THE NEO-LIBERAL INCENTIVE STRUCTURE
IN
POST-APARtheid SOUTH AFRICA

by

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Abstract

This dissertation argues that the persistence of certain aspects of neoliberal market orthodoxy, such as capital account and trade liberalization, fiscal austerity and the inflation targeting (IT) regime, over a twenty-year period in post-apartheid South Africa can be attributed to series of economic incentives and constraints that accompanied the country’s integration into global capital markets in 1995. Specifically, it is posited that capital account liberalization, as well as a new accumulation regime adopted by the South African conglomerates predicated on financialization and outward expansion, has rendered the business community and the political elite dependent on portfolio capital inflows to fund the fiscal deficit and the balance of payments. This development has enabled global credit rating agencies and international investors to wield a potential veto over potential unorthodox economic policies. Global financial integration has thus compelled the Treasury and Reserve Bank to craft orthodox economic policies in line with interests of global asset managers and domestic corporations. Moreover, the ANC’s cash transfer programs to impoverished South Africans, which have been a crucial factor in the party’s electoral success, are partially funded through the
international capital markets. Finally, organized labor’s integration into a corporatist
governing arrangement has served to dampen the resistance to this neoliberal regime.
Acknowledgments
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## Table of Contents

Acknowledgments ........................................................................................................ iv

Table of Contents .......................................................................................................... v
  List of Tables .................................................................................................................... vii
  List of Figures .................................................................................................................... viii

Chapter One ..................................................................................................................... 1
  Introduction ...................................................................................................................... 1
    Financialization ........................................................................................................... 6
    Theoretical Frameworks: Understanding the Capitalist State ..................................... 10
    South Africa’s Developmental Trajectory ................................................................... 21

The Shift to Liberalization and the Abandonment of a Comprehensive Industrial Program .... 30
  Indicators of Market Orthodoxy .................................................................................. 31
  Chapter Breakdown ...................................................................................................... 40
  Methodology .................................................................................................................. 42

Chapter 2 ......................................................................................................................... 45
  South Africa’s Integration into Global Capital Markets: The State and International Finance .. 45
    A brief history of capital controls: from Bretton Woods to market orthodoxy ...............49
    The politics of capital controls in post-apartheid South Africa ..................................... 61
    The IT Regime and the ten-year bond yield: portfolio flows and the incentive structure . 80

Chapter 3 ......................................................................................................................... 93
    Accumulation Strategies by the Corporate Sector in Post-Apartheid South Africa: Finance, the Minerals Energy Complex (MEC), and Market Orthodoxy ......................................................... 93
    The rise of conglomerate capital and the ascendence of neoliberal financialization ........ 96
    The State, Anglo-American and BEE ......................................................................... 130

Chapter 4 ......................................................................................................................... 138
    South Africa and the IFIs ............................................................................................ 138
    The IFIs and South Africa: The Period of Apartheid to the Democratic Shift ............... 143
    The IMF: Evolution and Involvement in South Africa ................................................ 147
    The IFI’s Influence in Post-Apartheid South Africa: Success or Failure? .................... 162

Chapter 5 ......................................................................................................................... 169
    Domestic Pressures and the Neoliberal Trajectory: The Tripartite Alliance, ................ 169
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opposition Parties, and Zuma</td>
<td>169</td>
</tr>
<tr>
<td>The Tripartite Alliance: Origins, Cracks, and Implications for Policymaking</td>
<td>173</td>
</tr>
<tr>
<td>Marikana Massacre</td>
<td>184</td>
</tr>
<tr>
<td>New Political Resistance to the Neoliberal Growth Model</td>
<td>192</td>
</tr>
<tr>
<td>Zuma’s Ascension to Power and the Left-Wing Political Coalition</td>
<td>198</td>
</tr>
<tr>
<td>Conclusions</td>
<td>210</td>
</tr>
<tr>
<td>The Early Development Paradigms in Post-Apartheid South Africa</td>
<td>216</td>
</tr>
<tr>
<td>APPENDIX</td>
<td>224</td>
</tr>
<tr>
<td>A Primer on Bonds and Yields</td>
<td>224</td>
</tr>
<tr>
<td>Regression Model Details</td>
<td>226</td>
</tr>
<tr>
<td>Works Cited</td>
<td>228</td>
</tr>
</tbody>
</table>
List of Tables

Table 1: Macro-economic Indicators: South Africa’s Average GDP and Government Consumption Expenditure Growth Rates, 1965-2012…22

Table 2: South Africa’s Economic/Development Trajectory…27

Table 3: Neoliberal Indicators…31

Table 4: Mandate of Key South African Government Departments…67

Table 5: Marktvol vs. Staatsvolk…75

Table 6: Conglomerate Ownership Structure, 1988…98

Table 7: Market Capitalization of the top six conglomerates as a percentage of the JSE…107

Table 8: South African Corporate Sector’s Macroeconomic Policy Preferences…121
List of Figures

Figure 1: Trade Liberalization and South Africa’s Current Account Balance…35
Figure 2: Average Government Debt for OECD Democracies and Developing Countries…54
Figure 3: South African/US Exchange Rate, 1980-2017…58
Figure 4: South Africa’s External Debt…60
Figure 5: South African Government Bonds Denominated in Foreign Currencies…60
Figure 6: The Yield on South Africa’s Ten Year Government Bond…88
Figure 7: Counterfactual Bond Yield Scenario…227
Figure 8: Dividend and Interest Payments Domestically and Abroad…110
Figure 9: South African Merchandise and Manufacturing Exports, 1981-2014…111
Chapter One
Introduction

South Africa’s transition from a racially exclusive apartheid state to a liberal democracy has attracted a great deal of scholarly attention. However, much of the scholarship which sought to explain the initial economic shift within the ANC at the time of the democratic transition is now a little dated, making a study on the persistence of such policies particularly relevant. The primary purpose of this dissertation is to explain why the ANC has continued with market orthodoxy during South Africa’s post-apartheid period, and why certain aspects of liberalization has deepened over successive administrations, despite the numerous global examples of state-interventionist and market regulating strategies that have yielded a superior record in the areas of industrial upgrading, export performance and GDP growth rates for late industrializing countries (see Ayalazuno 2014; Guimaraes 2010; Chang 2003; Rodrik 1997; Amsden 1995).

In October of 2017, the New York Times published a timely piece on the economic hardships faced by many South African citizens, entitled ‘End of Apartheid in South Africa? Not in Economic Terms.’ The story pointed out that two decades after the fall of apartheid, thousands of black families continue to live in the townships that were the legacy of racial and economic segregation, many of them enduring two hour commutes to their places of employment. Moreover, as the article pointed out, millions of South Africans lack the capital necessary to start businesses, and less than half of the working age population can find official employment. As the story put it, “Apartheid has essentially persisted in economic form.”

1 The New York Times, ‘End of Apartheid in South Africa? Not in Economic Terms,’ Peter S. Goodman, October 24th, 2017. The story also touched on many of the structural issues that will be discussed throughout this dissertation, such
Indeed, social and economic inequality in South Africa are structurally linked to the country’s high unemployment rate (Chibba and Luiz 2011). As Patrick Bond (2015) has pointed out, the rise in unemployment and social inequality since the democratic transition, despite an increase in economic growth during certain periods, has generated massive social discontent, with the number of violent protests reaching over 1,900 in 2014 (Bond 2015: 21). Chronic poverty and social inequality have been recently accompanied by allegations of massive corruption and state capture against the Zuma Presidency. Yet, despite this dire situation, the ANC continues to win successive elections and enjoy the support of the majority of South Africans. Structural poverty and unemployment have thus far not generated the type of opposition to the ruling alliance that might have challenged ANC hegemony in the last election. A portion of this study is therefore also devoted to unpacking the factors responsible for the ruling party’s continued electoral success in the context of broken economic promises and persistent inequality.

My analysis will largely focus on the persistence and reproduction of market orthodoxy in South Africa as opposed to its origins. Although the question pertaining to the ANC’s transition from a Keynesian inspired redistributionist platform, as outlined in the Reconstruction and Development Program (RDP) document, to a market oriented growth program has been the subject of much controversy and is still unresolved in many areas, the topic has already received a great deal of scholarly attention (see especially Terreblanche 2002; Bond 2001; Peet 2002; Taylor and Williams 2001; Koelble 2004; Marais 1997; Habib and Padayachee 2000; Saul 2001; Hart 2002).

as the ownership of the South African economy, the global recession, and the influence of international investors over economic policymaking.

Neoliberal persistence in post-apartheid South Africa can serve as an important case study for a variety of reasons. Firstly, an investigation into the resilience of certain aspects of market orthodoxy in the country could help illuminate precisely which type of economic policies underdeveloped nations should adopt or avoid in order to generate growth and reduce inequality. More specifically, South Africa’s early integration into global financial and trade markets through the elimination or reduction of most capital controls and tariffs, which will be discussed throughout this dissertation, can offer lessons to new democracies attempting to craft policies designed to protect or stimulate strategic domestic industries capable of generating high rates of employment and economic growth. In fact, as this study will show, post-apartheid South Africa is a good illustration of how the interplay of domestic and global incentives and factors can converge to produce and reproduce a specific economic regime over an extended period of time, a point which carries policy relevance beyond just one particular case study.

The central argument offered in this study is that the persistence of neoliberal orthodoxy in South Africa over a twenty-year period can be attributed to three crucial factors: 1). In the late 1980s the South African conglomerates adopted a new accumulation strategy, one which prioritized ‘financialization’ and expansion outside the country’s borders in order to alleviate stagnation and falling domestic profitability. This new growth model necessitated economic liberalization and the removal of capital controls. 2). The liberalized capital account has, over time, generated a downward trend on the yield of the ten-year government bond, which serves as the benchmark for long-term interest rates and structures the terms of the states’ access to capital markets. The National Treasury and Reserve Bank, as well as the ANC in general, have thus benefitted from the persistence of a specific form of neoliberal orthodoxy, which has enabled state actors to fund the fiscal deficit by partially borrowing on the global capital markets. This has
enabled the party to sustain their cash transfer and social grants policy, a program that is tied to their electoral success. 3). The cooptation of the viable opposition, such as organized labor, has further facilitated the reproduction of South Africa’s post-apartheid neoliberal growth model over a twenty-year period. The democratic transition witnessed the advent of a corporatist arrangement that neutralized the domestic resistance to market orthodoxy by incorporating the trade union federation and the South African Communist Party (SACP) into a power sharing alliance with the ANC. The Treasury has therefore persisted with policies that have undermined the possibility of adopting a diversified industrialization strategy, despite lobbying efforts from the Department of Trade and Industry (DTI), the Economic Development Department (EDD), and resistance from the Youth Wing, breakaway unions, and the opposition parties. Key components of this monograph’s argument are further elaborated on below.

The removal of capital controls in 1995 rendered the Treasury dependent on portfolio inflows as a means of stabilizing long-term government bond prices above a certain threshold in order to access capital at rates below the equilibrium level in a semi-closed economy. Access to international finance on such favorable terms enables members of the political elite to distribute resources to their popular base through specific expenditure programs and subsidies without having to adopt long-term industrial programs. Global liquidity is an essential feature of this trend, since the influx of portfolio capital into South Africa has caused the long-term bond yield to trend downward since the democratic transition. Moreover, international portfolio flows are crucial for funding the current account, which has been in a persistent deficit since the transition.

At the same time, dependence on the financial markets has placed certain constraints on the policy options available to the Finance Ministry. Fiscal expansion, for example, has been largely sealed off as a potential avenue for generating economic growth because financial markets
would raise the country’s risk profile amid fears of an inflationary outbreak, thereby raising interest rates and debt servicing costs. As a result, the ANC, and officials within the National Treasury, must pursue a type of balancing act when crafting economic policies in the context of financial globalization. An important inference this study draws from the evidence pertaining to the interdepartmental conflict over aspects of economic policymaking, which dovetails with an early analysis put forward by COSATU and highlighted in the second chapter, is that the persistence of certain aspects of market orthodoxy in post-apartheid South Africa can be partially attributed to the elimination of a centralized planning ministry subordinating the interests of the various departments to a larger industrialization strategy. This lack of coordination has generated a form of policy fragmentation which has enabled departments such as the Treasury and Reserve Bank to exercise decisive influence over the direction of state policy.

The theoretical framework employed in this dissertation combines a structural, Marxian model with a state agential approach termed the ‘political survival’ model. The former recognizes the crucial importance of the global capitalist economy, the distribution and composition of resources, social relations at the point of production, and the influence of international class actors and processes, such as financialization, in shaping and constraining policy outcomes at local levels (see Bonizzi 2014: 86-88). The latter approach, discussed in greater detail in the next section, takes as its starting point coalitions and alliances state/society actors enter into in response to shifting social and economic conditions. A synthesis of these two approaches can serve as a novel analytical model for examining how global structural processes have incentivized and constrained the political, state, and class actors operating domestically in South Africa. Such processes and interactions will be unpacked in subsequent chapters—for example, by investigating how the influx and exit of foreign portfolio capital after the lifting of capital controls, as well as the
influence of global credit agencies, has incentivized the persistence of orthodox policies emanating from the Treasury while constraining other departments; how stagnating domestic economic growth led the South African conglomerates to adopt a new accumulation strategy premised on outward investment and financialization; and, importantly, how global economic integration and the persistence of orthodoxy has generated resistance and protest on multiple local levels.

Financialization

Financialization refers to a range of different factors, such as the internationalization of financial markets, the rise of shareholder value as a dominant corporate strategy and principle, and the ascendance of the “rentier”—a group of economic actors and institutions that accumulate wealth by siphoning funds in the form of interest payments and through speculative activities on domestic and global exchanges. A number of heterodox scholars and political economists have argued that neoliberal orthodoxy has been marked by the ascendance of financial activities as the central locus for profit making (Despain 2015; Magdoff 2006; Foster and Magdoff 2008; Foster and McChesney 2009; Foster 2013; Lucarelli 2012; Brenner 2009).

In discussing financialization, this dissertation will employ the definition offered by Greta Krippner: “A pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production” (Krippner 2005: 174 Income derived through financial channels includes interest, dividends, transaction fees and capital gains. In an empirical study of the post-war American economy, Krippner (2012: Chapter 2) has illustrated that the US financial sector has increased its share of GDP to nearly 20% from the 1970s to the present, while the manufacturing share has followed a downward trajectory since 1965, falling to 15%. Moreover, the author’s data shows that the Finance, Insurance and Real Estate (FIRE)
sector’s share of corporate profits has increased steadily since the 1980s, surpassing 40% by 2001, as have the revenues that non-financial firms receive from portfolio investments in contrast to conventional productive activities.

Krippner’s account of financialization dovetails nicely with the Marxian argument that the global shift to finance as an accumulation strategy by capitalists was precipitated by worldwide stagnation in the conventional sectors of commodity production in the 1970s (Foster 2013; Brenner 2009). The relevance of this phenomenon for the present dissertation is that this shift in business priorities on a global scale has influenced the activities and strategies of the South African business community. In addition to directly lobbying for specific policies through business associations, for example, financialization in the context of an open capital account has enhanced the structural power of business by allowing capitalists to threaten disinvestment and shift capital out of the country. Moreover, the influx of global portfolio capital into South Africa since liberalization can also be attributed to financialized accumulation, which has benefitted (and constrained) officials in the South African Finance Ministry, while the emphasis on shareholder value has led to an outflow of dividends and stubbornly high income inequality. Such factors will be discussed in greater detail in Chapters 2 and 3.²

Finally, the gradual increase in subsidies, in the form of non-means tested social grants and cash transfers, in the context of persistent inequality and a coopted opposition has served as a crucial component responsible for the persistence of specific aspects of market orthodoxy during the post-apartheid period. Class struggle and popular pressure from below have thus far failed to materialize into a viable mass movement capable of altering South Africa’s economic trajectory,

² Empirical data on this aspect of financialization will be presented and discussed in the second and third chapters as well.
despite some strains in the tripartite political coalition consisting of the ANC, COSATU, and the South African Communist Party (SACP). The main labor unions continue to participate in policymaking in limited areas through the National Economic Development and Labor Council (NEDLAC), the forum where business, labor representatives, and government officials negotiate on proposals pertaining to working conditions, wages, and other labor market policies before they are introduced in Parliament. Organized labor, overall, has thus far continued to attempt to influence the policy process from within the ranks of government, thereby creating a barrier to the emergence of a viable grassroots resistance movement against the neoliberal project as a whole, since the leadership of the leading labor federation has been incorporated into the state’s ruling structures and, as will be discussed in Chapter 5, has shown little interest in leading the rank and file to mount a systematic challenge to market orthodoxy, though certain elements of the neoliberal program have, at times, been contested.

