1. The Challenge

When, in 1994, South Africa’s first democratically-elected government assumed office, it was faced with widespread poverty. Whilst income poverty was low by the standards of the rest of Africa, it was much higher than in most other middle-income countries. The persistence of poverty despite economic growth – both before and after 1994 – was due to the highly unequal distribution of the benefits of growth. This inequality was highly racialised, in that apartheid had ensured that ‘white’ South Africans had skills, opportunities and high incomes, whilst many ‘African’ people lacked skills, faced few opportunities, and remained in poverty.

Democratisation was accompanied by high hopes that income poverty and inequality would be reduced. The poor were enfranchised, the pro-poor and pro-black ANC was elected into office, the deracialisation of public policies was completed, and even private practices were subject to a degree of deracialisation. The ANC promised ‘a better life for all’ in its 1994 election campaign, and its election manifesto (the Reconstruction and Development Programme, RDP) promised that ‘attacking poverty and deprivation’ would be ‘the first priority of the democratic government’. Socio-economic rights were also included in the 1996 constitution.

The outcome after fifteen years of democratic government has been disappointing. The reduction of poverty in South Africa requires both sustained growth and a more pro-poor growth path. The South African economy grew steadily from 1992 to 2008 (with the exception of only one year, 1998), but at a much slower rate than South or East Asia. The benefits were distributed unequally, such that income inequality actually worsened, whilst income poverty in 2008 was little better than in 1994. Poverty in South Africa is rooted in a combination of very high unemployment (at about one-third of the labour force), together with landlessness and the decline of subsistence agriculture. Poverty is mitigated through a highly redistributive welfare system, but any further reduction in poverty requires reducing unemployment among the currently unskilled. This in turn requires some combination of enhancing skills, on the one hand, and expanding the demand for unskilled labour, on the other.

The overall political context has, in important ways, been conducive to such cooperation. ANC-led governments since 1994 have maintained a commitment to a mixed economy, i.e. to a broadly capitalist economy in which the state is an active
economic player through market regulation, selective ownership, and a range of strategic industrial and educational interventions. But state-business relations have not been characterised by the kind of sustained, mutually beneficial engagement that characterise effective growth or development coalitions in cases such as Mauritius.

2. The Inheritance

Apartheid produced an almost entirely white business elite. This elite was highly concentrated in terms of corporate ownership and control. In 1994, the giant, mining-based Anglo American controlled 44% of the entire capitalisation of the Johannesburg Stock Exchange, whilst the top five corporate groups together controlled 84%.

The concentration of ownership and control led Schneider, in his analysis of ‘varieties of capitalism’ in the developing world, to categorise South Africa as a ‘hierarchical market economy’: co-ordination problems are solved through vertical or hierarchical relationships rather than through either the market or corporatist institutions. This interpretation of South Africa neglects the major roles played by the state. The state plays a massive role in the economy directly, through parastatals in (especially) rail and air transport, iron and steel, electricity, and telecommunications. It also used its considerable powers of regulation to promote Afrikaner capital, to protect the living standards of white voters, and to promote a degree of independence from the global economy. The state provided strong incentives to capital to employ more capital- and skill-intensive production technologies.

Indeed, the character of SBRs in South Africa is underpinned by the coexistence of a (mostly) strong state and powerful corporate capital. The state enjoys considerable political autonomy from capital, but remains dependent on capital for continued economic growth. The outcome, for a century, was often tense relationships, as the state sought to push and bully capital into subordinate co-operation, whilst avoiding genuine deliberation, and being careful not to undermine the very economic foundations of white prosperity. Capital, for its part, divided between older, established factions, and newer, dependent ones. The former adopted a largely reactive approach to the state, operating within constraints, without trying to challenge those constraints. The latter were required to be more subservient, as long as they were dependent on state patronage.

