle local issues without understanding the ever-increasing power of global processes was tactically inappropriate.

By the mid-1990s, activists, particularly from the global south, began to question this logic. Some asked whether this did not trap activists solely in local initiatives, since many of the problems they were facing originated from international processes and their causes could have been more successfully addressed in global forums. This reflection led to suggestions that social activists needed to think "both locally and globally and act both locally and globally since the realities of globalisation now deprive us of the luxury of national parochialism." (Tandon and Naidoo, 1999: 205)

There has been much celebration of the ascendancy of transnational civil society in the last decade. Jessica Matthews, the president of the Carnegie Endowment for International Peace, wrote in 1997 of a "power shift" marked by the increasing recognition by governments and intergovernmental organisations that nongovernmental organisations (NGOs) and other non-state actors had become real power brokers in various political, social and economic processes. (Matthews, 1997)

Thus, what challenges does transnational activism raise? Is the rise of transnational movements a truly global phenomenon able to democratise global governance and give more voice to citizens?

CONCEPTUAL CHALLENGES

Today, the term "civil society" is used with an overdose of ambiguity, looseness and gymnastic flexibility. Indeed it can be persuasively argued that this actually is one of the strengths of the notion of civil society. For some, civil society is the universe of NGOs that work for the public good. Let alone the intrinsic difficulty of defining what the "public good" is, it is nevertheless questionable why the myriad of diverse informal groups, community organisations (the so-called "informal civil society") should be excluded from the definition. CIVICUS, which defines civil society as the arena where individuals associate to advance their interests and values, has also been faced with conceptual challenges, since it is virtually impossible to decide what "interests" and "values" qualify as legitimate. For instance, were we to establish that only values such as non-violence, tolerance and equality identify who belongs to civil society, then several manifestations of associational life, which include freedom fighters and street protesters, would be disqualified. Provocatively, Anderson and Rieff wrote in the 2005 Global Civil Society Yearbook that international terrorist organisations and armed groups are also members of global civil society in their own right.

Additionally, it must be acknowledged that the recent growth of cross-border activism has not created a truly global civil society, but at best a series of transnational civil society movements, because there are no networks or organisations that can claim representation in all the countries of the world. Furthermore, several so-called international NGOs are, in fact, national organisations that work internationally. This becomes evident when we examine their governance mechanisms and, to a lesser extent, their funding sources, staffing and values. This aspect has raised many questions about representation, legitimacy and authenticity and has questioned their right to have preferential access to global governance institutions.

ACCOUNTABILITY AND LEGITIMACY

The increasing influence, presence and power of transnational CSOs has brought with it greater scrutiny by governmental and inter-governmental institutions, which (often privately) question the extent to which transnational CSOs are accountable to and represent the interests of global constituencies. The argument usually goes like this. Whereas governments are accountable to electorates and derive their mandate through electoral processes, and businesses are accountable to their shareholders, where do CSOs derive their mandates?

Recent research has also shown that the lack of transparency and accountability around funding is a major problem not only for transnational NGOs, but also for other forms of civil society, such as indigenous organisations and social movements. (CIVICUS, various) In many ways, the mystery that surrounds decision-making processes within grassroots social movements is more worrisome than in the case of international NGOs.

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There is a conviction among certain critics that, whereas NGOs are controlled by elite interests, social movements enjoy a high degree of internal democratic participation since they are less formalised and their structure is more fluid. Although this is by no means true in all instances, it is a matter of dispute whether a lack of formal structure is tantamount to more flexible democratic participation. In Latin America and Asia, most social movements are highly personalised entities that are often shaped around charismatic leaders. Although presenting themselves as loosely organised movements, they are in fact quite centralised in terms of decision-making. In situations where no clear decision-making structures exist, the voices of minorities and marginalised groups might be less likely to be heard. In Jo Freeman's words, the widely heralded principle of "structureless-ness" can easily become "a smokescreen for the strong or the lucky to establish unquestioned hegemony over others". (Freeman, 1972: 153)

While it is imperative to assert civil society's right to participate as a partner in making and implementing global decisions, it is as important to explore how to meet the challenge of representation responsibly. In our view, transnational activism should be based on shared vision and norms, mutual support and linkages, horizontal accountability and collective responsibility. In this regard, it is a good sign that some of the most well-known international NGOs have recently signed an "accountability charter" (www.ingoaccountabilitycharter.org). However, it must be borne in mind that problems relating to accountability and legitimacy have a lot to do with power dynamics and uneven resources, and the idea of a charter is just a first step towards broad-based accountability.

COMMUNICATION AND INFORMATION DIVIDE

Most transnational civil society networks are driven by English (and sometimes French and Spanish) as the *lingua franca*, which therefore excludes many important voices representing non-Western cultures. The challenge of language is a very important one, since this is the basis of transnational communication, and can easily result in the exclusion of important activists from transnational debates and actions.

Without a doubt, civic transnationalism has been accelerated by the rapid development of information technology (IT). However, it is worth noting that while many activists take advantage of the latest IT innovations, more than a third of the world's population has no access to telephones, let alone other IT instruments such as the internet. If we consider that there are more telephone connections in Manhattan than in sub-Saharan Africa, then it is unavoidable to wonder who are going to be the true global players, and who are not. An enduring challenge then is to address the digital divide seriously so as to bring in more voices into transnational activism, given that a lot of transnational activity is driven by the internet infrastructure.

PARTICIPATORY GLOBAL GOVERNANCE?

Transnational activism is largely driven by the intent to promote common good. It is undeniable that in the past few years, transnational civil society networks have managed to shift public attention to important issues concerning social justice, equitable development and other key goals, such as the promotion of human rights. There has also been some important cross-country learning and exchange, which has enhanced the work of national and local activists back home. Moreover, there have been historic victories, such as the signing of the Landmine Ban Treaty or the partial victory around third world debt.

Nevertheless, this analysis has shown that numerous factors inevitably skew the purported "global reach" of transnational movements. The lack of financial and human resources, the hegemony exerted by a few Western languages, and limited access to technology are some of the key obstacles to a truly global civil society. In this regard, CSOs should commit themselves to addressing the longstanding imbalance between northern and southern organisations (and individuals) in the leadership of transnational networks. Citizens from poor countries, who are easily marginalised due to lack of resources and language barriers, should be able to participate as effectively and fully as their counterparts living in wealthier societies. Moreover, it must be ensured that those who control the resources that make transnational activism possible (e.g. foundations, donor agencies, wealthy individuals and corporations) do not exert undue influence on the trajectory that is pursued by such networks. Clearly, the *realpolitik* militates against this intention far too often.

These challenges are likely to be with us as transnational networks and organisations are emerging more rapidly. There will be many new voices arguing that the struggle for accountable and participatory democracy is at the heart of CSOs' efforts. As we have also discussed, many countries show all the signs of "low intensity democracies": having the form of democracy without the substance. In fact, in many societies, electoral democracy seems to have become a pre-ordained elite legitimisation process.

To counterbalance this, strong citizen-inspired activism is going to be needed at the local, national and global levels. Yet, transnational networks must become fully aware of the fact that the very same factors undermining the representivity and accountability of governance institutions are likely to affect civil society as well. If these challenges are not addressed, transnational civil society could easily become a new "aristocracy", led by few charismatic leaders and funded by a handful of wealthy individuals.