Moreover, as a result of the government’s consistent support for the social wage, the ANC continues to receive significant support from a wide section of the population in the rural areas who are not members of organized labor groups. As such, despite recent and ongoing labor disputes and mass strikes, popular support for the incumbent party has not eroded to the point where heterodox industrial economic policies would have to be seriously entertained by the ANC and state officials within the Treasury. Popular support for the ruling party in this context is not that surprising, especially since the role of social grants in alleviating poverty has not been negligible. For example, Armstrong and Burger (2009: 12) have estimated that, when starting with a poverty line of 2,532 R per person a year in 2000 prices, the distribution of social grants generated
a decrease in poverty by 13 percentage points in 2005/6. Moreover, some research has suggested that in the absence of this distribution of social grants South Africa’s Gini coefficient would be significantly higher (Bhorat and Cassim, cited in Karriem and Hoskins 2016: 332). The dynamics underwriting market orthodoxy in the country are thus the expression of two distinct alliances, an economic coalition comprising the Treasury and mobile capital owners (domestic as well as foreign), and a political coalition consisting of the ANC, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). This assertion will be unpacked in subsequent chapters.

The remainder of this chapter will be organized into four sections. First, I will review some of the influential theoretical frameworks that have been employed to examine the evolution of industrialization and underdevelopment in developed and developing countries. This section will also identify the specific analytical model adopted in this dissertation, which combines Marxian analyses with a relatively new heterodox theory, which focuses on ‘incentives’ and political settlements, to unpack the various factors responsible for the persistence of South Africa’s orthodox growth model. The second section will then examine South Africa’s economic history and political trajectory leading up to the transition to democratic rule in 1994. This is necessary in order to understand the political and economic background of the ANC’s initial adoption of a neoliberal growth model and to contextualize the evolution of the present accumulation regime.

The third section will outline and briefly discuss the central components of the neoliberal program that will be examined throughout this dissertation. Interestingly, privatization of state-owned-enterprises, (SOEs), which did take place, was eventually abandoned as a result of societal

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3 It must be noted, however, that social grants have not succeeded in alleviating social inequality. This is because the latter is a structural problem linked to persistently high rates of unemployment, which, as noted above, could only be solved through the implementation of a comprehensive industrial program.
pressures, mainly emanating from COSATU, and by 2003 many of the SOE’s that had been divested were renationalized while certain sectors, such as energy and transportation, remained under state control (Emery 2006: 14; Pitcher 2012). In fact, public corporations in South Africa still own 44% of the country’s fixed capital stock (Rumney 2005: 406). This policy will be thoroughly discussed in Chapter 5. The final section will provide a chapter breakdown and outline how the research was conducted and the manner in which the evidence will be presented. Although some interview subjects were granted anonymity to foster open dialogue and reliable information, I will offer a few details on the government departments and other societal actors that participated more frequently in this research project.

**Theoretical Frameworks: Understanding the Capitalist State**

This dissertation contributes to the revisionist Marxist literature on South Africa which largely emerged in the 1960s and 70s and meticulously linked segregation and apartheid to the concrete accumulation strategies of specific fractions of capital. The Marxian methodology of linking class interests to contingent historical factors and relating both to official state policies was well positioned to explain precisely why the dominance of mining capital in the nineteenth century engineered segregation as a coercive labor practice to maximize profits, why it was eclipsed by the ascendance of national capital in the twentieth century which then entered into an economic pact with and penetrated the former fraction, and how apartheid later emerged as the crystallization of the strategies and interests of evolving conglomerate structures in a shifting global environment.
Moreover, when examining state/society interactions this study accepts, for the most part, Fine and Rustomjee’s (1996) argument that the supposed “autonomy of the state” is not a category that can ever be divorced from the specific and dominant class interests which evolve in any given society and place very real constraints on the scope for state action. As the authors point out in their study of the “Minerals/Energy Complex” in South Africa, there is no logical reason why a fully autonomous state would ever embark on industrialization efforts in contrast to parasitic and corrupt behavior. Indeed, the analysis offered here suggests that even with low levels of corruption in specific government departments the presence of financial incentives and global liquidity might compel policymakers in certain government departments to adopt monetary policies based on high short-term interest rates and permit unregulated capital flows, regardless of whether such policies are destabilizing in the long-term or economically inefficient.

As noted earlier, this analysis also makes use of the relatively new political survival framework in order to flesh out the dynamic relationship between societal actors and the state. In this respect, the latter model’s reliance on the notion of political settlements is crucial, specifically as a method of understanding the Treasury’s adherence to orthodoxy over the last twenty-years, as well as organized labor’s incorporation into, and persistence support, of this economic pact. The model is also useful as a way of making sense of the intra-bureaucratic rivalry that has marked the neoliberal period, a conflict that will be fully explored in Chapter 2. In order to fully flesh out this argument, I will outline three influential theoretical paradigms within the heterodox political economy literature on the state’s relationship to societal and class forces, as well as its role in economic development and industrialization, before delving into a brief account of South Africa’s developmental trajectory and class formation.
The first theoretical framework, which has already been alluded to above, can be termed the ‘state capacity’ approach. Originating with the pioneering work of Chalmers Johnson (1985) as he sought to explain Japan’s rapid post-war development, this model has become extremely influential within heterodox circles as an explanation for how certain developing states, with hitherto low levels of economic growth, were able to embark on a program of rapid and efficient industrialization. Stated briefly, this argument posits that states with Weberian, meritocratic bureaucracies possess the technocratic capacity to regulate free market forces and essentially construct comparative advantage in strategic industrial sectors. Johnson (1985: 60) argued, for example, that the Japanese parliament’s power was quite weak in the area of economic policymaking, and that in many respects their authority was subordinated to the bureaucracy, especially during periods of economic crisis. Moreover, according to Johnson (1985: 61) these elite bureaucrats were primarily guided by their desire in “securing the economic welfare and economic defense of Japan as a whole.”

This type of technocratic capacity, moreover, exists in a context of “embedded autonomy,” (Evans 1995) a concept which is meant to convey that while state officials interact with the business community and private actors, they are nonetheless able to reign in corruption and insulate the public sector from capture by economic elites. Within this framework industrialization is thus understood as the outgrowth of very specific policies by states in East Asia as they sought to nurture economic growth and catch up with the early industrializing countries (Amsden 1995). Finally, within this model the developmental state normally runs a spectrum from ideal to semi-adequate, with each point along the spectrum indicating the state’s ability to engage in substantive intervention in order to regulate free market forces (Johnson in Woo-Cumings 1999: 38; see also Chang 1993).
While the ‘state-capacity’ paradigm effectively exposed many of the myths surrounding the neo-classical discourse on free markets and industrialization, the approach has been challenged on a number of grounds. Firstly, as noted above, the state-capacity model of development does not offer an explanation as to why a meritocratic bureaucracy with a high level of technocratic capacity would implement policies aimed at industrialization as opposed to engaging in the type of predatory conduct which facilitates underdevelopment. One potential response that is implied by the assumptions of the model is that a Weberian state operating with embedded autonomy is better positioned to avoid “state capture” by predatory elites, and can therefore embark on beneficial industrial programs. Yet this raises another question, namely, why would autonomous state officials choose to pursue such policies as opposed to enriching themselves through predatory, rent-seeking conduct? This answer has not been satisfactorily answered. Secondly, while the approach has enriched our understanding of state capacity, it has paid scant attention to the manner in which state policies are constrained by class structures, and thus ignores the fact that the capitalist state is always, to some degree, penetrated and “captured” by dominant classes and economic elites. Finally, even if all the assumptions within the state-capacity approach are accepted, the framework has little to say about how such capacity is constructed to begin with and whether it can be replicated in other contexts.

A second theoretical model often employed to analyze such issues is the Marxist theory of the state. This theory assumes from the beginning that the state is “captured” by certain forces, namely, the dominant or ruling class of any given historical epoch. Although the modern capitalist state is far more complex than a mere instrument of bourgeois rule, evidenced by the fact that it must on occasion regulate capital accumulation and enforce rules that the capitalist class, it is also
clear that the state is to a large degree constrained by class forces operating within specific social structures (Fine and Rustomjee 1996).

Marxian scholarship recognizes the importance of incentives in generating class conflict and state policy. For example, Denemark and Thomas (1988) have argued that class struggle is always present as a determinant of the control and distribution of resources, but that the form that this class struggle takes is partially determined by economic incentives emanating from the global and local levels. Brenner (1977; 1976), however, has argued that such market incentives are always mediated and filtered through local political struggles, with the outcome determined by the relative strength of the various class forces and political actors. Indeed, Brenner (1977) has shown, especially in reference to the United States, and focusing on uprisings such as Shay’s Rebellion, that class conflict and resistance from below can play a crucial role in shaping economic outcomes and placing limits and constraints on exploitation, and at times even altering the form of such oppression. This dissertation thus accepts Brenner’s theorization of class struggle, and in the following chapters, especially in the final one, the examination of global economic incentives will be contextualized to take into account domestic politics and class alliances, focusing on grass roots mobilization, by labor and other groups, and other forms of popular resistance. Popular mobilization has in fact been crucial in constraining certain neoliberal prescriptions, such as privatization of state-owned assets, and will be examined in detail in Chapter 5.

Finally, it must be emphasized that heterodox Marxian political economy, in contrast to neoclassical economics, recognizes that economic rents often play a crucial role in stimulating industrialization. The crucial question, however, is what type of rent is being generated and the

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4 The role of economic rents as a driver of accumulation was highlighted by both Schumpeter and Marx, who pointed out that the surplus arising from innovation and unequal exchange would generate higher profits for the innovating firm and hence greater investment. See Khan and K.S (2000: 22).
specific actors who benefit from the rents. For example, the rents secured by an industrial oligopoly could be channeled into other productive endeavors, especially if guided by the state. In other words, within the ‘political survival’ framework the question is not whether economic rents and a certain degree of corruption exist in developing and developed countries, but rather whether such rents can be classified as productive or unproductive, and whether they generate increasing returns (Whitfield 2012; see also Whitfield et al. 2011; Khan 2010). Moreover, the range of incentives facing the economic actors and state officials, and whether there is a convergence of interests among social classes and government departments, play a crucial role in determining whether productive activities that stimulate economic development will be implemented.

As noted, the analytical framework adopted in this dissertation thus draws partially from the Marxian model of the state and industrialization while also incorporating elements from a third influential and relatively recent strand in the developmental literature, which Whitfield and Buur (2014: 127) have termed “the political survival of ruling elites approach.” This model posits that the “government’s policy choices and its ability to implement them, as well as its interactions with businesses, are shaped by the incentives arising from the imperatives of ruling elites to remain in power and thus build and maintain political support” (Ibid.). Additionally, “the faction of ruling elites driving the industrial policy must be able to fend off distributional demands from other individuals and factions within the ruling coalition” (Ibid.: 128). In the context of this analytical framework the absence of a coherent industrial program, which here refers to deliberate state intervention for the purpose of constructing comparative advantage in strategic sectors, as well as the persistence of unsuccessful or inefficient economic policies, must be understood not

5 “Elites” in this context refers to both political and economic elites, who come together and form a coalition due to a convergence of interests.
necessarily as evidence of a lack of political will or state capacity, but as a reflection of a type of
governing political settlement and the intersection of very specific interests within sections of the
political, bureaucratic, and economic elite.

Thus, once the convergence of political and economic incentives is identified, the specified
framework can be effectively employed to uncover the institutional triggers propelling forward a
bundle of policies based on market orthodoxy that serve as the negation of an interventionist
industrial program. It is also recognized within this literature that the state carries out such policies
while enmeshed in a very specific institutional context and class structure. Thus, variants of this
theoretical framework stress the importance of economic ‘rents’ in generating industrial
development. Within neoclassical economics rents are generally viewed as a distortion of market
equilibrium and an impediment to the natural distribution of resources that is compatible with
development. Heterodox economists, on the other hand, have long recognized that rents, defined
as that ‘portion of earnings in excess of the minimum amount needed to attract a worker to accept
a particular job or a firm to enter a particular industry’ (Khan and KS 2000: 22), can play a crucial
role in stimulating industrialization. Whether economic rents actually facilitate development or
end up obstructing political attempts to enhance economic programs, however, depends crucially
on the strength of the state in relation to the business community. As Kang has noted, predatory
rent-seeking will occur where either the state or the business sector is significantly more powerful
than the other, but will be checked in situations where power is diffused or where both actors are
equally strong (Kang 2002: 16). Finally, it must be noted that within the political survival
framework economic development does not necessarily require fully coherent or ideal quantities
of state capacity, but rather pockets of efficiency within the bureaucracy and an alignment of interests between the bureaucrats and capitalists (Whitfield and Buur 2014: 128).  

The “political survival of ruling elites” approach to economic development represents a significant advancement over models which prioritize levels of state capacity as the explanatory factor responsible for industrial development. Not only does the former framework provide an answer to the question of why political elites would adopt policies for the purpose of industrialization in the first place (as opposed to the extraction of rents which generate the underdevelopment of the economy), but the theory also predicts that conflicts may arise between different factions of the political class within various government departments and bureaucratic centers. The ruling alliance composed of specific class fractions and members of the political elite must therefore be able to resist the pressure emanating from groups outside of the ruling coalition. 

For example, a regime deriving economic and political support from a coalition composed of labor and fixed capital would implement different macroeconomic policies compared to a governing coalition composed largely of owners of mobile assets (see also Pepinsky 2009). The second and third chapters employ the analytical framework utilized by Thomas Pepinsky’s (2009) examination of the East Asian crisis. As will be shown in later chapters, the model utilized by Pepinsky, which traces the adoption of various liberalization policies to the concrete coalitions formed between specific economic and political actors, such as holders of fixed vs mobile

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6 Within this framework, the presence and absence of popular, societal pressures from below can play an important role in facilitating specific economic policies. The absence of organized opposition to neoliberal policies in South Africa during the post-apartheid period is one important variable responsible for the persistence of market orthodoxy in the country since the democratic transition. This will be further examined in the fifth chapter.

7 This point will be discussed in much greater detail in the next chapter in the context of economic policymaking in post-apartheid South Africa.
(portfolio) assets and state officials, is particularly well-suited for analyzing the implementation and persistence of certain aspects of market orthodoxy in post-apartheid South Africa.

The premises of the ‘political survival’ and Marxian models can be leveraged to uncover the incentives that arise from a developing country's integration into global capital markets, which is a central theme of this present study as it pertains to post-apartheid South Africa. International financial markets can directly constrain policy by inducing capital migration and, at the same time, such integration can lead to the crystallization of a domestic coalition of actors in favor of continued liberalization because of the access to global liquidity that it facilitates. The economic rents associated with the deregulation of the capital account in emerging market economies are often incompatible with productive investment. However, when capital is regulated and prevented from relocating abroad without sufficient reason then domestic opportunities for investment must be found in order to generate a return. In contrast, when capital is mobile and unregulated, then profits can simply be shifted abroad. In this scenario, and in the absence of state intervention, economic rents could simply act as a drain on the economy and generate stagnation. This point is especially relevant in South Africa where, unlike in other countries on the continent, there exists a large private business sector which renders policymaking in the country highly susceptible to the influence of the market and the international investment climate, or what can be termed ‘the structural power of capital’ (Handley 2005: 235). In other words, with an open capital account the South African business community can shape policy through mechanisms such as capital flight even in the absence of direct lobbying efforts.