3. The Transition

Modest deracialisation in the last years of apartheid did not extend into the senior echelons of business. The ownership and control of South African business remained solidly white, although (by the 1980s) comprising both Afrikaans and English capital. Faced with intensifying political as well as industrial unrest, and unimpressed by the National Party’s failure to implement meaningful reforms, South African capital made important overtures to the ANC in exile. Business was to play an important role in a series of episodes during the transition to democracy, leading to a brief enthusiasm from all sides for corporatist institutions that brought capital, labour and the state together.
The progressive face of business was the Consultative Business Forum (CBM), formed in 1988 for business leaders to work with pro-democratic popular organisations inside the country (and the ANC in exile). The CBM helped to broker a peace accord between the National Party government and the ANC opposition. At the same time, business and labour sought to institutionalise corporatist arrangements for the negotiation of industrial relations. The 1990 ‘Laboria Minute’ between capital and labour led to the formation in 1992 of a National Economic Forum (NEF), bringing state, business and labour together. After the 1994 elections the new ANC-led government, enthused with the perceived success of the CBM and NEF, established the tripartite National Economic, Development and Labour Council (Nedlac), supposedly to facilitate consensual economic and social policy reform.

Many ANC leaders also began to appreciate the weaknesses of the state and the necessity of working with business. In 1991, Mandela attended the Davos conference, where he met with Li Peng, the new premier of China. Li Peng advised Mandela against nationalisation: ‘I am the leader of the Communist Party in China and I’m talking privatisation’. The ANC shifted its economic policies in a more business-friendly direction. At the same time, however, many ANC leaders also viewed business as having been deeply complicit in apartheid, i.e. that it was in need of ‘transformation’.

4. State and Business in Practice

At the formal level, business in post-apartheid South Africa appears well-organised, and there exist formal institutions for both bilateral discussions between business and government and corporatist discussions for trilateral discussions between these and labour. In practice, however, all of these formal institutions operate unevenly, at best; they also tend to represent big business (now, black as well as white) rather than small business. Established business has had good informal relationships with some parts of the state (such as the National Treasury), but relations with other parts of the state (including, for a long period, the presidency) were strained. Although the post-apartheid South African state is committed to a mixed economy and has pursued a range of business-friendly policies, neither formal nor informal relations between state and established business have been strong.

Business organisation in South Africa has long been divided, especially by relationship with the state, with separate organisations for pro-National Party, mostly Afrikaans business, more critical ‘English’ business, and black business. In 1994, Business South Africa (BSA) was formed to represent South African business internationally, and it subsequently in Nedlac. Within a year, a major black business organisation (Nafcoc) had split from BSA. Not until 2003 was a new umbrella body (Business Unity South Africa, BUSA) formed. BUSA has 45 member organisations ranging from regional and national chambers of commerce, to specific economic sectors (e.g. minerals, agriculture, finance, tourism, building, etc) and professional interest groups (e.g. women, black professionals) and employers associations (such as the Chamber of [Gold] Mines. The structure of BUSA means that the interests of big business predominate.

Nedlac was the principal formal mechanism for cooperation between state and business – and, tellingly, labour. Nedlac’s first major concern was the rewriting of labour legislation, which reflected the strength of organised labour, backed by the
government Department of Labour, and the weakness at the time of white business. Faced with the strength of labour in Nedlac, the government increasingly ignored Nedlac, most infamously in introducing in 1996 its Growth, Employment and Redistribution (GEAR) macro-economic strategy. GEAR entailed a program of structural adjustment including increased labour-market flexibility, in contradiction to the new labour legislation. The tensions in government economic strategy and policy were not discussed in Nedlac, primarily because of the strong (and successful) opposition to any deregulation from organised labour.

Informal relationships are of crucial important in SBRs. Nelson Mandela, both before and after his election as president in 1994, cultivated close relationships with top local businessmen, and met regularly with leading businessmen in the ‘Brenchurst Group’ (named after Harry Oppenheimer’s house where meetings were held).