We believe that, although transnational activism may not be a substitute for democratic governance, it can certainly play an important role in improving and strengthening it. In our view, this is only possible if it equips itself with the right antidotes against elitism and sectarianism. Transnational civil society should uphold the principles of participatory governance not only as an advocacy objective, but as a philosophy of work. It should become itself a truly participatory reality, where self-criticism is practised, power dynamics are dealt with and roles are continuously redesigned. If transnational civil society will be able to innovate and experiment new forms of participatory decision-making, resource distribution and peer-to-peer communication, this will revive its global aspirations and its capacity to promote a different, more just global order.

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THE SITUATION IN ISRAEL AND PALESTINE

Statement by South African Foreign Affairs Deputy Minister **Aziz Pahad** to the National Assembly, 6 June 2007

Today, as we commemorate the 40th anniversary of the Six Day War, it is important to remind ourselves of some basic truths.

South Africa's policy on the Middle East peace process continues to be informed by the following principles:

- the inalienable right of the Palestinian people to self-determination and independence, which entails a principled position against the military occupation of the Palestinian people and their land
- a belief that there can be no military solution to the conflict, and that peaceful negotiation is the only means to ensure lasting peace, security and stability. The foundation would be a two-state solution, i.e. a Palestinian state, based on the 1967 borders, with East Jerusalem as its capital, living side by side with a secure Israeli state
- a comprehensive peace agreement between the Arabs and Israel based on the Arab Peace Initiative of 2002
- a negotiated solution to the refugee problem
- a commitment to multilateralism in order to secure a sustainable solution.

Today there is a misguided campaign to depict our policies in the Middle East as one-sided, biased, partisan and lacking objectivity. More dangerously, our policies are described as being anti-Semitic. What is the truth?

As early as 1975, the international community, recognising that the inability to solve the Palestinian issue threatened international peace and security, defined (in UN Resolution 3236) the inalienable rights of the Palestinians as

- the right to self-determination without external interference
- the right to national independence and sovereignty
- the right of the Palestinians to return to their homes and property, from which they had been displaced and uprooted.

Many other UN resolutions, decisions of the International Court of Justice (ICJ) and other international institutions have confirmed this position.

Let me unequivocally state that we are one-sided and partisan when it comes to supporting the inalienable rights of the Palestinians for self-determination. This is the position supported by the vast majority of the world. We will not be silenced because of the erroneous suggestions that criticisms of the Israeli government's policies are anti-Semitic, one-sided and not objective. The ANC, since its inception, has been in the forefront in the fight against anti-Semitism and this position will never change. Our policy on the Middle East peace process is firmly based on all the relevant UN Security Council resolutions, the Oslo frame of reference, and the Arab Peace Initiative.

Let me unequivocally state that we are one-sided and partisan when it comes to supporting the inalienable rights of the Palestinians for self-determination. This is the position supported by the vast majority of the world.

We make no apologies for the fact that South Africa is partisan when it supports calls for the creation of a Palestinian state, based on the 1967 borders and with east Jerusalem as its capital, living side by side and in peace with Israel. We are partisan when we publicly condemn the construction by Israel of the Separation Wall. We were partisan when we presented a written legal argument to the ICJ and participated in the oral deliberations in The Hague on 23 February 2004.

OUR POLICY IS NOT DETERMINED BY A "LUNATIC FRINGE"

On 9 July 2004, by 14 votes to one, the ICJ found that

- "the construction of the wall being built by Israel, the occupying power, in the Occupied Palestinian Territory, including in and around East Jerusalem, and its associated regime, are contrary to international law
- "Israel is under an obligation to terminate its breaches of international law; it is under an obligation to cease forthwith the works of construction of the wall being built in the Occupied Palestinian Territory, including in and around East Jerusalem, to dismantle forthwith the structure therein situated, and to repeal or render ineffective forthwith all legislative and regulatory acts relating thereto
- "Israel is under an obligation to make reparation for all damage caused by the construction of the wall in the Occupied Palestinian Territory, including in and around East Jerusalem

- "all States are under an obligation not to recognise the illegal situation resulting from the construction of the wall and not to render aid or assistance in maintaining the situation created by such construction."

South Africa's so-called "lack of objectivity" finds expression in our support for democracy and the outcomes of the democratic process in Palestine, as well as in Israel. We can't demand democracy and then, when the people of a country democratically elect a government, be expected to reject the people's democratic choice. Therefore, it is perfectly acceptable for the government of South Africa to recognise the democratically-elected Hamas-led government, which is now a Palestinian government of national unity. We are "partisan" when we criticise governments that continue to refuse to recognise the Palestinian government of national unity and continue to impose sanctions against the government.

South Africa's so-called "lack of objectivity" finds expression in our support for democracy and the outcomes of the democratic process in Palestine, as well as in Israel.

Are we are biased and partisan when we unequivocally proclaim that, until a comprehensive, just and permanent solution to the Israeli-Palestinian conflict is found, the Middle East region will remain a threat to world peace and security? We are also unapologetic when we declare that the Arab Peace Initiative for a comprehensive peace between the Arabs and Israel is in the interests of all the people in the region, including the Israeli people, and is the best guarantee of regional and international peace and security.

Are we biased and anti-Semitic when we welcome this week's Palestinian initiative for a comprehensive, reciprocal and simultaneous ceasefire? The agreement proposes that

- Palestinian groups stop firing rockets on Israel
- Israel stop military operations and offensives including air strikes, ground offensives and naval attacks
- the ceasefire will expand to include the West Bank
- the agreement will be implemented as soon as the parties accept it
- Israel stop arrests, extra-judicial killings and assassinations of Palestinians in the West Bank and Gaza Strip
- the issue of wanted and deported persons, as well as the issue of prisoners, should be solved according to a clear-cut agreement
- Israel release detained and abducted ministers and PLC members
- the agreement will include an Israeli withdrawal from areas occupied since 28 September 2000
- roadblocks and checkpoints in the West Bank be removed, along with the easing of passage through crossings
- following the implementation of the first and second points of the agreement, the Palestinian Authority shall deploy security forces at the eastern and northern borders of the Gaza Strip, and will implement the security plan to establish the rule of law and order.

AGAINST VIOLENCE AND THREATS

We are partisan and biased when we express concern about the humanitarian catastrophe engulfing the Palestinian people. South Africa is biased against, and condemns, all forms of violence against civilians by all parties involved in the conflict. We condemn Israel's policy of extra-judicial killings, which is in direct violation of international law and in violation of the Geneva Convention Relative to the Protection of Civilian Persons in Time of War, to which Israel is a high contracting party. We also condemn suicide bombings against Israeli civilians and the shooting of rockets into Israeli territory.