Moreover, while class analysis and business-society relations remain crucial elements in this dissertation’s theoretical approach, the framework also pays attention to the question of how political agency within the state is formed, and why certain class interests are selected and
emphasized by state officials over others. As noted, authors working within the political survival paradigm have been able to provide a satisfactory answer to some of the questions posed above, namely, why an autonomous state will choose to implement programs designed to promote economic development and industrial upgrading, or, on the flip side, why such policies are absent. For example, fairly recent scholarship has identified the international security dimension as one of the factors responsible for the divergent growth trajectories of the industrializing East Asian states and for South Africa in the nineteenth century (see Kang 2002: 34; Clark 1994: 16).

It must also be stressed that within this framework it is argued that “pockets of efficiency” within the bureaucracy and an alignment of interests between specific bureaucrats and capitalists are sometimes enough to motivate the adoption of industrial programs (Whitfield and Buur 2014: 128). For example, Whitfield and Buur (2014: 131) argue that beginning in the 1990s sugar production and exports increased rapidly in Mozambique, despite perceptions of a notoriously corrupt public sector, because one section of the ruling economic elite, who had shared incentives with a cluster of foreign sugar companies, was able to overcome resistance to the project and secure the support of the relevant government department. Once this support was secured, the department was able to structure the set of rules regulating the firm’s access to the rents generated by the economic activity.

The political survival model is valuable as an explanatory framework for analyzing the adoption or absence of specific economic policies in two crucial respects: 1). The theory—as formulated by Whitfield and Burr—posits that the state, or clusters of state officials within certain departments may, in the presence of specific incentives, intervene on behalf of certain classes and social groups that are not necessarily dominant, and in the process strengthen their position in society; 2). the model recognizes that ‘political settlements,’ established by political and economic
elites, as well as state bureaucrats, are the crucial drivers of a nation’s policy trajectory. In this context, a political settlement refers to the power sharing arrangement or ruling coalitions formed by key actors, such as labor, domestic business, and international capital, within a particular national setting.

In applying this novel synthesis of theoretical frameworks to the case of post-apartheid South Africa, I will thus utilize several works of political economy that put forward new ways of conceptualizing class exploitation and political alliances. In addition to Pepinsky’s analysis of mobile vs fixed asset holders, Chapter 2 draws on Wolfgang Streeck’s (2014) concept of the ‘debt state,’ which offers some insight into the manner in which global investors have been able to consolidate their power over national governments, especially as the latter’s ability to tax wealthy citizens has declined during the era of neoliberal globalization. Streeck, a Marxist writing in the tradition of the Frankfurt School’s Crisis Theory, argues in his book *Buying Time: The Delayed Crisis of Democratic Capitalism* (2014: Chapter 2), that under neoliberal restructuring there has been a general transition from what he calls the “tax state” to the “debt state.” The shift to financialization and the revolt of the business community against postwar regulations and the capital/labour compact led to declining tax progressivity and state revenues on a global scale, which was not matched by a proportionate decrease in state expenditure, leading to a fiscal crisis of public finances and with it rising levels of public indebtedness (2014: 47, 66).

Streeck argues that the consolidation of the debt state since the 1970s has in a sense altered the central axis around which class conflict has evolved throughout the neoliberal period. Class antagonism, Streeck asserts, can no longer be adequately understood as solely involving social conflict between wage-earners and capital. Rather, the author (2014: 78) posits that the ascendance of finance and the consolidation of the debt state has empowered a class of asset owners/investors
who, in the context of declining rates of taxation, now lend the state money and receive interest payments in return. In Chapter 2 of this dissertation, Streeck’s framework will be employed to help uncover the manner in which global investors have contributed to the persistence of the neoliberal regime in post-apartheid South Africa.

In subsequent chapters the incentive structure in South Africa, before and after apartheid, will be unpacked and the conditions responsible for its transformation in different time periods analyzed. A primary contribution of this dissertation therefore lies in the identification of domestic political agency, encapsulated by intra-departmental and party conflict and social class struggle, as it operates within the constraints of a very specific accumulation regime facilitated by market orthodoxy. The novelty of this contribution is also to be found in the application of the above mentioned explanatory framework to the post-apartheid period as a method of unpacking the political and economic incentive structure in order to account for the persistence and resilience of market orthodoxy during the post-apartheid period. The next section will further delve into the historical evolution of South Africa’s social structures.

South Africa’s Developmental Trajectory

The current financial neoliberal accumulation regime in South Africa was adopted by the business community after the exhaustion of the previous growth model based largely on segregation and gold mining. While it lasted, however, the apartheid system underwrote a successful economic trajectory for much of its existence, which pivoted on low-wage black labor and a specific form of
state intervention which largely, though not exclusively, prioritized the mining industry. Table 1 captures two crucial macro-economic variables for South Africa: Annual GDP growth and government consumption expenditure as a percentage of GDP from the period 1965-2012, expressed as five year averages.

**Table 1: Macro-economic Indicators: South Africa’s Average GDP and Government Consumption Expenditure Growth Rates, 1965-2012**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>5.3</td>
<td>3.68</td>
<td>3.1</td>
<td>1.42</td>
<td>1.68</td>
<td>0.88</td>
<td>2.8</td>
<td>3.84</td>
<td>3.18</td>
</tr>
<tr>
<td>GCE</td>
<td>11.91</td>
<td>13.32</td>
<td>15.36</td>
<td>16.7</td>
<td>19.08</td>
<td>19.68</td>
<td>18.72</td>
<td>19.04</td>
<td>20.06</td>
</tr>
</tbody>
</table>

Source: South African Reserve Bank (SARB).

Government Consumption Expenditure is expressed as a ratio to GDP.

Two conclusions can be drawn from the data presented above. The trends documented in Table 1 show that GDP growth rates in South Africa averaged higher than three percent from 1965-1980, which would seem to indicate that apartheid was economically efficient from an aggregate standpoint. Secondly, it is clear from the second indicator that apartheid was bound up with a high degree of state intervention, measured here as the ratio of general government consumption expenditure to GDP, which increased every five years except from 1995-2000, after the democratic transition and the period when the ‘home-made’ austerity program was introduced.

Additionally, Fine and Rustomjee (1996) have shown that the conventional duality associated with the mining and manufacturing sectors based on traditional input/output tables is misplaced. The authors point out that when employing a conventional classification of industries,
it is apparent that since 1970 employment in the mining sector has fluctuated within a band of 650-730,000, while employment in manufacturing was nearly double that amount by the 1990s and its share of GDP was also growing (1996: 73). Fine and Rustomjee point out that the mining sector provides crucial inputs to the manufacturing industry, such as coal and other minerals, and that the state energy sector was formed as a response to the needs of mining (1996: 74-5). In fact, as late as 2010, over 64% of inputs into the MEC sub-sectors were produced by the MEC core, and from 1994-2010 output produced by the MEC contributed 21-23% to the share of GDP, highlighting its continued relevance as a system of accumulation (Fine et. al 2012: 8-9). As noted, the authors argue that the South African economy is best characterized as being dominated by a “Minerals-Energy-Complex” (MEC), and as such the industrialization process must be understood as having arisen as an offshoot of the mining sector.

The crucial impetus for state-controlled industrial production emerged during World War I, when record levels of inflation began to erode the profitability of the mining industry and generate a wave of unemployment, thereby highlighting the necessity of a diversified industrial base (see Johnstone 1976). In 1916 the Chamber of Mines informed the government that mining figured “too largely in the Government eye,” and that the industry would establish a fund to promote and finance budding South African industries, which led to the creation of the Industrial...

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8 For instance, the authors, as well as Fine in a subsequent article (2010) argue that the strategic state-owned parastatals, Iscor (steel) Sasol (chemicals and gasoline), and Eskom (energy) were formed largely to provide cheap inputs to the mining industry. Moreover, these SOEs were also vertically integrated into the mining sector and processed the latter’s materials, such as coal and iron ore (see Roberts and Rustomjee 2010: 50).

9 The MEC sub-sectors identified by the authors are coal mining, gold and uranium mining, other mining, coke and refined petroleum products, iron and basic steel industries, non-ferrous metals basic industries, plastics, fertilizers, basic chemicals, and electricity (Fine et.al 2012: 8-9).

10 The Chamber is the official business association representing the mining industry in South Africa. It was formed in 1897, and its stated purpose is to act as a “principal advocate for mining in South Africa to government, communicating major policies endorsed by its members.” The Chamber also represents the mining sector in collective bargaining with the labor unions. The Chamber’s position on economic and political matters will be further examined in Chapter 4.
Development Company (IDC)\textsuperscript{11}, as well as an Industries Advisory Board\textsuperscript{12} (Clark 1994: 44), through an act of parliament in 1917. The Chamber had also been instrumental in establishing the Department of Native Affairs in 1893 and lobbying for the regulation of wages of black African workers (Lukasiewicz 2014: 18).

A serious concern from the standpoint of the mining magnates was whether state-owned enterprises in South Africa would employ their monopoly power to charge high markups for their products. Thus, the entire process of state intervention in the economy was conducted through close collaboration and consultation with the mining industry. The Electricity Act of 1922, which created Eskom\textsuperscript{13}, was approved by a select committee chaired by the Minister of Mines before it was introduced and passed by Parliament (Clark 1994: 54; see also Clark 1987).

Thus, although the specter of white unemployment and social instability figured prominently in the world view of various Afrikaner government administrations, and while it is undeniable that certain public policies reflected this concern, it is also clear that state intervention in the South African economy was primarily a response to the requirements of capital, encompassing both the manufacturing and the mining industry. In other words, in contrast to the argument put forward by certain scholars (Davies et.al 1976; Kaplan 1976) that state-led industrialization efforts in South Africa were the reflection of the subordination of international to

\begin{footnotesize}
\begin{itemize}
\item It should also be noted that the Industrial Development Company (IDC) was the precursor to the Industrial Development Corporation which was established in 1940. The former was created, staffed and funded solely by gold mining magnates in 1917 (Clark 1994: 36).
\item The Industries Advisory Board was established on the recommendation of the IDC, and its Board was composed largely of private businessmen, mostly from the mining companies, and it was tasked with advising the Department of Mines and Industries on “industrial matters” (Clark 1994: 45).
\item It should be noted that while Eskom was an SOE, its funding was supplied through government and private loans and did not come directly from the state budget. The company’s governing board was appointed by the governor general, and its primary purpose was to “stimulate the provision of a cheap and abundant supply of electricity” (cited in Clark 1994: 57). The company was first chaired by H.J. van der Bijl, who was selected by the Minister of Mines and Industries to fill the position largely because of his strong support for the principle of private enterprise (Clark 1994: 57).
\end{itemize}
\end{footnotesize}
national capital during a specific time period, in actuality South African SOEs, and ISI policies more generally, served a dual purpose: to reduce the costs incurred by the mining magnates and to stimulate industrialization by reducing the risk of investment and cultivating strategic industries around the mining sector. For instance, from 1925 to 1985 the share of manufacturing in GDP grew from 36.4% to 64.3%, and the majority of this growth was centered around industrial consumables that serviced the mining companies (Adewale 2012: 299). Furthermore, the capital intensive nature of many of the SOEs at times necessitated the recruitment of black laborers as a cost reduction strategy, much to the detriment of the interests of white labor (Clark 1987: 101).

The evidence pertaining to South Africa’s industrialization strategy corroborates the argument put forward by Fine and Rustomjee (1996) that South African mining interests were generally well-served by the formation of a domestic industrial base wielding monopoly powers. Even aside from the linkages that were created between the sectors through inputs and outputs, it is important to note that the mining industry also supplied a portion of the start-up capital required for the SOEs, and many of the sector’s representatives held positions on the companies’ boards (Clark; 1994; 1987; Schneider 2000). This crucial interpenetration between South African mining and manufacturing, epitomized by the MEC, has been acknowledged and elaborated upon by a variety of contemporary scholars (see Fine 2008; Roberts 2008: 9-10; Baker et al. 2014: 797-8; Hart and Padayachee 2013: 69-70; Freund 2010: 22-5).

The overall impact of the MEC structure on South Africa’s economy has been elucidated by Nitzan and Bichler (2001: 41), who point out that the data demonstrates that, unlike in manufacturing, the wage share in the mining sector declined during the period 1948-1989, and that the positive impact that this decline had on the profitability of the gold sector in particular outweighed the negative impact of the rising wage share in other industries. During apartheid, the
gold mining sector, which as noted is intricately linked to the rest of the South African economy, continued to draw labor from the reserves which made wage repression feasible. The crucial point made by these authors is that the role played by apartheid in keeping wages down for the mining companies was pivotal for the overall South African economy, especially after the early 1970s with the acceleration of economic crisis. Once the Bretton Woods system was terminated in 1972 the price of gold began an upward trajectory in conjunction with inflation, a trend that was reinforced as investors attempted to hedge against the latter by investing in the precious metal. Global inflation therefore helped raise the revenue accruing to the South African gold mining companies, which accounted for 75% of world gold production at the time, thereby strengthening the resolve of this fraction of the capitalist class to continue their support for the system of black labor repression under apartheid from 1970-1980 (Nitzan and Bichler 2001: 43).

By the mid-1980s, however, it appeared that apartheid was no longer sustainable due to a number of factors. To begin with, this was a period of boycotts, international sanctions and capital flight. More importantly, 1979 marked the end of the inflationary trend and the beginning of stringent monetarism, signaled by the Volcker shock and the rise of interest rates through the US Federal Reserve’s targeting of the money supply. This not only led to the Third World debt crisis of the 1980s but also brought about a sharp decline in gold prices, which up until that point had served to underwrite the apartheid system of accumulation. The fall in gold earnings meant that conglomerate capital\textsuperscript{14} in South Africa needed to expand its operations beyond the country’s borders in order to maintain sufficient profitability; yet becoming transnational required a

\textsuperscript{14} South Africa’s conglomerate structure will be further examined in Chapter 3.
politically stable environment, hence the need for a shift to liberal democracy (Nitzan and Bichler 2001: 23).

Table 2 classifies South Africa’s economic evolution/development along a rough approximation of three time periods. Throughout the late nineteenth century it was British mining capital that dominated, which was reflected in policies such as segregation and the existence of an enclave mining economy based on intensive labor exploitation and the repatriation of profits abroad. The post-World War I period marked the beginning of state-led industrialization efforts and a limited ISI program based on tariffs on industrial consumables and the creation of SOEs that collaborated with global oligopolistic capital. However, as the chart indicates, this period should not be viewed as one culminating in the victory of national over British and international capital, but rather as the integration of newly formed industrial capital with the MEC, and vice versa. This period was based on industrial policies that taxed profits and protected selected industries through trade tariffs, as well as by limiting the repatriation of funds abroad. The current neoliberal period is characterized by trade and capital account liberalization and the integration of the MEC with globalized financial capital.