Thabo Mbeki had very different relations with established (white) business. In early 1997, Mbeki seems to have interpreted the offer of top businessmen to help the government with its ‘capacity problems’ as racist, and communications were cut off. The depreciation of the Rand when the (black) ANC Minister of Labour was appointed as governor of the Reserve Bank seems to have reinforced the perception that (white) business was racist. Mbeki seems to have thought that he was pushing business-friendly policies but business was not responding accordingly. The white corporate elite only succeeded in partially restoring communications when it contributed over R1 billion to a new Business Trust, headed by a (black) ANC leader and businessman. Mbeki established bilateral ‘working groups’ with favoured local and international businessmen.

On key policy issues, however, deliberation appears more cosmetic than substantial, and (tellingly) has occurred outside of Nedlac. The government convened a Jobs Summit in 1998, and a Growth and Development Summit in 2003. In neither case was there any significant discussion of how to transform the growth path in a pro-poor direction, and neither summit led to significant policy reforms.

5. The Other Priority: Black Economic Empowerment

Perhaps the most important sphere of interaction between state and business in the short-term has been the state’s efforts to compel business to cooperate in the transfer of large shares of ownership and control to a new, black corporate elite. The close links between black political and economic elites comprise an example of an informal SBR contrast with the often strained links between key political leaders and the established, white economic elites.

The government made only modest efforts to promote black business in the mid-1990s, but in the early 2000s acted aggressively. The government first legislated a ‘preferential procurement framework’ which required that the public sector tendering process discriminate in favour of black-owned companies. Many major government contracts have been awarded to ‘black economic empowerment’ (BEE) consortia. In 2003, further legislation required that existing companies in every economic sector participate in the formulation of ‘charters’ specifying targets in terms of the transfer of ownership and control. The mining industry was subject to dedicated legislation, requiring that mining companies achieved 15% black ownership by 2009 and 26% by 2014 in order to retain their mining rights. Subsequently, sectoral charters and
supplementary ‘codes of good practice’ also require that private firms themselves procure goods and services from black-owned or controlled firms. In other words, for a bank (for example) to be BEE-compliant it must demonstrate not only that it is part-owned by black shareholders and has black directors and senior managers, but also that it itself procures supplies (for example, IT services) from black-owned firms. The state thus combines its power as a massive spender with its power as a regulator to make private firms complicit in the implementation of its BEE strategy. Having BEE partners is presumed to improve access to the political elite, reducing the disadvantages experienced by established firms (even if BEE-compliant) relative to black-owned companies. The costs of transferring ownership entail an expensive form of insurance against political risk.

This resulted in massive ‘BEE deals’, in which consortia of (mostly) black investors bought discounted minority stakes in established firms, typically financed through a combination of bank loans, dividend flows and capital appreciation in the shares of the company involved. The value of of BEE deals surged from 2003. By the end of 2006, BEE deals had transferred ownership of between 6 and 10% of the JSE. The largest deal in 2006 was worth R12 billion, in Implats (i.e. Impala Platinum). The pace of deals accelerated further in 2007, with 153 identified BEE deals worth an estimated R97 billion. Between 2006 and 2008, the total number of directorships in JSE-listed companies held by black people rose by 47%, with the total number of individual directors rising to 487.

Unsurprisingly, some black businessmen and women have amassed extraordinary wealth very rapidly. The extreme case is Patrice Motsepe, who joined Nicholas Oppenheimer (son of Harry) and Johann Rupert (son of Anton) on the Forbes list of international dollar billionaires in March 2008. In 2009, although his net worth had declined to ‘only’ $1.3 billion, he was the second richest person in South Africa (behind Oppenheimer). Like Oppenheimer, Motsepe’s wealth is mining, with a side in insurance.

BEE deals are not the only source of changes in ownership of the JSE. The share owned by pension and provident funds – many of which are linked to trade unions and invest the pensions of their black members – has also risen steadily, to about 15% of the JSE by the end of 2006. Overall, black ownership therefore amounts to not less than one-fifth and not more than one-quarter of the JSE. Given that one-third of the JSE is owned by foreign investors, black ownership probably amounts to about one half of the total owned by white South Africans. This is an extraordinary shift in ownership over a period of little more than ten years.