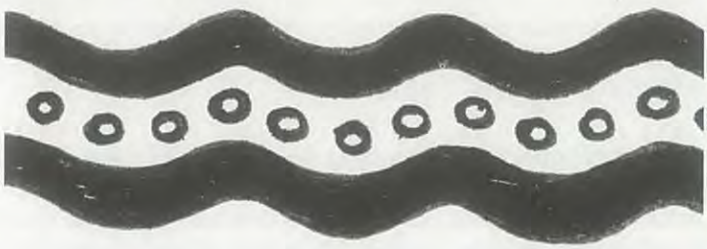
Are we partisan and biased when we call for the end of the arrest of Palestinian leaders, including ministers? Are we partisan and biased when we criticise Israel's extra-judicial killings of Palestinians and the recent threat to assassinate Prime Minister Haniyeh and Hamas leader Khalid Mashal?

Let me categorically state that we will be biased in our rejection of all attempts to describe our criticism of the Israeli government's policies, which are contrary to international and humanitarian law, as being anti-Semitic.

We will also be biased and partisan when we call on the Palestinian political leadership to take decisive action to prevent any possibilities of a Palestinian civil war, which would be a catastrophe for the Palestinian people's desire for self-determination.

Those who refuse to accept the truth and criticise our policies should ask themselves: is the majority of humanity wrong? Or are they wrong? Their non-objective, partisan, biased defence of Israeli government policies at all costs is not in the interest of the Israeli people, or of regional and international peace and stability.

Let us wake up to the realities and work together to achieve a two-state solution and a comprehensive Arab-Israeli peace agreement.



REVIEWS EDITOR: HELEN DOUGLAS

JOMO K S LAUNCHES FIVE NEW BOOKS ON DEVELOPMENT ECONOMICS

SPEECH BY JOMO K S, UNIVERSITY OF BUENOS AIRES, 23 FEBRUARY 2006
(www.networkideas.org)

THE LONG TWENTIETH CENTURY

Vol 1: Globalization Under Hegemony: The Changing World Economy
Vol 2: The Great Divergence: Hegemony, Uneven Development, and Global Inequality

Oxford University Press: New Delhi, 2006

THE NEW DEVELOPMENT ECONOMICS: After the Washington Consensus

Tulika Books, New Delhi, and Zed Books, London, 2006

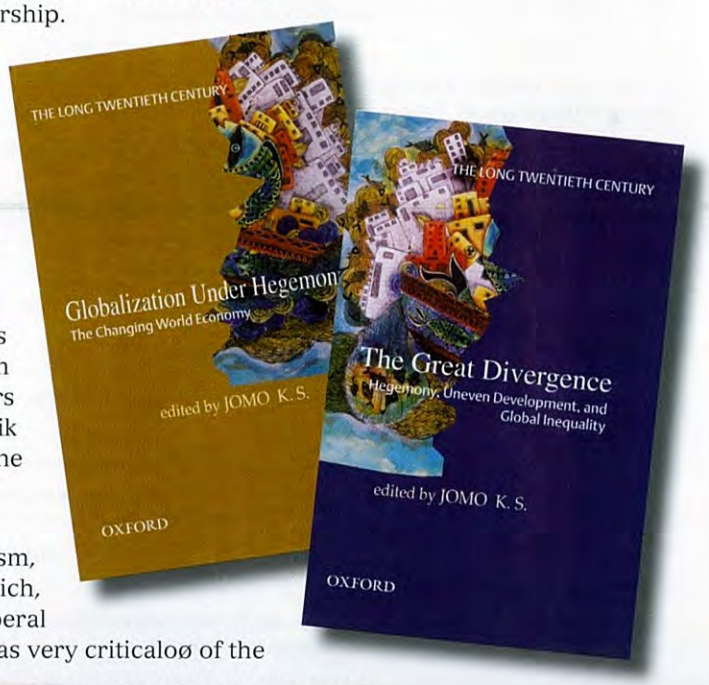
THE ORIGINS OF DEVELOPMENT ECONOMICS: How Schools of Economic Thought Have Addressed Development

Tulika Books: New Delhi and Zed Books, London, 2005

THE PIONEERS OF DEVELOPMENT ECONOMICS: Great Economists on Development

Tulika Books, New Delhi, and Zed Books, London, 2005

I'm very pleased to be here in Buenos Aires to introduce these five books, which have recently been published in India and were sponsored by the South-South Exchange Programme for Research on the History of Development (SEPHIS). Although considered less prestigious in Western academic circles, I've deliberately chosen to publish in the South, as that is our principal audience, our target readership. Also, publishing in India means that these books are available for relatively low prices if ordered from source.



There are two volumes in *The Long Twentieth Century*, published by Oxford University Press. The first volume deals primarily with processes of globalisation, while the second volume deals mainly with the uneven development of regions in the world during the period under consideration.

Let me first begin by discussing the context in which these books were prepared. As you know, the great historian Eric Hobsbawm published a book entitled *The Short Twentieth Century* several years ago. His volume deals principally with the period from the Bolshevik Revolution of what might be called state socialism in 1917 to the collapse of the Berlin Wall in 1989.

Another important influence has been the of the theory of imperialism, pioneered by John Hobson and later popularised by Vladimir Ilyich, better known as Lenin. Hobson was probably the most eminent liberal economist of his time. From a 19th century liberal perspective, he was very criticaloø of the

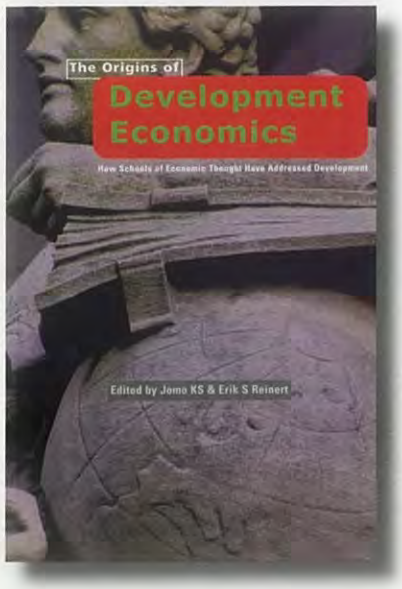
emergence of what we now call oligopoly and monopoly, which he associated with the concentration of capital. For Hobson, the concentration of capital was extremely non-egalitarian, but, more importantly, it had given rise to abuses as powerful business interests increasingly shaped public policies, leading to imperialism and colonialism.

For Hobson and Lenin, the period of imperialism began in the last third of the 19th century. In the preparation of this volume, however, I was forced to go back, not once, but twice. First, I was persuaded by the Gallagher Robinson thesis on the imperialism of free trade from the mid-19th century. This was, of course, after Britain had achieved manufacturing technological superiority. Then, I was also forced to recognise the significant contribution of capital from British colonies, particularly the West Indies and India, for financing the Industrial Revolution from the early 19th century. Thus, what began as the long 20th century stretched back almost to the beginning of the 19th century.