<table>
<thead>
<tr>
<th>Period</th>
<th>Dominant Capital/Activities</th>
<th>Economic Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1868-1918</td>
<td>Imperial Gold/Diamond Mining</td>
<td>Free Trade/Open Markets</td>
</tr>
<tr>
<td>1923-1994</td>
<td>Industrial Capital integrated with The MEC</td>
<td>Protectionist Policies/ISI/SOEs</td>
</tr>
<tr>
<td>1995-Present</td>
<td>Financial Capital integrated with The MEC</td>
<td>Liberalization/Open Capital Account</td>
</tr>
</tbody>
</table>

Table 2: South Africa’s Economic/Development Trajectory

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15 This is not to be mistaken for a mono-causal argument which posits that the needs of the conglomerate corporations directly led to the democratic transition. As the authors note, a great many factors contributed to the political shift. However, the dynamics of capital accumulation are important because it sets the boundaries within which potential non-revolutionary change can take place (2001: 23).
To summarize, from the mid-nineteenth century to the end of the First World War, the mining industry dominated the South African economy, pushing for policies that fit with the export-oriented nature of their sector, such as free trade, labor segregation and open markets. During this period, political influence and control rested with the British colonial mercantile elite (Miraftab 2012: 286), who also prioritized free trade and minimal protection, and were thus happy to oblige. South African manufacturing entrepreneurs, made up of European settlers, had established themselves as a cultural community in the Cape in the mid-nineteenth century and gradually began pushing for protectionist policies to spur further industrialization (Schirmer 2009: 4). As noted, Boer politicians also had an incentive in adopting an industrialization strategy in order to promote self-sufficiency, as well as national security against the British, and upon securing victory in national elections embarked on such a project throughout all of South Africa. As will be shown in more detail in Chapter 3, the isolation and sanctions imposed on South Africa during the period of apartheid, and the imposition of capital controls on outflows beginning in the 1960s, facilitated the emergence of large conglomerate groups with investments in mining and industrial activities.

The mining sector was supportive of protectionist policies as long as the program did not lead to exorbitant costs, and provided they could continue to make profits through apartheid policies and investments in the protected sectors. However, once gold prices began to decline dominant conglomerate capital in South Africa no longer had an incentive to underwrite the globally stigmatized apartheid state, and was more interested in adopting an investment strategy that prioritized political stability, capital mobility and a global projection of power (see Nitzan and Bichler 2001). The removal of capital controls on non-residents in 1995, in conjunction with trade liberalization, altered the regime of accumulation and shifted the coalitional alliance that existed
between the state and a fraction of capital during apartheid. The decision by the ANC leadership to implement market orthodoxy in the aftermath of the transition can be largely attributed to the strength of the global capital markets and the campaign waged by the corporate sector, consisting of formal/informal negotiations and economic planning scenarios, in the 1980s and early 90s to influence the termination of apartheid while keeping much of the structure of the South African economy intact. These points will be discussed in much greater detail in Chapter 3.

The Marxian literature has effectively illustrated that South African capitalism was not obstructed by racial discrimination, as the liberal theorists argued, but rather required an extra-economic element of labor coercion in order to reduce fixed costs and boost profitability. In the aftermath of the democratic transition and the official adoption of market orthodoxy in 1996, the Marxian and heterodox economic methodology and framework is still well-suited for examining the shifting class forces and interests that have underwritten the accumulation regime of financialization and that have benefited from the ANC’s persistent adherence to neoliberal prescriptions. Specifically, the requirements of transnational mobility in the context of falling gold prices, economic stagnation and isolation explain why conglomerate capital in South Africa was willing to support the termination of the apartheid policies that had underwritten their accumulation strategies at one point (Nitzan and Bichler 2001).

However, popular pressure from below, and shifting coalitional alliances, are also important factors affecting the persistence or abandonment of certain policy prescriptions, and if domestic political conditions and popular support for the ANC in South Africa were to change, the state could certainly regulate and partially direct the operations of domestic and international capital. This argument will be fleshed out in the fifth chapter. The following section will examine the competing theories concerning the motivation behind the specific neoliberal prescriptions
adopted and maintained by the ANC, as well as a detailed discussion of the nature and impact of such prescriptions, along with a critique of the official rationale underpinning their adoption. This will provide the necessary context for a careful analysis of the persistence of neoliberalism in the post-apartheid environment.

The Shift to Liberalization and the Abandonment of a Comprehensive Industrial Program

The Reconstruction and Development Program (RDP) formed the cornerstone of official ANC economic policy until 1996. At its core the RDP was a Keynesian inspired program that aimed to stimulate growth by raising aggregate demand through the redistribution of income. As such, the document was based on macro-populist economic principles of government expenditure and real wage growth as the primary mechanisms driving forward investment and industrial activity. The model predicted that the rise in consumption brought about by the growth in real wages would lead to higher production levels and output, which would induce higher employment and that the latter would then further stimulate aggregate demand via the acceleration effect.

A key assumption behind the model’s growth predictions was that the South African economy possessed sufficient excess capacity to allow the state to stimulate demand through government expenditure since in the absence of sufficient spare capacity, demand stimulation would trigger an inflationary outbreak due to supply constraints (Moll 1991; see also Schneider 2003: 42). In 1996, however, the ANC officially abandoned this development strategy by adopting the Growth, Employment and Redistribution document in the midst of a financial panic and currency crisis triggered by a run on the Rand in the aftermath of capital account liberalization (Magubane 2002: 96; see also Koelble 2004). The document, which was crafted by economists,
academics, and World Bank technocrats, specifically stated that South Africa’s democratic
government should, as part of an integrated strategy, implement a ‘fiscal deficit reduction
programme to contain debt service obligations, counter inflation and free resources for
investment,’ as well as initiate a ‘reduction in tariffs to contain input prices’ and a ‘consistent
monetary policy to prevent a resurgence of inflation.’\textsuperscript{16} Below I discuss the central elements of the
neoliberal trajectory in South Africa before turning to an examination of some of the influential
competing hypotheses that seek to explain the transformation.

\textbf{Indicators of Market Orthodoxy}

Table 3 below outlines the four central components of neoliberalism that have shaped South
Africa’s post-apartheid development trajectory. Each will be discussed in turn.

\textbf{Table 3: Neoliberal Indicators}

\begin{tabular}{|l|l|}
\hline
\textbf{Market Orthodoxy} & \textbf{Policy Instrument} \\
\hline
\textbf{Measures} & \\
Fiscal Austerity & Reduce or Eliminate \\
& Deficit Spending \\
\hline
Inflation Targeting Rates & Increase Short-Term Interest \\
\hline
Capital Account Liberalization & Dismantling Exchange Controls \\
\hline
Trade Liberalization & Reduce Tariffs and Quotas \\
\hline
\end{tabular}

\textsuperscript{16} Department of Finance, Republic of South Africa ‘Growth, employment, and redistribution: A macro-economic strategy,’ p. 2.
Trade Liberalization

The shift to market orthodoxy ushered in a period of comprehensive and indiscriminate trade liberalization. In fact, the Department of Trade and Industry (DTI) reduced trade tariffs in a variety of sectors well below what was demanded by GATT (Terreblanche 2002: 115). The argument informing this policy was that trade protection is a source of inefficiency which undermines competitive behavior and encourages rent-seeking and oligopoly. Trade liberalization is therefore said to stimulate growth by reducing input costs and inducing innovation through competition.

Given the history of South Africa’s manufacturing sector, which, as noted, emerged under heavy state protection and could not compete on international markets, it is perhaps not surprising that the ANC readily accepted the above argument on the merits of trade liberalization. However, it must not be forgotten that trade protection was a crucial component in the developmental strategies of a number of late industrializing states, and when used correctly forms an indispensable part of a country’s long-term growth plan. For instance, the infant industry model of industrialization, employed effectively by South Korea and Taiwan, involved employing tariffs for strategic sectors in the early stages of their development and then removing them gradually in order to induce competitiveness and avoid rent-seeking behavior. This policy was implemented in conjunction with export promotion schemes and tax incentives (see Rapley 2007; Rodrik 1997: 428). The persistence of trade liberalization under the ANC is also significant because of its implications for the development and expansion of strategic domestic industries, such as the capital goods sector. The experience of a number of late industrializing countries has shown that the tariff system is an extremely effective inducement for investment into strategic sectors in their infant
stages, specifically because it provides a guarantee to entrepreneurs that their sunk capital will not be immediately devalued by international competition.\footnote{Brazil, for example, made effective use of tariffs when developing its IT sector and the tariff system played an important role in the development of several of South Korea’s strategic industries (see Evans 1995).}

Thus, when applied in the context of a coherent industrial strategy trade liberalization can indeed stimulate growth and efficiency. Yet when implemented in the form of shock therapy trade liberalization not only leads to rising rates of unemployment and domestic firm failures, but can also generate a persistent current account deficit which then becomes very difficult to reverse. Figure 1, which plots South Africa’s current account balance against the average weighted tariff in place from 1988-2012, clearly demonstrates such a trend. The correlation coefficient is calculated at 0.64, which is illustrative of a moderate to strong positive association between the trade balance and the tariff system. In fact, the two figures move closely together throughout the time series, except for the period between the years 1996-2002. This is not at all surprising since the latter time frame was a period of rapid currency depreciation, when the rand depreciated against the dollar in 1996, 1998, and again in 2001, thereby increasing the competitiveness of South African exports and narrowing the trade deficit.

The association depicted in Figure 1 is significant for several reasons. South Africa’s average tariff rate declined from over 13% in 1992 to 5.4% in 1997 and to 4.6% in 1999, a very steep reduction compared to other emerging market economies. For example, the average weighted tariff in Brazil stood at 7.6% in 2009 while in India the average weighted tariff was at 8.2%, more than double the figure of 3.9% for South Africa in the same year.\footnote{World Bank: World Development Indicators.} It is also apparent that if South Africa had not experienced a period of currency depreciation in 1996, 1998 and 2001, then the correlation between the two variables would be even stronger than 0.64. Indeed, as the data
illustrates, since the advent of trade liberalization South Africa has run persistent current account deficits. During the period of segregation tariffs were a crucial mechanism in enabling the apartheid regime to generate current account surpluses, which were instrumental in facilitating regime survival considering that most alternative sources of finance were closed off because of the sanctions.

The extent of trade liberalization by the ANC is puzzling in light of the history of other emerging market economies. Padraig Carmody (2002) has suggested that the decision to engage in such deep tariff cuts was a proactive one on the part of state officials in the Department of Trade and Industry (DTI), designed to allow some autonomous policy space in case policymakers decided in the future that trade tariffs should be reinstated. In other words, it was a maneuver engineered to allow the state “to get ahead of globalization” (Carmody 2002: 259). Nonetheless, as Figure 1 shows, trade liberalization remains deeply entrenched, and this persistence requires an explanation, especially in light of the fact that the removal of tariffs has contributed to the problem of chronic unemployment, deindustrialization, and the retrenchment of several labor intensive industries. This point will be examined in Chapter 3.
Figure 1: Trade Liberalization and South Africa’s Current Account Balance

Source: South African Reserve Bank for the Current Account; World Bank: World Development Indicators for South Africa’s Average Weighted Tariff.

NOTE: Data for the average weighted tariff is missing for 6 of the 24 observations in the time series. Missing data has been filled in using linear interpolation.

Inflation Targeting (IT)

A second policy linked to market orthodoxy in South Africa, and a measure closely connected to capital account liberalization, is inflation targeting, known among policy-makers as the IT regime. IT entails keeping inflation rates between a 3-6% band, usually through targeting the repo rate in bond markets and altering the money supply, in order to raise the cost of borrowing and prevent the economy from overheating. In fact, the policy of inflation targeting is a logical outgrowth of capital account liberalization, since high short-term interest rates are needed in order to induce
capital to remain in the country. Yet, according to the proponents of market reform, high short-term interest rates are supposed to repress inflation and encourage savings. The emphasis placed on the savings rate by policy-makers is warranted in light of the historical experience of developing states. For example, many of the East-Asian firms were able to finance their investment through bank borrowings made possible by net household savings (Wade 1998: 695).

However, inflation targeting (IT) regimes have been subjected to criticism by a number of scholars and commentators. For instance, Liu (2013) has shown through a general equilibrium model that a contractionary policy employing high interest rates will not succeed in repressing inflation in emerging markets if the inflationary outbreak arises from a supply shock which dominates the demand side effect. In other words, raising the cost of capital in order to deal with inflation arising from higher import prices will only cause firms to mark-up prices further and pass the cost on to final consumers, thereby accelerating the initial inflationary impact. Moreover, Comert and Epstein (2011: 101) have illustrated, based on empirical evidence, that reducing inflation below a 10% threshold does not significantly alter economic growth and unemployment rates; indeed, the authors posit that only when inflation exceeds 20% does it start to have a negative effect on the former variables.

Against this position, however, Aron and Muellbauer (2007: 733) argue that the cost of bank finance for South African firms did not significantly diverge from the cost faced by competitors in the UK, Australia and Chile over the last five years. In fact, they show that real interest rates in South Africa have been below the rates in Chile, Brazil and Australia for every year except 2001. In addition, the authors point to the differentials in, and drivers of, long-term government bond yields, which influence long-term interest rates. The government bond yield differential between South Africa and the countries mentioned above has narrowed significantly.
since the late 1990s, but it is argued that the South African rate did not decline as much as expected by 2005. The authors attribute the narrowing in the differentials to a range of positive factors, such as the government’s abandonment of the forward book and the improvement in economic growth and sound public finances, while attributing the failure of the bond yield to decline further to the risk premium attached to potential currency depreciation, as well as factors not affected by monetary policy, such as the high crime rate and the high costs of hiring workers. Thus, the authors posit that the adopted policy of IT has actually served to reduce risk and promote business investment (Aron and Muellbauer 2007: 735).

Aron and Muellbauer raise a valid point regarding the movement of long-term interest rates in South Africa. The yield on the ten-year government bond has followed a downward trajectory since 1995, the year the capital account was liberalized. However, the authors assume that this trend can be attributed to a positive change in the economic fundamentals, such as inflation repression and exchange rate appreciation, while ignoring the possibility that the decline has been strongly influenced by global structural conditions. Yet the latter point was in fact made in a recent report in *The Economist*, in which it was stated that hedge-fund investors in the United States were pulling their funds out of riskier emerging market debt instruments based on the prospect of tapering by the Federal Reserve and higher domestic interest rates.\(^\text{19}\)

In addition, the coefficient for South Africa’s current account in a time-series regression analysis\(^\text{20}\) shows that a one percentage improvement in the trade balance will generate an estimated 0.66% increase in the bond yield. This latter finding is in stark contrast to the regression results of

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19 *The Economist*, “Emerging Markets: Don’t Panic,” February 1\(^{\text{st}}\)-7\(^{\text{th}}\), 2014, pp.8-9. As the report further stated, “[Emerging Market] countries are not wholly in control of their currencies’ fates, for the flow of capital into and out of emerging markets has far more to do with what happens beyond their borders than with what they do at home.”

20 The results of this regression can be found in the appendix of Chapter 3.
Mosley’s (2003) analysis on the government bond rate in OECD countries, which showed that an improvement in the current account is associated with a one percentage decrease in the yield. However, once it is recognized that South Africa’s current account balance responds to exchange rate depreciation then the above association makes sense as a spurious correlation. More specifically, since currency depreciation triggers import inflation the higher rate on the government bond reflects the risk evaluation of international investors as the value of domestic assets begin to depreciate.

**Capital Account Liberalization**

A third neoliberal measure implemented by the ANC in 1995, which was closely related to both trade liberalization and the IT regime, was the removal of capital and exchange controls for non-residents. This is known as the liberalization of the capital account, and it has exercised an enormous influence on the range of economic policies available to South Africa since the transition. The capital account is one part of a nation’s balance of payments, the other being the current account. The latter is measured as the trade surplus/deficit as well as the income generated from foreign investments minus that which is paid out in the form of dividends and interest. In South Africa, the proponents of financial liberalization have argued that it allows emerging market economies to access funds needed for crucial imports and developmental purposes. This point, along with IT regime, will be further investigated in Chapter 2.

It should be noted that the removal of capital and exchange controls also entails a certain degree of state relinquishment of financial autonomy. Once liberalized, investors and speculators can now move vast sums of money into a country’s bond, stock and real estate markets and then
withdraw their funds in a matter of seconds based on altered risk perceptions. In the absence of controls over capital flows, this outflow of capital can exercise tremendous downward pressure on the currency which can then lead to import inflation and debt default. In South Africa, the currency crisis of 1996 erupted after the Government of National Unity (GNU) removed capital controls for non-residents in 1995. Capital account liberalization has also enabled the conglomerate and mining firms to repatriate their funds out of the country, much of it through illegal transfer pricing and capital flight (Fine 2012), a development which will be further unpacked in Chapter 3.