Many members of the new black corporate elite are very well connected politically, to the extent that the ANC itself has had to respond to criticisms of the ‘revolving door’ between political or bureaucratic leadership and the corporate world. Prominent national and provincial ANC leaders followed secretary-general Cyril Rampahosa’s lead into business. Other prominent businesspeople have close connections to the ANC. One of Patrice Motsepe’s sisters is married to ANC minister Jeff Radebe (and another is married to Cyril Ramaphosa). Many senior bureaucrats, including officials running regulatory agencies, also join BEE consortia very soon after leaving public service, sometimes even in the very sectors that they were previously responsible for regulating. ANC leaders and senior bureaucrats alike know that they can acquire great wealth through BEE deals, and move in the same social world as their predecessors who have already done so. The result is an unabashed ideology that
holds that the promotion of a black business elite is both just and good for South Africa. The ANC has become, in part, the party of black business.

The underside of the close relationship between political and economic elites is the tawdry story of corruption, as revealed in case after case of abuse in tender processes, most notoriously for a massive arms deal. Jacob Zuma, at the time deputy-president and (from 2009) president, was implicated in corruption, for which his advisor was jailed although charges against Zuma himself were dropped.

6. Some lessons

South Africa is often presented as an example of a strong or healthy SBR: The post-apartheid state pursued broadly business-friendly macroeconomic policies, although these are combined with strongly pro-worker labour legislation. The state is presented as relatively weak and dependent on an institutionally strong business sector. We question the strength of this SBR. The state may be structurally weak, but uses the considerable powers that it does have (for example, to influence ownership and control), and is generally reluctant to enter into significant deliberation with established business.

The fragility and superficiality of state-business relations in South Africa reflects the combination of several factors. First, and most importantly, relations between state and business have been highly (although not universally) racialised at a personal level, with the lack of familiarity breeding deep suspicions on both sides. Established or ‘white’ business has been sceptical about the expertise and competence of much (but not all) of the political and bureaucratic personnel in the new state, especially given the proliferation of rent-seeking and corrupt behaviour. Most of the new (mostly black) political and bureaucratic leadership views white business elites as reactionary. In South Africa, state officials have rarely enjoyed the ‘embedded autonomy’ that Peter Evans considered central to the success of East Asian developmental states. They enjoyed some autonomy, but were only weakly networked with established capitalist elites. The one group within which the state is very much embedded is the new black economic elite. This renders the state respectful of corporate profitability (as long as these profits are shared with the black economic elite), but it does not amount to a ‘developmental’ coalition prepared to tackle the constraints on the rate or path of economic growth.

Secondly, the possibility of forward-looking, institutionalised SBRs is undermined by the overwhelming political importance of a policy agenda that reflects the legacy of apartheid: most important are the regulation of labour markets and the transfer of corporate ownership and control to a new black elite. The ANC’s complex alliance with organised labour has made it very difficult to hold serious discussions around labour market deregulation (and related reforms in public education and healthcare). Indeed, BEE seems to have served as a distraction from the challenge of pro-poor growth.

This combination of personal relationships, politicised imperatives and an underestimation of institutional weakness encourages the government to assert its dominance, rather than to deliberate, negotiate and compromise. In response, capital tends towards the strategies of ‘exit’ (made easier in a context of globalisation) or ‘loyalty’ (in the hope of securing special privileges or exemptions),
rather than of ‘voice’. The striking similarities between apartheid-era SBRs and post-apartheid SBRs in South Africa raises the possibility that the combination of (1) a (mostly) strong state and (2) marked social distance between political and economic elites makes it difficult to establish (3) sustained, institutionalised SBRs. The prospects are slight for an economic growth path that is more intensive of unskilled labour and less dependent on skilled labour and capital.

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