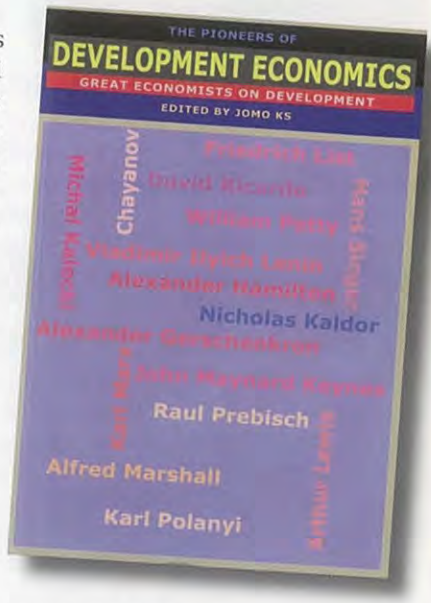
Another important motivation for these volumes has been the recent celebration of empire, especially after the tragic events of 9/11. We have seen many influential books and editorial opinions touting the many ostensible virtues of imperialism. Most importantly, the most influential historian of our times, Niall Ferguson, has published two widely read volumes (*Empire: How Britain Made the Modern World*) on the ostensible virtues of the British Empire and the need for the American leadership to recognise its imperial responsibilities in order to meet its historic calling. In the year 2004, Professor Deepak Lal, the author of *The Poverty of Development Economics*, published his *In Praise of Empires: Globalization and Order*.

Our volume also underscores the crucial role in earlier times of the state in leading developmental processes. As Amiya Bagchi shows, this was true for the Dutch republic, 19th-century Bismarckian Germany, Meiji Japan and the other East Asian success stories of the late 20th century. Ha-Joon Chang shows the important role of selective public policy interventions used by various economies to catch up, including the US in the 19th century.

The second volume shows how disparities in the world economy increased significantly from the early 19th century, as emphasised by Bourguignon and Morrison as well as by Angus Maddison. This is demonstrated through various regional studies that show how Latin America and Africa failed to develop on a sustainable basis as they were integrated into the world economy from the 19th century.



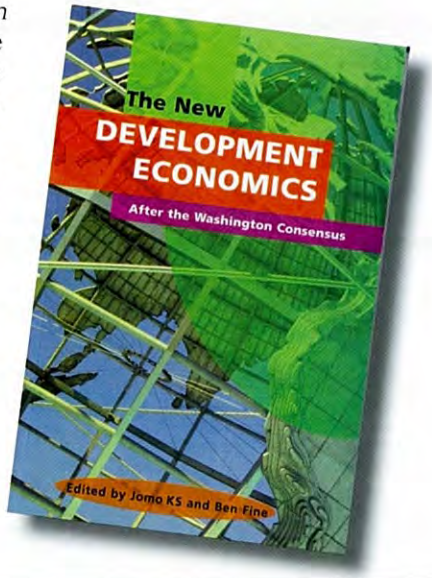
The other three books, co-published by Tulika Books and Zed Books, deal with the history of development economics. They demonstrate that, until fairly recently, economics was primarily about economic development rather than achieving equilibrium. *The Origins of Development Economics* examines various major schools of economic thinking from about six centuries ago. Economic thinking from the time of the Italian city-states, mercantilism, the German historical school, early growth theory, early international trade theory and Latin American structuralism and dependency theory all clearly focus on achieving economic development.



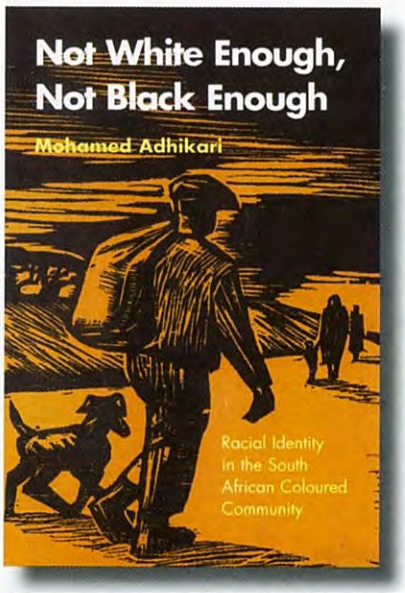
The Pioneers of Development Economics has three parts. The first deals primarily with influential economists who shaped international economic relations and consequently economic development in ways that have endured. William Petty shaped the English colonial relationship with Ireland, which has had a profound influence on subsequent European relations with the South ever since. Likewise, David Ricardo's theory of comparative advantage continues to legitimise international trade relations to this day.

The second and main part of *Pioneers* deals with several prominent economists who are not recognised as development economists, but who nevertheless have been very influential for development economics thinking. Consider, for example, the influence of Alexander Hamilton, Friedrich List, Alfred Marshall, John Maynard Keynes, Michal Kalecki, Nicholas Kaldor, and Alexander Gerschenkron, none of whom are usually considered to have been development economists. Add to this the contribution of Marx on economic development, or Lenin on the agrarian question, and we have a very rich heritage for development economists to build on. In addition, we also have discussions of some pioneers of development economics, as we now know it, such as Raúl Prebisch, Arthur Lewis and Hans Singer.

The third book is called *The New Development Economics: After The Washington Consensus*. As you know, the rise of the Washington consensus involved the "counterrevolution against development economics", as John Toye has termed it. Since the 1990s, however, we have seen a resurgence of a new development economics, which is often unrecognisable for earlier generations of development economists. This new development economics – or post-Washington consensus development economics – poses important challenges for all of us, as it constitutes a mixed blessing. On the one hand, it rejects the Washington consensus, but some of it also implies rejection of earlier development economics as grossly inadequate and in need of replacement.



The New Development Economics critically surveys many elements of its main preoccupations, including trade liberalisation, new growth theory, the new political economy of development, the new emphasis on technology, advocacy of privatisation, the emphasis on human capital, the new economic history or cliometrics, the recent emphasis on geography, and so on. This discussion also considers many fashionable contemporary buzzwords and preoccupations such as so-called "social capital", corruption and governance.



NOT WHITE ENOUGH, NOT BLACK ENOUGH: Racial Identity in the South African Coloured Community

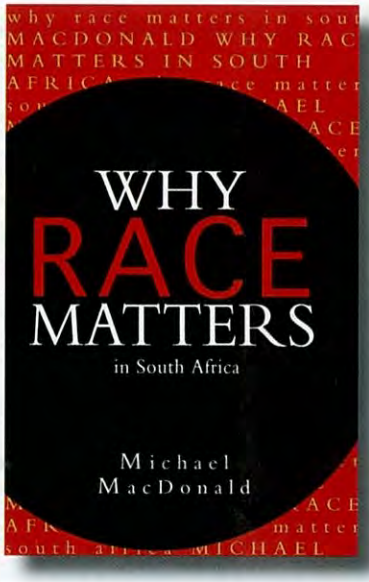
BY MOHAMED ADHIKARI

Ohio University Press: Athens and Double Storey: Cape Town, 2005. 252 pp

WHY RACE MATTERS IN SOUTH AFRICA

BY MICHAEL MACDONALD

University of KwaZulu-Natal Press: Scottsville, 2006. 245 pp



REVIEWED BY OWEN SICHONE, (HUMANITIES, UCT)

Mohamed Adhikari is a Cape historian and the aim of his book, based on his UCT doctoral thesis, is to challenge the view that coloured identity has undergone a process of continuous transformation. His more-nuanced representation of "the nature of coloured identity" is not necessarily true, especially as it relies more on text than on real people to show that "coloured identity" has remained stable. Which one?