Fiscal Austerity

Finally, in order to appease financial markets South African policy-makers have chosen to adhere to a counter-cyclical fiscal policy. According to the former Deputy Director-General of economic policy, this policy is motivated by the need for debt sustainability and the fact that growth rates cannot currently support the higher spending levels that have underpinned some of South Africa’s past economic projects.21 The principles of sound finance and fiscal prudence have continued to inform economic policy-making into the present. In October of 2013, Finance Minister Pravin Gordhan announced a spending cap on future government expenditure in order to keep the national debt stock at 39% of GDP. The announcement was made in order to “assuage bond holder’s concerns,” and as a response to the credit downgrade given by rating agencies such as Moody’s and Standard and Poor’s as labor relations deteriorated in the midst of strikes by one hundred thousand mine workers and the killing of thirty-four employees by police at the Marikana platinum mine.22 In general, the ability of South Africa to engage in fiscal expansion would be dependent

21 Personal Interview, Deputy Economic Governor, National Treasury, Pretoria, October 3, 2013.
on either the generation of internal resources, which would permit an expansion of the tax base, or
the ability to borrow on capital markets beyond a certain threshold without provoking capital flight
by bond holders. In subsequent chapters, the dynamic effects of these neoliberal prescriptions on
South Africa’s political economy will be further fleshed out in order to fully examine how they
have structured the long-term interests of specific political and economic actors who have thus
benefitted from the persistence of a certain form of market orthodoxy.

Chapter Breakdown

Chapter 2 examines South Africa’s integration into global capital markets in the post-apartheid
period as well as the politics of capital account liberalization. It will be argued that the removal of
capital controls on non-residents in 1995, and the subsequent influx of short-term portfolio capital
into the country, has created an environment in which foreign bond holders have been able to
establish and maintain a veto over fiscal and economic policy-making as a result of their ability to
move funds to other locations in a very short amount of time (a development which is bound up
with the general shift away from industrial to circulatory capitalism since the early 1970s). This
chapter advances the central argument of the dissertation, namely, that the South African
government’s ongoing commitment to redistributive measures, expressed through the
subsidization of the social wage, is responsible for the reproduction of specific aspects of market

http://www.reuters.com/article/2012/10/25/safrica-budget-idUSL5E8LPG0M20121025
orthodoxy throughout the post-apartheid period since such redistribution depends on the ability of the ANC to maintain access to the financial markets on favorable terms.

Chapter 3 examines the role that the business community has played in influencing the adoption and persistence of market orthodoxy and preventing the emergence of a developmental state. This section, along with Chapter 2, is a crucial component of the overall argument and provides a synthesis of the interests of transnational and domestic capital in the context of South Africa’s domestic economic structure. Specifically, it will focus on the post-apartheid accumulation strategies of the transnational corporations, in the context of globalization and financialization, and how such interests have been articulated through several business associations in South Africa, such as the Chamber of Mines, the South African Chamber of Commerce and Industry (SACCI), and the South Africa Foundation (SAF).

Chapter 4 provides an analysis of the influence of the IFIs, namely the World Bank and the International Monetary Fund, in South Africa’s post-apartheid policy-making process. It argues that while the multilateral organizations may at times potentially bolster certain policies through ongoing dialogue, neither the Fund nor the Bank were instrumental in facilitating South Africa’s neoliberal shift during the democratic transition. The inability of the IFIs to exert sufficient influence over policymaking during this period could be attributed, I argue, to the country’s low external debt and the legacy of the liberation movement, which fostered strong opposition to exogenous political pressure groups.

Chapter Five will examine the challenges the ANC has recently faced from organized labor and opposition groups and political parties. This final chapter evaluates the potential for the growing populist and opposition movements to challenge the current neoliberal growth path. It will be argued that while the electoral gains made by an opposition party such as the Economic
Freedom Fighters (EFF), an offshoot of the ANC Youth League, as well as the breakaway of several unions from COSATU, show some promise in terms of the future direction of popular protest against market orthodoxy, thus far this momentum has not significantly affected the strength of the tripartite alliance between labor, the SACP, and the ANC.

**Methodology**

I will attempt to substantiate the arguments presented in this study by relying on a variety of primary and secondary sources. There is a great deal of scholarly literature available on South Africa’s adoption of market orthodoxy which I will draw upon, as well as the scholarship on the political economy of global finance and state capacity. In addition, Chapters 2, 4 and 5 will utilize empirical data from the South African Reserve Bank, the Ministry of Finance, the World Bank and several other sources in order to document the trajectory and influence of various financial and structural factors on domestic economic policy-making.

Moreover, I conducted 33 formal interviews over two rounds of fieldwork in South Africa, with current and previous mid-level and senior officials in the Ministry of Finance, the Department of Trade and Industry (DTI), the SARB, and the Economic Development Department (EDD), as well as with officials from the IMF, the trade unions, business associations, opposition parties, and the South African Communist Party (SACP) in order to map out the dynamics of macroeconomic policymaking throughout the post-apartheid period. As noted, in cases where the officials were not comfortable disclosing their identities, I have granted the interview subjects anonymity to ensure that the information received is as reliable as possible. The vast majority of interview subjects occupied senior and mid-level positions in the National Treasury and the SARB, and a smaller
number held former positions at the DTI. For the purpose of this dissertation, interviews with bureaucrats in the two former policymaking centers were sufficient to flesh out the incentive structure which, I argue, is largely responsible for the persistence and reproduction of a cluster of neoliberal policies in South Africa. This is because the Department of Trade and Industry and the Ministry of Finance have different interlocking business interests, with the former interested in stimulating strategic industrial sectors and exports while the latter is primarily focused on placating investors and facilitating “business confidence.” Moreover, since the Reserve Bank primarily has a mandate to maintain inflation targets, policymakers within this department also have an interest in promoting conservative measures designed to curb spending by suppressing demand.

In addition to the data drawn from personal interviews, I also rely on the South African and international business press to corroborate some of the claims I make, as well as on information found in official government documents, the publications of the labor unions and business associations, and World Bank and IMF reports as they pertain to South Africa. When possible, I have made an effort to employ the method of triangulation to support the arguments presented in this study, which entails verifying evidence gathered from one source, such as interviews, with data from primary news documents as well official government and IFI reports, and by drawing reasonable causal inferences from statistics.

It is thus fair to state that this dissertation employs a mixed methods approach which combines a quantitative and qualitative framework to provide a more robust overall analysis. In certain instances, when triangulation was not possible because of a lack of interview data, I draw inferences from the statistical evidence, business press reports and government documents. Finally, it should be pointed out that for clarity this thesis cites the secondary literature throughout
in text while primary sources, including interviews, press reports, and government and non-governmental documents are referenced in the form of footnotes.
Chapter 2
South Africa’s Integration into Global Capital Markets: The State and International Finance

A growing body of critical scholarship has emerged in the last several decades on the policy constraints placed on emerging market economies by the global integration of capital markets and the increasingly transnational nature of production. This literature, which takes as its starting point the globalization of financial transactions, argues that the need for capital inflows by developing countries renders their policy-makers susceptible to the preferences and asset allocation decisions of international investors. Thomas Koellble succinctly summarizes this position as applied to South Africa’s economic transition: “To put the story bluntly, the Keynesian-inspired RDP sponsored by President Nelson Mandela when he came to power in 1994 ended with the crash of the rand in 1996” (2004: 70). Moreover, scholars who argue within this explanatory model (see Wade 1998; Dodd 2000) are able to point to a number of recent economic crises in Latin America, East Asia and Eastern Europe to substantiate the thesis that portfolio capital and speculative finance, by virtue of their volatility and impact on currency values and equity prices, are able to significantly curtail the macro-economic management tools available to domestic policy-makers in emerging market economies.

This chapter advances the primary argument of this dissertation: South Africa’s integration into global capital markets has generated both a set of economic constraints and incentives that have militated against the regulation of the capital account and have contributed to the persistence of specific aspects of neoliberal orthodoxy in the post-apartheid period. It will be posited that South Africa has grown increasingly dependent on foreign portfolio capital inflows for two reasons: First, in the context of an inadequate domestic savings rate the adoption of trade liberalization in 1996...
rendered the country heavily reliant on short-term global capital inflows to fund imports and hence economic growth and expansion. As a result, authorities within the Treasury and officials within the Reserve Bank are reluctant to adopt policies that deviate from orthodoxy since such programs could raise the risk profile attached to the country and repel international investors, which could then jeopardize economic activity.

Secondly, global portfolio inflows have served to lower the yield on the South African ten-year government bond, thereby freeing up state resources and depressing long-term interest rates. The downward trend of the long-term bond yield benefits ANC political elites, especially in the context of fiscal discipline and debt servicing, since it allows state officials to borrow on international capital markets at lower rates in order to finance social programs and service the debt. This dependence on the financial markets to fund redistributive grants is a key driver of the reproduction of specific aspects of market orthodoxy; after all, since such programs are largely responsible for the ANC’s longstanding hegemony, especially in rural areas and the townships, it is crucial that fiscal and monetary policies placate international investors.

Although the ruling political party determines the broad parameters of economic policymaking, it is the state bureaucrats who generally give concrete form to specific industrial and regulatory proposals, and, as will be documented below, differences between technocrats in the various ministries can have a significant impact on which policies are adopted. It will be shown, through interviews with officials in the relevant government departments, that market discipline has largely been driven by the proponents of neoliberal orthodoxy within the National Treasury and the Reserve Bank, at times over the objections of policymakers in other government departments, such as the Department of Trade and Industry (DTI) and the Economic Development Department (EDD) who have favored specific regulatory measures. Technocrats in government
departments occupy a privileged position in the sphere of economic policymaking in South Africa because the country lacks a Central Planning Ministry that could have potentially been tasked with formulating policy in a political fashion, as opposed to leaving the fleshing out of abstract proposals to the discretion of specialists.23 In this context, the focus on the international financial markets as a crucial source of capital for both the government’s limited redistributive programs, a legacy of the RDP, and economic activity in general, highlights the degree to which global investors and credit rating agencies have been able to shape economic policymaking throughout the post-apartheid period by appealing to the sensibilities and worldview of technocrats in specific ministries such as the National Treasury and Reserve Bank.

The analysis presented in this chapter dovetails with the theoretical framework of the state presented in the introductory chapter. Two central points made by the ‘political survival’ model of the state are the notion of incentives as well as economic rents in generating either development or underdevelopment and the crystallization of coalitions between state and societal actors to produce a given political settlement. The conceptual framework outlined in the introduction will thus be employed to show that capital account liberalization in 1995 generated a series of economic and political incentives, by lowering borrowing costs for the state, as well as constraints, by providing global investors with a potential veto over heterodox policy. As will be discussed below, this dynamic has generated the type of intra-departmental conflict alluded to above over specific policies. This chapter will thus illustrate that liberalization was, and to a certain extent continues to be, underwritten by an economic coalition between mobile investors and the National Treasury.

23 See, for example, ‘Theory of the Transition,’ COSATU Paper for the ANC Bilateral, February, 2002, p.9. The paper argues that one reason why the RDP was largely dismantled because there was no vehicle, such as a Central Planning Ministry, to integrate the program into all the government departments. As a result, the RDP Ministry came under attack by other bureaucratic centers, mainly the Finance Ministry, until it was completely dismantled in 1996.
This economic pact, by placating global investors and providing the state with access to capital, has helped reproduce the political settlement and ruling democratic alliance between organized labor and the ANC, specifically by enabling the latter to buttress its support through the distribution of social grants to the unemployed and impoverished segments of the population.

The argument presented in this chapter thus synthesizes the Marxian model with the political survival approach through an examination of how specific global processes interact with domestic politics in a fashion that shapes a particular policy regime. The influx of foreign portfolio capital, which followed the lifting of capital controls on non-residents after the transition, has generated a form of financial fragility and economic instability through rapid fluctuations in the value of the currency. Yet, as noted above, the domestic economy has, since 1996, become highly dependent on such inflows to fund the current account. Thus, in the context of economic liberalization, the preferences and actions of international investors and credit agencies have constrained the policy options available to the ANC and state bureaucrats, and such interests have served to forge a specific type of political settlement between government departments such as the Treasury and Reserve Bank and mobile investors.

The chapter will be organized as follows: Section one will briefly examine the international financial terrain during the post-war Bretton Woods period, as well as the role capital controls played in regulating and stabilizing the global economic environment throughout this era of Keynesian regulation of finance capital. It will then analyze how financial mechanisms, in the context of deregulation, have played an increasingly important role in generating financial fragility and economic crises in developed and emerging market economies. This will provide an appropriate framework within which to examine not only how capital controls can facilitate development and mitigate crises in developing countries, but also the manner in which dependence
on international portfolio capital and global asset investors can constrain the policy autonomy of the domestic authorities in emerging market economies. This section will also briefly review the evolution of monetary and economic policy in South Africa, as well as the currency crises that have afflicted the country in the post-apartheid period and have served to reinforce market orthodoxy.

The final two sections will document the constraints and incentives responsible for the reproduction of capital account liberalization throughout several ANC administrations, despite the mounting evidence that financial deregulation serves as an impediment to development strategies. This portion of the chapter will focus on the implications of South Africa’s integration into the global financial markets since 1995 for the country’s trade and fiscal policies, as well as on the intradepartmental conflict over the appropriate industrial trajectory during the post-apartheid period and the significance of South Africa’s inflation targeting (IT) regime. While conducting this examination, I will utilize specific concepts of political economy recently put forward by two authors: Thomas Pepinsky’s (2009) theoretical framework which fleshes out the implications of a ‘coalitional alliance’ between owners of mobile capital assets (or portfolio capital) and state elites, and Wolfgang Streeck’s (2014) theorization of the ‘debt state.’ Both concepts will be unpacked and applied to the post-apartheid South African case study as the chapter progresses.

A brief history of capital controls: from Bretton Woods to market orthodoxy

A central component of the post-war Bretton Woods economic system was the international regulation of capital flows. In fact, in the immediate aftermath of the war it was considered axiomatic by certain mainstream economists and policymakers that unimpeded capital movements across national borders was destabilizing for both receiving and originating countries. For
example, in 1946 Arthur Bloomfield of the Federal Reserve Bank of New York, wrote for the American Economic Association that it was a “highly respectable doctrine” that a “substantial measure of direct control over private capital movements, especially of the so-called ‘hot money’ varieties, will be desirable for most countries not only in the years immediately ahead but also in the long run as well” (Bloomfield 1946: 687). Bloomfield further noted that short-term capital flows during the inter-war period were “disequilibrating in character,” which generated instability and “damage to capital-losing and capital-receiving countries alike,” specifically through a decrease in gold reserves and the accumulation of short-term debt (Bloomfield 1946: 689). The restriction of erratic financial flows was therefore viewed as a necessary institutional mechanism for the functioning of an efficient international monetary system supporting global trade.

The termination of Bretton Woods and the post-war policy of fixed exchange rates permitted states to avoid trade wars by shifting the focus onto the monetary arena. Under Bretton Woods, strict regulation of the capital markets prevented financing of even small deficits through portfolio capital, which therefore immediately required austerity and deflation as a corrective mechanism. The end of the pegged-exchange rate system allowed for the emergence of currency devaluation as one method of facilitating current account adjustments, as monetary policy could now be employed to repel or attract capital flows and hence bolster export competiveness. In this sense, capital account liberalization can be understood, at least partially, as an institutional policy innovation to avoid direct trade conflict through punitive tariffs by instead deregulating the international financial system and elevating monetary policy as an interventionist strategy (James 2012: 427). However, the removal of capital controls also rendered less developed economies much more susceptible to the outbreak of deflationary crises.
The regulation of financial markets from the beginning of the post-war period to 1971 militated against volatile capital movements and thereby prevented the type of economic destabilization that Keynes attributed to the financial layer of capitalists. Since the 1970s, however, financial crises have become increasingly common. Sara Hsu (2012) has shown that the virulence of such crises post-Bretton Woods, measured by economic and social devastation, has increased since the 1980s and spread to a number of different geographic regions. Neither developed nor emerging market economies are immune to what Hsu terms “man-made crises,” although in the former countries the accumulation of debts is an endogenous process, as discussed below.