The author explores the long history of "coloured identity" from a constructivist perspective that differs from the old essentialist and instrumentalist approaches he criticises. But it is not apparent that he is successful. Because all three approaches are partially true and overlap, and also because working with the same stable Cape Town population (that, though drawn from the rest of the world, is nevertheless disconnected enough to create this peculiar racial system of exclusion-from rather than belonging-to the rest of society), we are lead to the same conclusion: confusion. The title borrows the oft-repeated Cape lament that under white rule we were not white enough (some were, and there are government records to that effect), and under ANC rule we are not black enough (some do gain from BEE and ANC largesse) – an anti-historical prejudice if there ever was one.

His working definition of "coloured " is, he admits, the tautological "people who regard themselves as coloured ", but he does not, like a sociologist or anthropologist would, show when, how and why people regard themselves, or are regarded by

others, as such. We know that the same people may also be Italian, Indian or Sotho, depending on the circumstances. And as for coloured people not being African, well, only in Cape Town.

Despite the subtitle, the book in fact confirms that there are many ways of being coloured and that there may even be more than one coloured (racial) identity. This, after all, was what even the infamous Population Registration Act could not escape. Readers who are not from the Cape will probably see that everything he says about coloured identity applies to others as well. All social identities are fluid and flexible and situational and confusing, as well as relatively stable in form – except when fixed in print and archived.

Many people still tend to think of coloured identity in apartheid terms, either as (a) a residual category into which the National Party bureaucracy dumped all people they could not classify as black or white, or (b) the second class in a hierarchy of socio-economic class- and pigment-derived privilege. Thus, instead of colouredness representing *All* (which like all human categories it does), the negative influence of apartheid has created a person that is seen as *None of the above*. As the Cape opens up to the rest of the world, all this is changing and coloured visitors to Europe or America have discovered that there are numerous other ways of defining people.

Michael MacDonald, as a political scientist, does not dwell so much on the history but analyses race in the post-apartheid transition. As he also does not focus on one group, but on the whole of South Africa, his book complements Adhikari's very well.

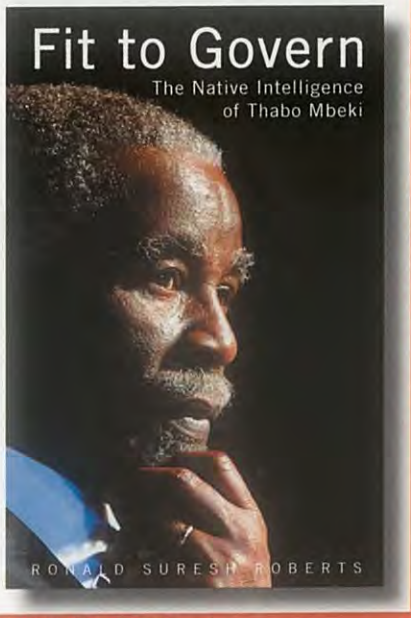
We all expected that apartheid's "racist republic" (as Radio Zambia used to call it) would be replaced by a united, democratic, non-racial, non-sexist (and yes, socialist!) South Africa, didn't we? Well, maybe we have the democracy part sorted out, but the rest is proving very difficult to make. MacDonald shows how the ideology of non-racialism has failed to replace the colonial legacy of race identity and racial solidarities. He notes that this has only profited the black elites and the poor have been left out. We should remember, however, that the black elite's struggle in 1912 was not for BEE; many were doing very well and just wanted to hold onto the rights they already had as British subjects. Having lost that struggle, they were dispossessed and disenfranchised and declared non-citizens.

Therefore, it is not the ideology of non-racialism or even the attainment of full citizenship that can correct the colonial crime of racism. This is where both the Cape Town critique of BEE in Adhikari's book and MacDonald's view that the economy has been *multiracialised* but not *deracialised* reveal the crux of the matter. Has the New South Africa, like the old regime, not left the black poor behind? What is the non-racial solution to that racist puzzle? Both books champion the right of people to define themselves, but that is not good enough if you are poor and powerless.

FIT TO GOVERN: The Native Intelligence of Thabo Mbeki

RONALD SURESH ROBERTS

STE Publishers: Johannesburg, 2007. 296 pp



REVIEWED BY ROBERT SCHRIRE (POLITICAL STUDIES, UCT)

This is an extraordinary book: officially authorised by Thabo Mbeki, Roberts had direct access to the president himself and his chief advisers. And, as if a presidential blessing was not enough, the author was provided with unprecedented financial support. The ABSA banking group, the recent beneficiary of a government decision to allow it to link up with Britain's Barclays Group, EDCON, the retail giant, and several other blue chip corporations made financial contributions to the exercise. Support and access of this nature are highly unusual and readers would be entitled to expect a remarkable study. They will be profoundly disappointed. Indeed, the book is about neither Mbeki himself nor his fitness to govern.

Roberts discusses many of the major critiques of Mbeki, including that he is a distant and authoritarian leader with very few genuine democratic impulses; has failed to speak out against Robert Mugabe's misrule in Zimbabwe, and that his policies there have failed;

is a black nationalist with a visceral dislike for whites; has dissident views on HIV/AIDS and has failed to act with any sense of urgency to lead government against the pandemic.

The nearly three hundred pages of the book are in large part devoted to an attempt to refute these claims. Mbeki had the opportunity to read the draft manuscript, and many of his detailed comments are included in the text. Many people believe that Roberts does not exist but is the *nom de plume* used by the president to discuss controversial issues! This book would provide strong supporting evidence for this theory, although we do know that Roberts actually exists – we have seen him in court.

And at times Roberts succeeds in making a strong case. It is clear that many liberal critics have failed to understand the nuances of Mbeki's views on race. The "native club" could be seen quite fairly as non-racial. Mbeki has been quite correct in stressing the structural reality of white wealth and black poverty, even if in today's world this duality is somewhat simplistic and ignores the recent emergence of black wealth. And the imputation of dictatorial impulses does not accurately reflect his long record of stressing the importance of popular support and constitutional procedures.

On balance, however, many of Roberts' argument are tendentious. He is a master at using what historians call "the burden of the present" to discredit historical figures. Certainly, Helen Suzman, Alan Paton and many other liberals did not believe in simple majoritarianism in the 1940s, but is it appropriate to criticise their position from today's vantage point? At other times, Roberts is simply wrong, as when he claims that Mahmood Mamdani was driven out of UCT for his Africanist views. In fact, Professor Mamdani left for the best of reasons – he got an offer from Columbia University that was too good to refuse!

On the vital issue of AIDS, Roberts is less than convincing. He makes the reasonable argument that, in the context of limited resources, no special interest group, including the AIDS lobby, should be permitted to monopolise the debate. However, his claim that "Mbeki is not now and has never been an AIDS dissident" (p 180) is less than convincing. Roberts concludes that Mbeki's critics have profoundly misunderstood him for at least two reasons. His reasoning is far too subtle and complex for many to understand. And white racism and paternalism has coloured the debate. "Cheeky natives" are never appreciated!