The prevalence of financial crises since Bretton Woods is related to the speed with which global investors and currency speculators can respond to the deterioration of economic fundamentals, in specific national settings, as a result of the rapid growth in derivative products and the integration of capital markets. Thus, whereas the value of a nation’s currency was once effectively managed through a multilateral process under Bretton Woods, the liberalization of capital accounts and the shift from productive to financial activities by the corporate sector in the developed world has largely deprived governments of this ability. In this new environment, currency values can depreciate suddenly even when the economic fundamentals are strong or have exhibited little change.24

More importantly, in the context of financial liberalization international bond markets are able to constrain government policies regardless of the type of exchange rate regime. One of the most comprehensive examinations of the impact of capital market integration on state autonomy and policy formulation is Layna Mosley’s study, *Global Capital and National Governments.*

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24 As will be discussed later in the chapter, a rapid depreciation of the South African rand occurred in 2001 despite the fact that the macro-economic variables had not significantly deteriorated.
Mosley (2003) provides an answer to the question of how much influence international bond investors wield over government policy by combining statistical and qualitative analysis. In her interviews with institutional investors and asset managers in London and New York, Mosley asked what criteria international bond traders and investors evaluate when deciding which currencies and national assets to select for their portfolio. She found that in the case of developed OECD nations investors examine a small number of macro-variables, such as the current account and rate of inflation, while for emerging market economies micro-variables, such as the distribution of state spending, as well as broader political issues, were also highly relevant in investment allocation decisions.

Mosley tested her hypothesis through a multiple regression analysis in order to measure the importance of each individual macro-economic variable as a determination of the yield on ten-year government securities, which is what influences long-term interest rates. The regression showed that in the case of developed nations bond investors are most concerned with the rate of inflation, although it was also shown that a one percentage increase in the US long-term interest rate would lead to a 0.40% increase in national long-term rates (2003: 83). However, in the case of emerging market economies, the market actors interviewed by Mosley emphasized the importance of politics in influencing investment decisions (Mosley 2003: 129). The implication, according to Mosley, is that international bond traders and investors are able to constrain government policies in emerging markets by virtue of their practice of evaluating politics as one of the main criteria guiding their investment decisions.

The emphasis placed on micro-policies and political matters by bond investors when examining the business climate in emerging markets stems from their overall understanding of the credit-worthiness of specific governments. As Mosley’s analysis shows, the government budget
deficit in developed democracies is not a significant factor in terms of influencing the long-term yield on government securities. States which possess a high degree of financial credibility in international bond markets are able to navigate certain neoliberal constraints and engage in deficit spending at levels that often surpasses 70% of their GDP. This is illustrated in Figure 2 below.

The average central government debt level for the combined OECD countries has followed an upward trajectory since the 2008 global recession, while government debt for emerging market economies trended downward from 2002-2008, with only a slight increase in the aftermath of the global credit crunch. Since 2010 government debt for emerging market economies has again begun to trend downwards. Financial credibility permits many developed democracies to borrow on the international capital markets even in the context of a significant deterioration in macro-economic indicators, such as the budget deficit and the current account.

In the case of emerging market economies, however, a substantial increase in the government budget deficit would cause international bond holders to either demand a higher yield on long-term government securities or would trigger a sell-off of bonds on the open market, which would not only raise interest rates, but almost certainly lead to currency depreciation through capital flight.
In her study on financial markets in developed democracies, Mosley (2003) employed macro-indicators as regressors in order to assess the importance placed by bond investors on the broad economic variables that affect investment decisions. Theoretically, deterioration in one of the fundamental macro-economic variables should lead to a higher long-term interest rate because the risk associated with the instrument has now increased which, all else being equal, will motivate investors to demand a higher yield on the security.

In order to protect themselves against the type of political instability generated by currency crises and capital flight, emerging market economies began accumulating international reserves in the 1980s. The problem, however, is that reserve accumulation entails a significant opportunity cost, as it diverts resources away from development programs and necessitates a reduction of capital spending in other vital areas (Rajan and Bird 2003: 887; Rodrik 2006: 261; Cruz and Walters 2008: 671). Capital controls, which began to receive renewed attention in the developing world in the aftermath of the East Asian crisis, could solve the problem of financial
crises that are triggered by sudden capital reversals and ‘hot money’ inflows while also avoiding the large opportunity costs associated with reserve accumulation (see Grabel 2015: 10; Ashman et. al 2013: 21; Kamer 2004; Grabel 2003: 323; Edwards 1999: 73; Bachetta et al 2013; Klein 2012; Pepinsky 2008).

As a middle income and developing country, South Africa has a long history of experimenting with various forms of financial regulations in response to global conditions and impediments. According to Aron and Muellbauer (2007), the country’s monetary policy can be divided into three broad regimes since the 1960s, classified according to central bank governors and the political party in power. Governor de Kock presided over the first phase under the National Party until 1962, and was replaced by Stals who served as governor under both the National Party and the ANC, who was then replaced by Mboweni under the latter party. The first regime functioned according to a system of administrative capital controls which restricted interest rates and credit, and was based on liquid asset to credit ratio for commercial banks; this was replaced in the 1980s with a cash reserves ratio system which operated, in conjunction with capital controls, until 1995 when capital controls on non-residents were lifted in the context of growing financial liberalization; in 2000, Mboweni established the inflation targeting (IT) regime which has been in operation since (Aron and Muellbauer 2007: 708-9).

From 1946-60, South Africa experienced the post-war problems of high inflation and large budget deficits. The Governor of the Reserve Bank, M.H. de Kock, was an advocate of monetarism and staunchly believed in employing open market operations which targeted the money supply and interest rates as a means of repressing inflation. However, at this point the

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25 In terms of factual details, the next two paragraphs draw heavily on D.G. Franzsen’s (1983) survey of the evolution of South Africa’s monetary policy since the Great Depression, published in the *South African Journal of Economics*. The interpretation of events, specifically after 1995, is my own.
central bank chose to follow a policy of voluntary credit restriction, whereby commercial banks were asked, as an official matter of public policy, to desist from granting credit for the importation of consumer goods. Given that this voluntary program did not work, the monetary authorities were then faced with the choice of either restricting credit growth through austerity or imposing import controls. In light of the 1948 balance of payments crisis, caused by declining terms of trade due to the fall in the price of gold, the decision was made to impose import restrictions on a number of non-essential consumer commodities, a list which was gradually extended. In the aftermath of this decision, the Ministry of Finance also imposed certain restrictions on the capital account in order to stem the tide of hot money and prevent capital from entering the country in excess of investment opportunities.

South Africa was confronted with another balance of payments crisis beginning in the late 1950s. Triggered by the general political unrest in the country, capital flight accelerated after the 1961 Sharpeville massacre. Initially, monetary authorities responded by increasing the Bank rate, but this failed to stem the outflow of reserves. The IMF sent a mission to meet with the monetary authorities in 1961, and Fund officials stated that in order to continue receiving aid steps would have to be taken to prevent the outflow of capital, and further conveyed that controls on residents and non-residents would be viewed as an acceptable measure (Franzsen 1983: 110). A comprehensive set of controls was enacted in 1961 that essentially blocked the sale proceeds of all foreign investments in domestic companies. Under this new monetary regime, known as the ‘blocked rand system,’ sales on the Johannesburg stock exchange by non-residents had to be deposited in a commercial bank under the non-resident’s name and could not be repatriated abroad, thereby insulating the rand from selling pressure on the foreign exchange market (Schaling 2009: 507).
The blocked rand system survived throughout the entire rule of the National Party, including the period of the mid-1980s when the government accelerated its experimentation with financial liberalization. During this period, lending to South Africa took the form of private loans secured through the interbank markets. In 1995, after the democratic transition and the ANC’s ascent to power, the new government of national unity (GNU) dismantled the capital controls on non-residents. The liberalization of the capital account was justified on the grounds that the disintegration of apartheid and the lifting of international sanctions would facilitate inflows of capital for productive investment.26

In 1996, less than one year after the dismantling of capital controls, the currency faced a speculative attack and rapidly depreciated. This turmoil on the currency markets is credited by some commentators as the decisive event which facilitated the shift to market orthodoxy, as it was triggered by lingering private investor fears of Keynesian inspired redistribution and nationalization (see Koelble 2004; Koelble and LiPuma 2009). There is, in fact, convincing evidence which supports the notion that portfolio investors and asset managers can impose significant constraints on the direction of macro-economic policymaking. As Alec Erwin, the former Minister of the Department of Trade and Industry put it, “We realized the strength of the international capital markets, and that facilitated the shift to a macro-stabilization program.”27 As will be documented below, turmoil on the currency markets has become a common method of signalling dissatisfaction with the government’s fiscal approach.

In 2001, the rand suffered another severe and rapid depreciation against the dollar and the euro, as shown in Figure 3. The fact that the rand lost such significant value against other major currencies even as commodity prices were stable and the economic fundamentals remained strong

27 Personal Interview, Alec Erwin, Former Minister of the DTI and Public Enterprises, January 9th, Cape Town.
led to a commission of inquiry into the source of the depreciation. Aron and Muellbauer (2007: 728) argue, in line with the findings of the 2002 Myburgh Commission, that the announcement by the ANC that they were abandoning the forward book\textsuperscript{28} signalled to speculators that the government would no longer intervene on the foreign exchange market and this news, in conjunction with new regulations on the FX, compelled investors and speculators to bet against the currency.

![South Africa/US Exchange Rate](image)

**Figure 3: South African/US Exchange Rate, 1980-2017**

Source: US Federal Reserve Bank of St. Louis

Certain authors have convincingly argued that the dominance of foreign portfolio capital over the Johannesburg stock exchange and the currency markets has placed structural constraints...

\textsuperscript{28} The “Forward Book” in South Africa was essentially a hedge or insurance policy administered by the Reserve Bank for South African residents with foreign exchange exposure. In the event of currency fluctuations, the Bank would cover the exchange rate risk over a 12-month period for these residents. See Chris Stals, ‘The South African Economy in a World of Volatile Financial Markets’ (BIS Review, 1999).
on South African authorities by forcing them to adhere to market orthodoxy, in order to safeguard macroeconomic stability and investor confidence, or else risk massive capital flight and currency depreciation (Koelble and LiPuma 2009; 2006a; 2006b; Gidlow 2010: 79). This type of economic vulnerability is also highlighted by specific financial macro indicators. Figure 4 depicts South Africa’s total external debt to GDP and external debt to export earnings ratios. Both ratios have followed an upward trend since 2004, which point to the country’s economic vulnerability to currency depreciations. This is especially true considering that international bond investors often demand that the debt they fund be denominated in foreign dollars as a way of mitigating currency risk. This trend is depicted in Figure 5.

The maturity date for the foreign currency bonds ranges from 2016-2040. The Ministry of Finance has labeled the danger zone for foreign currency denominated financial instruments as 25% of total bonds, which South Africa has not approached; however, since such instruments essentially transfer the foreign exchange risk from the creditor to the debtor, increased export earnings from depreciation would have to be used to service the external debt, which again illustrates the potential debilitating effect of international finance on economic growth. Considering this new economic reality and the prevalence of currency crises since the democratic transition in 1994, the next sections will examine in detail why the relevant authorities in South Africa have thus far refrained from deviating from an open capital account or the IT regime.

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29 For example, Gidlow (2010: 79) notes that by 2007 50-60% of the daily turnover on the Johannesburg Stock Exchange (JSE) could be accounted for by the transactions of foreign investors.
Figure 4: South Africa’s External Debt
Source: South African Reserve Bank

Figure 5: South African Government Bonds Denominated in Foreign Currencies
The politics of capital controls in post-apartheid South Africa

In his study of capital controls and authoritarian breakdown, Thomas Pepinsky (2009) argued that governments may choose to maintain an open capital account if officials have cemented alliances with investors with mobile and liquid assets. Pepinsky’s argument is premised on the notion that coalitional alliances between the relevant state officials and private economic actors offer a superior framework for understanding why national regimes might implement different economic policies in response to the same type of events, and why such policies might shift over time. “Coalitions,” the author writes, “are the political link that mediates how economic interests translate into adjustment policies” (2009: 7). Pepinsky posits (2009: 14-15) that if regimes depend on economic and political support from coalitional alliances composed of labour and fixed capital then state officials will be more likely to adopt heterodox economic programs, such as capital account restrictions and an expansionary monetary policy, whereas state dependence on an alliance made up largely of mobile capital will translate into orthodox economic policies such as an open capital account and a restrictive monetary regime. The author buttresses his argument through a comparative analysis of the divergent economic policies adopted by the Malaysian and Indonesian regimes during the 1998 East Asian financial crisis. The former regime rejected IMF advice and adopted a pegged exchange rate and capital controls, while the latter maintained an open capital account and vacillated between tight and loose monetary policies. The outcome was regime survival in Malaysia and democratic transition in Indonesia. This variation in policy outcomes in the context of economic crises is accounted for by the difference in the economic actors supporting the regimes in the two countries.

A crucial component of Pepinsky’s argument, therefore, is that that the economic conditions prevailing during the period of regime formation shape the coalitional alliance that
emerges to underwrite the regime’s foundational support, and that the economic adjustment policies implemented by policymakers, especially during periods of financial crisis, are determined by the preferences arising from the specific actors making up such coalitions. Thus, the author posits (2009: 26-7) that when mobile capital owners, both domestic and foreign, dominate the alliance, then “orthodox” economic solutions to crises will be pursued, the latter involving austerity, an open capital account, and a restrictive monetary policy, such as inflation targeting (IT). This preference stems from the fact that owners of mobile capital are outward oriented and generally seek to divest their holdings and migrate to a different location in response to a crisis or better profit opportunities. In contrast, owners of fixed capital, and labor organizations, prefer expansionary fiscal and loose monetary policies, which require capital account restrictions in order to prevent capital flight and cost-push inflation (2009: 29).

Although Pepinsky’s analyses (2009; 2008) focus primarily on authoritarian regimes, his method and theoretical framework can be applied to the period after a democratic transition has taken place as well. It is thus argued, and illustrated below, that when a transition to a democratic government occurs in a context in which economic (especially trade) activity and fiscal policy become tied to the global financial markets, then the owners of mobile assets will emerge as the primary economic constituents, and thus policies emanating from the Treasury will reflect this fact. This point can be borne out by examining the stance taken by the relevant South African

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30 It should be noted that Pepinsky (2009: 25) draws an important distinction between “mobile” and “liquid” capital. Whereas all capital is potentially liquid, not all capital is mobile. The distinction is to be found in the end goal or overarching purpose of the different economic activities, which is not necessarily determined by sector or industry classification. For example, while property developers would be classified as fixed capital owners, property speculators would be categorized as mobile capital. Moreover, while owners of fixed capital assets, such as plant and machinery, are potentially liquid if their ownership takes the form of control in the majority shares of a publicly traded company, their preferences for long-term growth and profitability distinguish them from short-term portfolio capital owners and speculators.
bureaucrats on issues related to the balance of payments account, the fiscal deficit and monetary policy.

As noted in Chapter 1, policies implemented in the aftermath of the democratic transition altered the accumulation structure and economic landscape. It was pointed out above that nearly 60% of the activity on the Johannesburg Stock Exchange (JSE) is dominated by foreign portfolio investors. Investment in fixed capital formation as a ratio of GDP has exhibited a downward trend since the 1980s. Moreover, many of the South African firms that have significant investments in fixed capital assets are located within the mining sector and belong to the Chamber of Mines. Such firms generally do not have an interest in lobbying for expansive monetary or fiscal policies because their profits are dependent on world market conditions and commodity booms. This point will be discussed in greater detail in Chapter 3.

Additionally, the response of the South African Reserve Bank authorities to the currency crises described above was quite orthodox and compatible with interests of mobile asset owners, as it involved a restrictive monetary policy to attract inward flows of capital. In other words, the liberalization of trade and the capital account prior to the implementation of a selective and strategic industrialization program rendered the South African economy dependent on portfolio capital to fund the current account, linking economic growth to the availability of global liquidity and persistent financial inflows. In this context, Pepinsky’s framework linking the state’s economic policy decisions to a given alliance composed of various economic and political actors representing specific class interests—such as transnational portfolio capital, industrial fixed capital owners, labor, etc—is well suited for unpacking the incentives and constraints facing South African policymakers. Thus, the persistence of capital account openness must be understood both

in terms of the structural impediments created by liberalization in 1995 and the specific preferences of an investor class with largely mobile assets, as well as the political incentives produced by this coalitional alliance.\textsuperscript{32}

Indeed, the importance of foreign portfolio capital as a crucial source of funding for the current account, especially since the transition to democracy, and the necessity of placating international portfolio investors as a result, was repeatedly asserted by policymakers in the Reserve Bank and the Treasury in interviews. As a Deputy Economist at the Reserve Bank put it, “South Africa attracts a lot of portfolio capital now. Read our balance of payments situation. A large part is being funded by foreign investors, which has been our saving grace.”\textsuperscript{33} A senior official at the Treasury further stated, in reference to the rationale behind the government’s policy of reserve accumulation, that such a program was necessary because the Reserve Bank must “have some ability to manage the volatility of portfolio inflows, and to have some ability to provide foreign exchange for imports should such inflows suddenly stop.”\textsuperscript{34} This point was also made by a senior policymaker at the Reserve Bank, who stated that reserve accumulation was adopted by South Africa after the East Asian crisis because the “lesson taught to countries like South Africa was that you do not want to be in a position where your national balance sheet is weak and you have these big contingent liabilities reflected in the current account deficit and foreign capital funding that, if it dries up, could result in a recession.”\textsuperscript{35} He further stressed the point that South Africa “has now

\textsuperscript{32} It must be emphasized that in this context the term ‘coalitional alliance’ refers specifically to the dominance exercised by particular economic actors over the South African political economy, and not the ‘tripartite alliance,’ composed of the ANC, COSATU and the SACP. The latter will be discussed in greater detail in Chapter 5.

\textsuperscript{33} Personal Interview, Deputy Economist, Pretoria, October 3, 2013.

\textsuperscript{34} Personal Interview, Senior Treasury Official, Pretoria, October 3, 2013.

\textsuperscript{35} Personal Interview, Head of Policy and Development, Reserve Bank, Pretoria, October 3, 2013.
entered a world in which global capital is really a big deal, we want it because it helps finance our growth, and we want to protect ourselves from the risk that those capital flows might pull out.”

Senior officials at the Reserve Bank and Treasury further stated that the primary motivation behind the initial shift in market orthodoxy was to create an environment conducive for international investment to take place in the new liberalized economy, so as to avoid any future dependence on the IFIs. As this senior official at the Treasury stated, “When you run out of cash, you have to ask yourself if you want to knock on the doors of the IMF or do you want to fix the books yourself? And we chose to do it ourselves.” Moreover, in response to a question regarding the removal of capital controls on non-residents in 1996, this same official stated: “Liberalizing the account allowed us to have access to capital we previously didn’t have in the country, and if you look at our current account you will see that it has done a lot of good for us; it has allowed our companies to expand and grow in areas they would not have been able to expand into otherwise.”

This rationale, the necessity of access to international portfolio capital to fund trade, was reiterated by the senior policymaker at the Reserve Bank, who stated that under apartheid the absence of inflows required persistent trade surpluses, which in turn necessitated controls on outflows to stem capital flight. The advent of trade liberalization and the influx of portfolio inflows now necessitate a different policy with respect to capital controls.

The dependence on portfolio capital to fund the current account and the state budget has placed certain constraints on the South African government and restricted the policy space available. International investors are reluctant to continuously turn-over emerging market debt in the absence of certain measures that safeguard the value of the currency and minimize exchange

36 Ibid.
38 Ibid.
rate risk. As a result, the Treasury announced an expenditure cap in 2013 in order to reassure asset managers that the government was committed to fiscal discipline.39 In 2015, the new finance minister, Pravin Gordhan, announced that the “expenditure ceiling is sacrosanct,” a statement that served to enhance the value of the rand a few days after investors had started unloading bonds in response to the initial appointment of David van Rooyen to the ministry, a policymaker who was not well known in business circles.40

Again, the significance and importance of maintaining the perception of macro-stability was highlighted on numerous occasions by Treasury and Bank officials during interviews. The senior official in the Reserve Bank, for example, linked the policies of reserve accumulation, the floating exchange rate, and South Africa’s post-apartheid fiscal policy to the necessity of mitigating the risks of “international finance capital.”41 This is consistent with the trend illustrated in Figure 2, that developed and developing countries’ debt levels follow an opposite trajectory during economic crises, and is also consistent with the analysis conducted by Mosley, as discussed earlier. The absence of capital controls on inflows throughout the post-apartheid period can be better understood when situated in the context of intrastate departmental conflict and the recent tension between the office of the Presidency and the Treasury.

Table 4 below documents the four government departments and lists their respective mandates. The Department of Trade and Industry (DTI) and the Economic Development Department (EDD) are charged with formulating long-term growth strategies which compel their officials to focus on policies that could potentially raise the country’s level of industrial self-sufficiency. The Treasury and Reserve Bank are generally more conservative on issues relating to

39 Personal Interview, former Senior Treasury Official, October 3, 2013.
41 Personal Interview, Senior Reserve Bank Official, October 3, 2013.
economic development and state intervention, preferring to rely on the market. The mandates of these various government ministries illustrate precisely why this is the case. The Treasury, as well as the Reserve Bank, must craft policies which take into account the short-term interests of global investors and domestic economic actors/constituents in order to ensure that financial markets remain highly liquid to finance budget deficits and the current account. Furthermore, it is mainly officials from the Treasury and the Reserve Bank who meet with Fund officials during Article IV consultations.

<table>
<thead>
<tr>
<th>Department</th>
<th>Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>Managing National Finances; Coordinates Macro-Economic policy; Promotes the Fiscal Policy Framework; Maintains Intergovernmental Financial Relations</td>
</tr>
<tr>
<td>Department of Trade And Industry (DTI)</td>
<td>Promote Structural Transformation and and Industrial Development; Implements Trade and Export Policy</td>
</tr>
<tr>
<td>Economic Development Department (EDD)</td>
<td>Formed in 2009; Coordinates Development of the Country’s New Growth Path; Evaluates the Work of Key State Entities involved in Economic Development Policy; Tasked with Strengthening Government Capacity</td>
</tr>
<tr>
<td>South African Reserve Bank (SARB)</td>
<td>Maintain the integrity of the National Currency; Control Inflation Through Monetary Policy</td>
</tr>
</tbody>
</table>

Table 4: Mandate of Key South African Government Departments
In 2013 a conference on financialization was organized by the Economic Development Department (EDD) with presentations from senior policymakers in the National Treasury, the Department of Trade and Industry (DTI), and from state officials in other emerging market economies that had experimented with capital controls. Presenters from the National Treasury were generally very supportive of financial integration, and financialization more broadly, while officials from the DTI were far more pessimistic and advocated for some form of controls. For example, Kuben Naidoo from the Treasury argued that growth in South Africa would have proceeded at a far slower pace had it not been for liberalized capital flows, and that government management should focus on the “consequences” of financial liberalization as opposed to regulating the process itself.42

In contrast, policymakers from the DTI and the EDD drew attention to the negative consequences of increased financial integration, and offered recommendations for some form of government regulation. For instance, Dr. Neva Makgetla of the EDD gave a presentation on the concept of financialization and linked it to increasing financial flows and the general shift to shareholder values and a turn to financial instruments and activities as the dominant channel for profit making activities. Makgetla also pointed out that in the last decade the financial sector in South Africa had only increased its employment by 1% per annum, which is a much slower rate than the rest of the private economy. The presentation by Makgetla ended with a call for financial regulation in the form of capital controls which could potentially direct investment into productive sectors and prevent asset bubbles from forming. This position was supported by Stephen Hanival, Chief Economist for the DTI, who argued that South Africa has generally not felt the benefits of

financial globalization, and that portfolio inflows are for the most part destabilizing, rendering the performance of manufacturing exports quite unpredictable because of the possibility of sudden surges and reversals.\textsuperscript{43}

In my interviews with domestic state authorities, I attempted to flesh out this intrastate conflict in order to determine why capital controls had not been adopted as a development strategy over reserve accumulation. The consensus that emerged among the officials I spoke with in the Reserve Bank was that the dependence on foreign portfolio capital to fund the import bill created an unacceptable risk in regards to the implementation of such heterodox policies. For instance, a Deputy Economist at the Reserve Bank, when asked about the possibility of employing the foreign exchange reserves for capital spending on infrastructure projects and implementing capital controls on inflows, stated the following: “If we did that we would have fewer reserves and it would be worse because investors would get nervous and there would be fewer capital inflows and we couldn’t fund the current account deficit…the trend is that we are slowly dismantling all forms of capital controls. We need to do that to attract inward investment.” \textsuperscript{44}When asked about the position espoused by the DTI and EDD, that such regulations could form part of a more comprehensive industrial program and encourage traditional FDI, he replied: “Not through capital controls, through other incentive programs. For example, there are tariffs placed on imported cars into South Africa at 25%, but if you’re exporting cars you’re allowed to offset that.” \textsuperscript{45}Another senior Reserve Bank official I spoke with expressed his opinion that the policies pursued by the DTI were “overly

\textsuperscript{43}Ibid.
\textsuperscript{44}Personal Interview, Deputy Economist, Reserve Bank, Pretoria, October 3, 2013.
\textsuperscript{45}Ibid. This Reserve Bank official was referring to the Motor Industry Development Programme (MIDP), which was later replaced by the Automotive Production and Development Program, both of which employed tax and import incentives to automakers. In the absence of capital controls, the DTI must depend on such incentive programs to encourage economic growth and expansion.
defensive,” suggesting that the department was simply interested in “protecting vested interests through preventing imports.”

The country’s dependence on foreign capital for economic activity was also highlighted by a senior financial market economist at the Reserve Bank in the context of the potential repercussions that could flow from the adoption of capital controls. It was reiterated that dependence on portfolio inflows to fund the current account was a massive concern for both the Treasury and the Bank, and that both were in dialogue with domestic private banks to raise funds to try and offset the dependence, but that there were still questions in terms of what course of action to take should the flows stop. It was also posited that financial liberalization had created several vulnerabilities, such as the overreliance on foreign portfolio capital to fund imports, and that capital controls would be too costly in such an economic context.

This intrastate conflict between the various departments on the appropriate development policy was also noted in several articles in The Wall Street Journal. The publication noted that South Africa was “grappling with a sharply appreciating currency,” and that the country has “struggled with how to boost the continent’s largest economy without allowing flows of foreign capital to destabilize its currency, the rand.” The article went on describe the economic implications of this appreciation:

South Africa has borne the burden of “hot” capital flows into its markets. With relatively high interest rates and a liquid stock market, the rand has rallied. It is now approaching its strongest point in 3⅓ years against the dollar. That currency strength has hampered South Africa’s commodities exports. Yet it also has softened the impact of high oil prices and

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46 Personal Interview, Senior Official, Reserve Bank, Pretoria, October 8, 2013. This official was referring to the motor industrial program which, as noted, involves providing incentives to auto-makers in order to stimulate growth and exports. The DTI has no control over the implementation of capital controls, thus any industrial program the ministry adopts must include tariffs in the form of incentives, which is what the official was criticizing.


helped to keep inflation in check, leaving some officials ambivalent about its benefits for the economy. Mr. Gordhan declined to say whether the rand was too strong or weak. “What we want is more stability, predictability,” he said.49

A 2011 story in the same journal stated that there was a “government policy struggle between the country’s treasury and politicians in other departments such as the EDD. Those in the latter ministry [were] demanding new limits on inflows of ‘hot money,’” a policy which they hoped would “boost economic growth by weakening the strong rand.”50 Specifically, the report stated that officials in the Economic and Development Department were pushing for controls on capital inflows in order to improve exports through strategic depreciation of the rand which they hoped would facilitate job creation, but that Treasury officials were unwilling to implement such a policy out of concern that such measures would “hurt investment and impede improvement in South Africa’s current-account position.”

The report went on to assert that capital controls on inflows were unlikely because South Africa was simply not in a position to place any restrictions on portfolio capital given that such inflows were sorely needed to finance the current account and budget deficit. This point was corroborated by several financial analysts and asset managers quoted in the article, who stated that if Treasury officials imposed controls they would in essence be “biting the hand that feeds them,” which was a “dangerous game to play,” considering the country’s dependence on foreign portfolio inflows to fund the current account and budget deficits.51

49 Ibid.
A former senior official in the Treasury, the Director of Labour, also highlighted this conflict, stating that the DTI had been lobbying the finance ministry for capital controls on inflows in order to enhance their export-development program through currency depreciation, but that the Treasury had repeatedly rebuffed this request. This official accounted for the shift away from redistribution and the persistence of market orthodoxy by stating the following: “The necessity for fiscal discipline drove the shift, especially after the currency crisis of 1996, and it continues to drive policymaking away from the initial Reconstruction and Development Program (RDP) platform.”

Nonetheless, as will be documented below, in response to requests from the DTI and EDD, the Treasury did contemplate several measures to boost exports through a weaker exchange rate.

The issue of an appreciating exchange rate and its impact on economic growth and exports became an issue between the DTI and the Treasury well before the dates highlighted by the WSJ above. The conflict between the two government departments was triggered by the worldwide commodities boom, which began in the early 2000s. A sharply appreciating rand prompted the DTI to lobby the Treasury to implement policies that could potentially weaken the exchange rate. The Finance Ministry responded by instructing the Reserve Bank to purchase foreign currencies on the FX markets. Since the long-term viability of such a strategy is limited, the Treasury also held several meetings between 2004-6 to contemplate the efficacy of capital controls on inflows. In the end, the policy prescription was rejected by the ministry for two reasons: first, officials concluded that such measures had not succeeded in producing the desired result in other emerging market economies, such as Brazil. Secondly, officials within the department argued that prior to 2001 it had been extremely difficult to attract inward flows of capital into the country, and that

52 Personal Interview, Former Director of Labour, December 18, 2013.
measures that could potentially minimize access to capital and discourage inward flows should be avoided. It was further asserted that if foreign investors were discouraged from purchasing government bonds, then the debt would have to be funded by domestic capital, which would entail a shift of resources out of the private economy, an event that could potentially disrupt economic growth.\textsuperscript{53} As will be discussed further below, maintaining access to foreign capital to fund the government debt has been a persistent topic of concern for policymakers in the Treasury throughout the post-apartheid period.

The Treasury’s reluctance to deviate from economic orthodoxy was in fact evident in the early period after the democratic transition. From 1995-2000, for instance, the DTI lobbied to introduce export taxes on primary commodities such as coal and iron ore in order to encourage value added production and alter the composition of GDP in South Africa. The Finance Ministry, which must sign-off on any new taxes, vetoed the proposal on the grounds that such an unorthodox policy would trigger a negative reaction from financial actors, namely the banks, IFIs, and global investors, and discourage investment in the primary commodities sector. The Treasury also opposed any industrial cluster initiatives, which would have provided funding to specific, strategic sectors, on the grounds that the government could not be perceived as selecting favorites, and that if one industry was provided with state resources then other sectors would have to be subsidized as well.\textsuperscript{54}

\textsuperscript{53} The information in this paragraph was derived from an interview with the current Head of Policy and Development at the Reserve Bank, who also served as the Deputy Director for Economic Policy at the Treasury, Pretoria, December 15\textsuperscript{th}, 2016.