If Mbeki did not write this book himself, it is the book he could have written. It reflects great anger and many grievances. It shows a man rooted in the past and fighting battles long since won. Most of us accept that racism and colonialism caused profound damage to our political economy. We recognise that racial divisions in our history cannot simply be swept under the table. The challenge is to find creative means to overcome this history. Roberts (like Mbeki) shows no sign of being able to meet this challenge.

One final point. Although the book relies heavily upon scholarly research and quotations, it has no index, bibliography or footnotes. The reader is advised to consult the internet. This is simply not acceptable.

ANOTHER PRODUCTION IS POSSIBLE: Beyond the Capitalist Canon

BOAVENTURA DE SOUSA SANTOS (ED)

Verso: London and New York, 2006. 488 pp

REVIEWED BY PETER T JACOBS (ECONOMICS, UWC)

In the 1980s and 1990s, Margaret Thatcher consecrated the immortality of global capitalism by claiming, "there is no alternative" (TINA), and "the end of history" arose from the implosion the socialist bloc. But the neo-liberals' glory days radically changed in early 2001, when the World Social Forum (WSF) staged its first assembly in Porto Alegre, Brazil. Tens of thousands of anti-globalisation activists have flocked to WSF assemblies and to local and regional forums in every corner of the world.

Its rallying cry – "another world is possible" – has clearly inspired Verso's *Reinventing Social Emancipation: Towards New Manifestoes*, the larger series of which this book is but the second volume. The significance and aptness of this theme resonate powerfully in every highly informative chapter, as the contributors rethink notions of "alternative production" and report pertinent case studies to illuminate the theory.

Alternative production, according to Santos and Rodriquez-Garavito, encapsulates ideas such as "solidarity economy", co-operative networks, equality, participatory democracy and labour internationalism. When embedded in a rethinking of production, the inherently anti-systemic principles of co-operatives (equality, solidarity, participation) shift the primary objective from growth to better living standards.

Anibal Quijano, reflecting on some of the alternative economic activities reported in this volume, highlights that they operate within the framework of capitalism. They exist in specific localities, yet are distinct from the informal and survivalist activities elevated by Hernando de Soto. However, isolated alternatives are at constant risk from the surrounding economic framework. Quijano concludes that these alternative practices are still too scattered and structurally vulnerable to pose as genuine systemic alternatives. Any alternative mode of production opens up questions about political power, the key actors of change and transnational collaboration.

One essay critically interrogates labour internationalism. Peter Waterman argues that changes in the way capitalism functions (e.g. de-industrialisation) have limited the classical role of the industrial worker as "capitalism's gravedigger" and sapped the efficacy of trade unions, which in turn have fallen victim to bureaucratic careerism, while multiple obstacles blocked the formation of a powerful worldwide trade union federation. Meanwhile, new actors emerged, driven by national identity, feminist and ecological concerns that rarely overlap with the labour movement. Waterman launches a scathing critique of all the socialist internationals, wracked by factional strife and a playing a marginal role in the labour movement globally. A modern project for global emancipation, the author suggests, must factor in the new capitalist milieu and base itself on the principles articulated above.

The case studies cover an array of fascinating productive activities, drawn mainly from Brazil, Columbia, India, South Africa and Mozambique. The introductory chapter discusses the successful Mondragon Co-operative Complex – operating in the Spanish Basque region since 1956 – to provide an insightful backdrop for all the other case studies. These investigate such economic activities as informal garbage collection, peasant farming, small-scale fishing and a variety of manufacturing activities.

These studies reveal that trade unions, political parties and governments are often critical actors to initiate and sustain "anti-systemic" productive activities, but there is also evidence that relations between these agents and the direct participants in alternative activities can, for many reasons, break down into conflict and destroy fragile projects.

It is intriguing that case studies from Cuba, with its long history of co-operative production, have been excluded. There is also inadequate reflection on recent alternative economic activities in places like Argentina and Venezuela. Notwithstanding these lacunae, this timely volume should appeal to activists, in academia or grassroots movements, searching for concrete responses to TINA.

ARTICULATIONS: A HAROLD WOLPE MEMORIAL LECTURE COLLECTION

AMANDA ALEXANDER (ED)

Centre for Civil Society: Durban, 2006. 334 pp.

REVIEWED BY WENDY ANNECKE

Articulations features lectures dating from 2002 to 2005, which were presented at the monthly Harold Wolpe Memorial public lecture series. Any concerns that the series may be outdated are soon dispelled. On the contrary, some of the debates, such as those on the slow delivery on land, the role of black intellectuals and the state of media freedom have heated up; others, such as the current situation in Zimbabwe, have melted down.

Wilfred Mhanda's contribution, "The struggle for Zimbabwe: Contesting the meaning of liberation", is a welcome reflection on the challenges associated with the democratisation of a weak state and the need for creative shifts in thinking to resolve

some of the problems. In the same vein, reflecting on struggles within the liberation movement in South Africa and renewed interest in the Freedom Charter on its fiftieth anniversary, Console Tleane reminds us of the real dangers activists faced in the 1980s if they questioned the document and its guardians.

A collection such as *Articulations* offers the freedom to dip in and out of more than twenty-five contributions, and its rich range of topics caters for catholic interests. There is Lungisile Ntsebeza's somewhat dry account of the property clause, the reliance on judges' benign interpretation and the need to challenge the "so-called Geldenhuys formula" for solutions to the slow pace of land delivery – a critical component of redress in our society. Ferial Haffajee offers a smart review of the state of the media: the good (the freedom journalists have to write what they like), the difficult ("doing" freedom) and the predictable (criticism but few solutions from well-known representatives of social movements). William Mervin Gumede's thoughtful account, "Democracy and the importance of criticism, dissent, and public dialogue", shows which public spaces have been closed down, and, inadvertently, raises the question: what if Mbeki had been more open to debate and had listened to criticism – how different would his legacy be?

Some of the lectures are reviewed, and some of the reviews, such as Kerry Chance and Mandisa Mbali's critique of Patrick Bond's paper, are more engaging than the lecture itself. Perhaps the most unexpected contribution is the sparklingly different paper by Darryl Accone, who brings the writings of Herman Melville and political philosopher Guy Debord together in "Passageways: Revisiting self, *The Society of the Spectacle*, and *Moby-Dick* in the wake of September 11". Amina Mama and Jonathan Jansen tackle the topic of black intellectuals from different perspectives. Mama's encompasses African intellectual development in the changing post-colonial context of the twentieth and twenty-first centuries, while Jansen limits his enquiry to what he calls "The (self-imposed) crisis of the black intellectual" in South Africa. Without ever discounting the historical legacy, he raises the bureaucratisation of intellectuals among other reasons for the silence, and suggests new ways to nurture young academics, including a national institute for advanced studies.

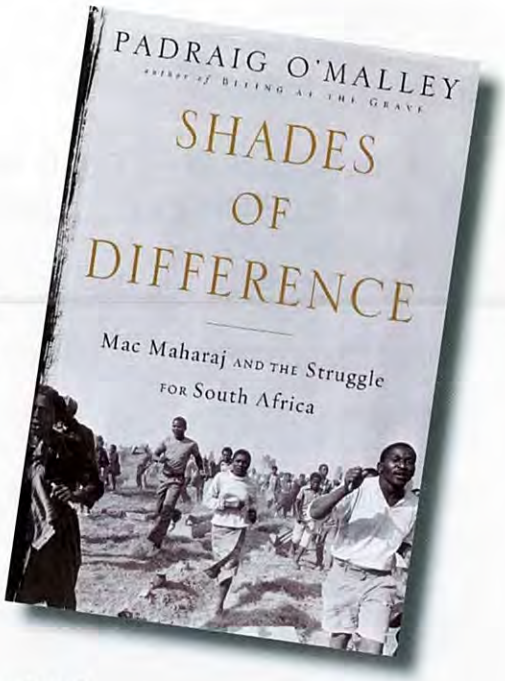
The Wolpe seminar series itself continues to make a worthwhile contribution by providing space and material for such public intellectual life and engagement.

SHADES OF DIFFERENCE:
Mac Maharaj and the Struggle for South Africa

PADRAIG O'MALLEY

Viking: New York, 2007. 648 pp

REVIEWED BY TIM HUGHES
(SA INSTITUTE OF INTERNATIONAL AFFAIRS)



"Mac put the struggle for the freedom of South Africa above everything in his life." In these few words from his thoughtful foreword, Nelson Mandela captures the essence of *Shades of Difference: Mac Maharaj and the Struggle for South Africa*. What Mandela doesn't say, however, is that, over time, the struggle leadership increasingly placed its interests above those of Mac and his family.

This is much more than a book; it is a vast work of historical scholarship by Irish academic Padraig O'Malley. In the course of researching and writing the book, O'Malley has established an invaluable electronic archive (www.omalley.co.za) where source documents and interviews, including extensive communications from Operation Vula, can be freely accessed. The book has two principal voices, that of O'Malley, who provides context, linkage, clarification, commentary and critique, and that of Mac Maharaj, who tells his own story with almost elephantine recollection. Indeed, such is the breadth of the book that one is tempted to write two reviews, one of the life of Mac and one of the book as a piece of scholarship.

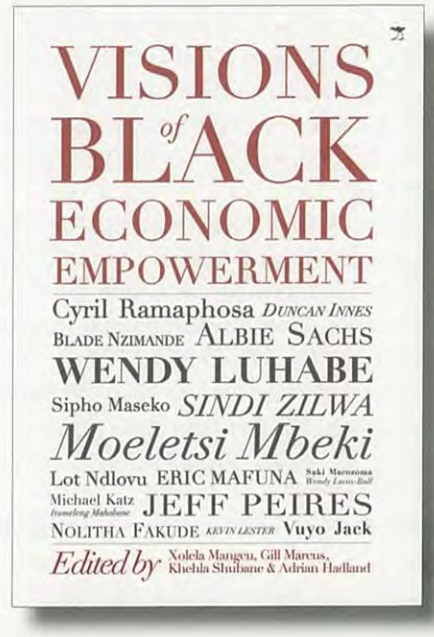
Maharaj's story is one of a communist revolutionary, a freedom fighter, a loyal and disciplined member of the ANC, an intelligence operative of superlative guile and an Indian Hindu South African. Simultaneously, it is the story of a discarded and humiliated leader, a hurt, bitter, angry and disillusioned man. Contemporary ANC leadership is conventionally trifurcated between exiles, Robben Islanders and internals. Maharaj straddles all three of these histories and traditions, which makes his story a unique prism through which to review the liberation struggle. Moreover, his ambivalence towards the Mbeki administration and antipathy towards its perceived abuse of power is emblematic of, and indeed feeds directly into, the current internecine strife rending the ANC and its alliance partners. Yet Mac is no mouthpiece for any faction or tendency. He is his own person, an indefatigable spirit with an ego matched only by the humility of a lifetime of service to the liberation struggle.

In *Shades of Difference*, O'Malley has produced a gem;an odyssey that is riveting, compelling, repellent, moving, and at times incredible. Maharaj's own rendition of his torture at the hands of the security police leaves the reader emotionally drained, humbled and questioning the amnesty provisions of the TRC. Contrast this with Maharaj's self-deprecating recollection of his attempts to feign illness while incarcerated by rapidly blinking both eyes separately to fool his brain into inducing nausea. After hours of revolutionary blinking the attempt fails, due to the fact that "I only have one fucking eye!" Yet despite deeply personal glimpses into many painful episodes of his life, essentialists looking to discover the "true Mac" will not find it here. What will be found, however, is a series of inconvenient truths about the ANC in exile and in power, a tapestry of comradely bonds and loyalties that sheds light on the often opaque and coded intra-party fratricide that has split the movement, and potentially South Africa. Maharaj has the integrity to raise tough questions; O'Malley joins the dots.

VISIONS OF BLACK ECONOMIC EMPOWERMENT

XOLELA MANGCU, GILL MARCUS, KHEHLA SHUBANE AND ADRIAN HADLAND (EDS)

Jacana Media: Johannesburg, 2007. 231 pp



REVIEWED BY HELEN DOUGLAS

This collection of essays is a valuable contribution to the cause of de-racialising the South African economy through state-led black economic empowerment (BEE). So much of our future is riding on this project, and yet, from its first principles to its ultimate ends, it is thoroughly contested and contestable. *Visions of Black Economic Empowerment* calls on a "who's who" of BEE analysts and practitioners, including Wendy Luhabe, Vuyo Jack, Jeff Pieres, Saki Macozoma, Michael Katz and Moeletsi Mbeki (although the absence of an annotated list of contributors is annoying).

As Mangcu states in his introduction, the guiding focus of the book is the role of social values within economic policy, and Justice Albie Sachs rightly opens "The Big Picture" by situating BEE within constitutional imperatives for transformation and equality. Luhabe follows with a call for a heightened ethical and *ubuntu*-centred understanding of the goals of transformation by sketching out scenarios in which BEE may either be successful, mediocre or a failure.

The second section describes the history of black business, which didn't, after all, only appear post-1994, and there is an interesting discussion of its tenuous situation between the inflexibility of apartheid capitalism and the aspirations of black people. The third section details the policy environment from various perspectives, and the final section – the longest one, not surprisingly – presents the challenges facing BEE.

It often seems that there is much more smoke than light in public discourse around BEE and its multiple "visions", but we are in trouble if this complexity allows BEE processes to be reduced to the level of practical mechanics. *Visions of Black Economic Empowerment* is a timely and essential resource to help focus and target a national understanding of the role BEE in the critical social and political objectives of economic transformation.

BOOKS AVAILABLE FOR REVIEW

Interested reviewers should contact Helen Douglas at mwnewagenda@mweb.co.za.

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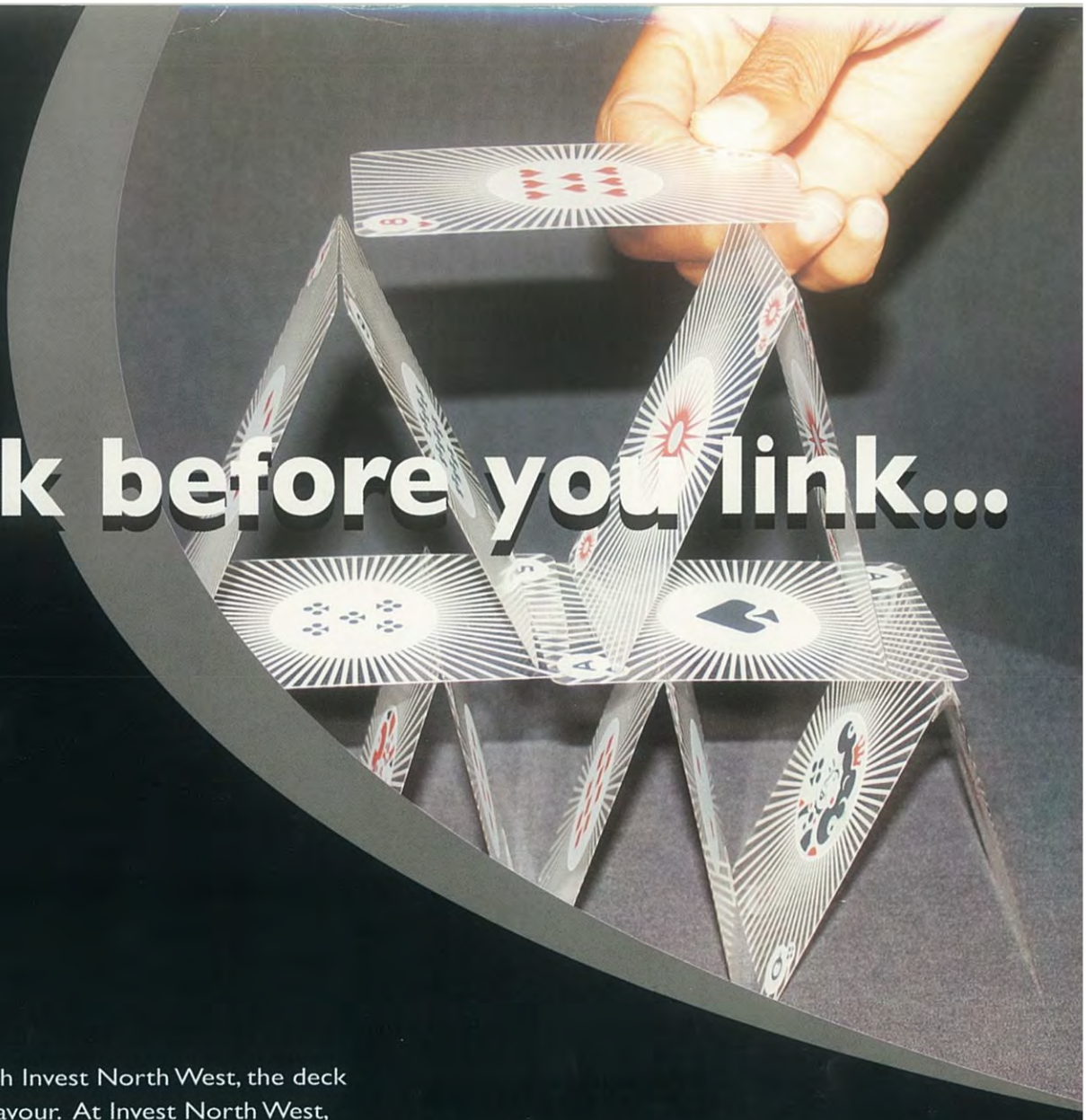

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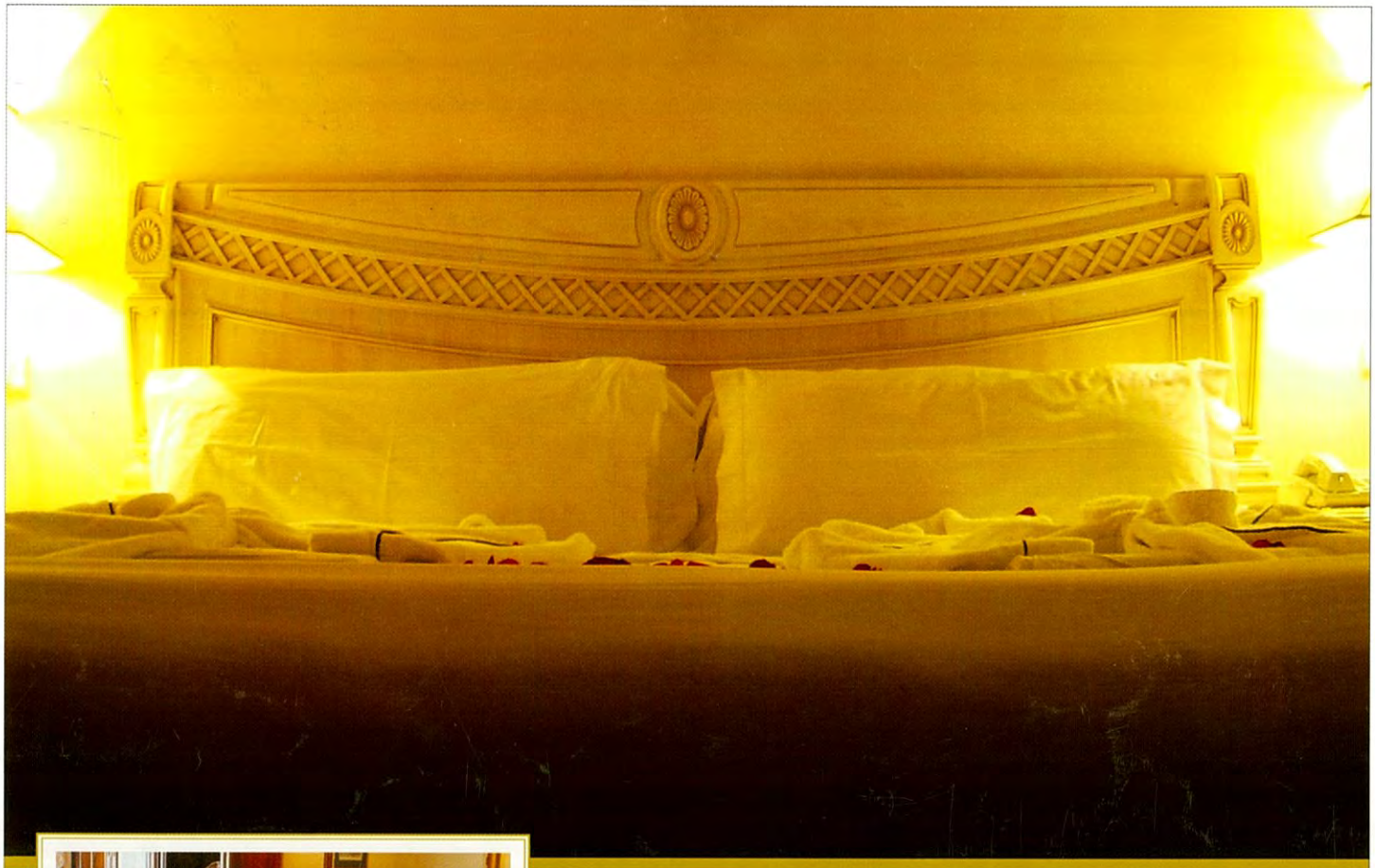

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