\textsuperscript{54} This information is based on a personal interview with Alan Hirsch, Former Chief Director of Industry and Technology Policy at the DTI, and former Deputy Director General of the Presidency, January 10\textsuperscript{th}, Cape Town, 2017. Hirsch pointed out that the Treasury’s proposal was clearly unfeasible since the state did not possess the resources to provide all sectors with subsidies.
Similarly, when Alec Erwin was Minister of Public Enterprises from 2005-8 during the Mbeki administration, a debate took place between the latter department, the Presidency, and the Treasury regarding the utilization of the primary surplus that had accumulated during this period. Erwin and the Department of Public Enterprises argued that the funds should be used to capitalize existing SOEs, especially the energy giant Eskom, and to increase investment in infrastructural development, a position that was also favored by President Mbeki at the time. The Treasury, however, was in favor of employing the surplus to build the country’s foreign exchange reserves to send a positive signal to investors. In the end, the surplus was used for this purpose and for countercyclical policy, though some was also devoted to the capitalization of the SOEs.\footnote{Personal Interview, Alec Erwin, Former Minister of Public Enterprises and the DTI, January 9\textsuperscript{th}, Cape Town, 2017. Erwin noted that whenever there was a serious disagreement on a matter of policy between two government departments, the President would sit down with the Ministers in an attempt to hash out an agreement. This again highlights the fragmented nature of economic policymaking within the South African bureaucracy.}

Since 2000 officials within the DTI have also periodically protested against the IT regime. The argument against a stringent inflation targeting policy proffered by such bureaucrats was that high short-term interest rates were discouraging domestic borrowing and hence investment and economic growth. In response, technocrats in the Treasury have argued that in the absence of a tight monetary program to anchor inflationary expectations, then international investors would begin to attach a higher risk premium to the country, which would in turn raise long-term interest rates. In other words, a looser monetary policy would raise the ten-year government bond yield.\footnote{The information in this paragraph is based on an interview with the Chief Director of Modelling and Forecasting at the National Treasury, Pretoria, December 7\textsuperscript{th}, 2016. The concern with the ten-year bond yield will be discussed in greater detail below.}

Recently, renewed tensions between President Jacob Zuma and Finance Minister Gordhan over the direction of economic policymaking triggered investor panic and a depreciation of the
rand in late August of 2016.\textsuperscript{57} Gordhan was reappointed as Finance Minister in December 2015 after Zuma had replaced former Minister Nhlanhla Nene with David van Rooyen. Although Zuma succumbed to the pressure exerted by the international financial markets and removed Nene as head of the ministry, in late March of 2017 he again removed Gordhan from his post during a cabinet reshuffle, setting off another negative reaction on the currency markets followed by a sharp decline in the rand’s value.\textsuperscript{58} This factional battle was largely over redistribution and allegations of ‘state capture,’ points will be examined in greater detail in Chapter 5.

The constraints placed on economic policymaking by South Africa’s integration into the global capital markets during the post-apartheid period corroborate Wolfgang Streeck’s (2014) thesis, outlined in the introductory chapter of this study, on the evolution of international class dynamics in the context of global capitalism since the 1970s. The investor class, who Streeck refers to as the \textit{Marktvolk} (people of the market), compete with the general citizenry, or the \textit{Staatsvolk}, in order to influence and shape government policy in the direction of their own interests (Streeck 2014: 80-1). Table 5 below documents the characteristics and competing interests of the \textit{Marktvolk} and the \textit{Staatsvolk}.

<table>
<thead>
<tr>
<th>\textit{Staatsvolk}</th>
<th>\textit{Marktvol}</th>
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<tbody>
<tr>
<td>National</td>
<td>International</td>
</tr>
<tr>
<td>Citizens</td>
<td>Investors</td>
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</table>

\textsuperscript{57} The immediate cause of the latest round of conflict between Zuma and the Treasury was the announcement by Zuma that South Africa had signed a deal with Russia to construct a fleet of nuclear power plants that are estimated to cost 60 billion. Gordhan has refused to state publicly whether he supports the deal. \textit{The Wall Street Journal}, ‘South Africa’s rand slides,’ August 24, 2016.

\textsuperscript{58} \textit{The Guardian}, ‘South Africa: ANC in chaos after Jacob Zuma sacks finance minister,’ March 31, 2017. The motives surrounding Zuma’s conflict with the Treasury and Gordhan are related to the domestic political situation in the country, and thus will be discussed in detail in Chapter 5.
<table>
<thead>
<tr>
<th>Civil Rights</th>
<th>Claims</th>
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<tr>
<td>Voters</td>
<td>Creditors</td>
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<td>Elections (Periodic)</td>
<td>Auctions (Continual)</td>
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<tr>
<td>Public Opinion</td>
<td>Interest Rates</td>
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<td>Loyalty</td>
<td>‘Confidence’</td>
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<tr>
<td>Public Services</td>
<td>Debt Service</td>
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Streeck further argues that though the state is largely dependent on the *Marktvol* in order to meet its fiscal obligations it must, nonetheless, balance between the competing interests of the creditor class and national citizens. Although the author confined his analysis to the United States and the OECD countries, Streeck’s concept of the *Marktvol* can be extended to analyze economic policy formulation in emerging market countries as well, though with slightly different implications. As noted in Chapter 1, and as illustrated in Figure 2 above, advanced industrial countries are able to borrow on the capital markets during a fiscal crisis up until the point when their national debt breaches 80% of the GDP without facing significant pressure from domestic and international creditors. Yet, as has been argued throughout this chapter, emerging markets, as evidenced by the case of post-apartheid South Africa, face significant constraints that are imposed by creditors over policymaking despite much lower debt/GDP ratios. Streeck’s analysis thus highlights the coercive class mechanisms often underpinning the coalitional political alliances discussed by Pepinsky. However, the author also notes (2014: 83) that the democratic debt state must “manoeuver” carefully between its two stakeholders, the *Marktvol* and the *Staatsvolk*, without allowing either constituent to fully monopolize government policymaking in one direction.
This type of dependence on the international creditor class is largely understood and accepted by senior officials in the Treasury and other government departments. Recall Alec Erwin’s statement, cited earlier, regarding the disciplining effects of the global capital markets. Erwin attributes much of the initial shift away from the macro-populist redistributive policies outlined in the ANC’s Reconstruction and Development Program (RDP) to the influence the international financial markets could exercise over an emerging market economy seeking capital inflows.\(^5^9\) This influence continues to exert constraints on policymaking in the present period as well. As the former Chief of Fiscal Policy in the Treasury put it, “Expansionary fiscal policy is a privilege, one that is bestowed upon us by the financial markets. You can only borrow as much as foreign lenders are prepared to lend you at a given price; we’ve seen some increase in the cost of borrowing, related to changes in the global economy, but also to a rising risk premium attached by foreign investors to the country.” He went on to state that the tapering of quantitative easing (QE) and higher interest rates in the United States would eventually impose even greater constraints on South Africa’s fiscal policy.\(^6^0\)

Yet, despite the pressure emanating from the global financial markets on South Africa to curb government spending, President Zuma, as well as Pravin Gordhan, have, in fact, sought to strike a delicate balancing act between the interests of the citizenry and the investor class. For example, the 2015 budget released by the Treasury was not, by conventional standards, an austerity budget. Michael Sachs, the current Head of the Treasury’s Budget Office and the former Chief of Fiscal Policy, pointed out that budget did not retrench any programs aside from freezing public sector staff levels, and noted that the number of South Africans who receive social grants in the

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\(^5^9\) Personal Interview, Alec Erwin, Former Minister of the DTI, Cape Town, January 9\(^{th}\), 2017.

\(^6^0\) Personal Interview, Former Head of the Budget Office, National Treasury, Pretoria, October 8, 2013.
present period is 16.5 million, up from 7.9 million in 2004. The budget also increased expenditure on social services by 9.4% over a three-year period. The 2016 budget introduced by Pravin Gordhan in Parliament further expanded government spending in priority areas, while also introducing plans for fiscal consolidation that would reduce the budget deficit to 2.4% of GDP by 2018. The latter would be achieved by moderately raising taxes and curtailing government personnel spending. At the same time, the budget outlined an increase in social protection and health programs, with a proposed increase of R11.5-billion allocated to social grants and benefits (National Treasury, 2016).

Government expenditure on social welfare programs has, in fact, formed one of the key cornerstones of the ANC’s economic policy program since the democratic transition, and is the legacy of the Reconstruction and Development Programme (RDP), which linked economic growth to redistribution (Triegaardt 2002: 326). Social grants are distributed to 30% of the South African population, comprising just over sixteen million individuals. Such grants are non-contributory and are paid directly from the Treasury (Ferguson 2015: 6). Social welfare payments reach a large segment of the South African population, and are one of the central factors responsible for the ANC’s persistent electoral hegemony. In fact, a survey conducted by the Centre for Social Development at the University of Johannesburg revealed that 49% of respondents from two poor urban regions and one rural area were under the impression that social grants were tied to the party in power (ANC), and not a constitutional right tied to the state.

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61 Daily Maverick, ‘Budgeting in the real world,’ March 17, 2015. It is interesting to note, however, that Sachs also pointed out that interest payments on the debt would increase at a faster rate than capital expenditure, and that for every rand collected in taxes, 12 cents would be transferred to bond holders, 40% of whom are non-residents.
As noted earlier, the 2016 municipal elections registered the heaviest losses for the party since the transition. In the 2014 national election, the ANC secured more than 60% of the vote, despite some inroads made by the main opposition parties, the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF). Another survey of 3,782 voters from sixteen impoverished townships around Gauteng Province found that while good governance and the legacy of national liberation figured prominently as the factors influencing the voter’s decision to select the ANC (31% and 27% respectively), the provision of material and social welfare benefits came in third at 16% (Paret 2016: 438).

The social grants distributed by the state to the impoverished segments of the population have especially served as a crucial element in shoring up the ANC’s political support in rural areas of the country, where many households depend on the grants as their only source of income (Webb 2016). As Yolanda Sadie stated, “Social grants can therefore be effectively used as a campaign strategy of gaining (or retaining) support from grant holders in particular” (cited in Plaut 2014: 638). Prior to the 2014 election, the ANC also distributed food passes to voters in the rural areas to shore up their electoral support. As a member of an opposition party stated, “This was not done in the previous four years; it was only close to election time that they started to do this.”

Moreover, this expansion of the welfare program and distributive benefits enables the ANC and the technocrats in the bureaucracy to conceal other aspects of the neoliberal program by pointing

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63 It is interesting to note, however, that the voters surveyed who cast their ballot for the two opposing parties also listed material and social benefits as partially responsible for their decision, with 17.3% of DA voters citing material benefits as their primary reason for supporting the party, compared to 12.7% of EFF voters (Paret 2016: 438). It should also be emphasized that the DA is a market-based party appealing mainly to affluent whites in South Africa. The cornerstone of their political message is that the ANC is a party that chooses to cultivate dependence on the state through its social programs as a means of creating dependent electorate. The DA thus advocates unregulated market capitalism as a means of distributing resources to the population. Personal Interview, Minister of Human Settlements, DA, Cape Town, September 30, 2013.

64 Personal Interview, Stevens M, Shadow Minister for Human Settlements, DA Party, Cape Town, September 30th, 2013.
to the social grants. As one official in the Reserve Bank stated, “This isn’t neoliberalism; we have the IT, we have capital account liberalization, but then we have a lot of state spending below.”

In essence the Treasury, which has the final authority to implement capital controls, has thus far chosen to ignore demands from the DTI and EDD for such regulations at least partially due to the fear that global portfolio investors would react negatively and reverse their funding of the country’s twin deficits. Thus, any policies that could potentially threaten access to liquidity are unlikely to be adopted by authorities in the Treasury and Reserve Bank, even if they could potentially enhance economic and policy autonomy over the long-run. Zuma’s reappointment of Gordhan, a Finance Minister who has championed fiscal discipline, must be understood in this context. At the same time, there are crucial benefits that flow from financial liberalization and the inflation targeting (IT) regime, specifically as they relate to the ten-year bond yield, which influences long-term interest rates. Access to the international capital markets, and the influx of foreign portfolio capital, are crucial factors that allow the ANC to turn over the debt on favorable terms, which in turn enables the Treasury to continue funding the redistributive programs that are vital to maintaining the ongoing electoral support for the party. In other words, integration into the global financial markets has facilitated the ability of the ANC to balance the needs of investors and the citizenry in the context of low rates of taxation and economic growth. This will be discussed below.

The IT Regime and the ten-year bond yield: portfolio flows and the incentive structure
As noted above, inflation targeting in South Africa comprises an important component of the incentive structure under discussion, since high short-term interest rates attract the portfolio capital

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65 Personal Interview, Deputy Economist, Reserve Bank, October 3, 2013.
that exerts downward pressure on the long-term bond yield. The IT regime was implemented under the Governorship of Mboweni, initially as an effort to combat the effects of external shocks caused by rising oil prices. Governor de Kock and Governor Stals had already begun employing market mechanisms focused on the interest rate and growth of the money supply in the 1980s and 1990s (Schimulow and Greyling 1996: 177), but it was only under Mboweni that a policy aimed at containing inflation within a 3-6% target band was adopted. Inflation targeting was employed throughout the period of the 2001 currency depreciation, as the Reserve Bank raised the repo rate from 9.5% to 10.5% at the beginning of 2002, and then again from 11.5% to 13.5% between March and September of the same year (Aron and Muellbauer 2007: 730).

A monetary regime based on aggressive inflation targeting is the natural outgrowth of a liberalized capital account in a small open economy, especially one where FDI levels are quite low because of limited investment opportunities. High short-term interest rates are necessary to attract capital inflows, specifically during periods of currency depreciation when international reserves are insufficient to intervene in the foreign exchange (FX) spot market, and to stabilize inflation by raising the cost of capital and targeting its second round effects. Monetary policy in the post-apartheid period, especially since 2000, has largely served to compensate for the massive capital flight which has taken place since financial deregulation (see Isaacs 2014: 38).

However, as noted above, the IT regime has also served to attract global capital into the country’s debt instruments, which has had a depressing effect on the government bond yield, which in turn has enabled Treasury officials to borrow at lower interest rates to fund specific programs. Before proceeding further, it is necessary to highlight an important point concerning state

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66 Readers who are unfamiliar with the mechanics of bonds and yields may want to consult the appendix at the end of this chapter before continuing further.
expenditure and fiscal deficits. When the budget is formulated and spending priorities are allocated, it is not known which bonds will finance the specific programs or expenditure platforms in the budget. In other words, if spending in the aggregate exceeds revenues then the Treasury will raise funds domestically and internationally to cover the gap, but one cannot state that a specific debt instrument issued on the global capital markets, for example, was responsible for funding a particular portion of the deficit.\textsuperscript{67} Nonetheless, the ability to borrow at lower interest rates positively impacts the country’s public finances, and it is in this sense that access to the international capital markets has become a crucial driver of concrete policy decisions in post-apartheid South Africa.

In order to evaluate the influence of international monetary factors on the bond yield’s trajectory, I have run a multiple regression model which estimates the effect of three macroeconomic and policy variables and one control variable, the US Federal Funds Rate, on the movement of long-term interest rates. The dependent variable is South Africa’s ten-year government bond yield. The regression results\textsuperscript{68} reveal that a one percentage increase in the US interbank rate will lead to an estimated 0.99% rise in South Africa’s ten-year government bond yield, which lends corroboration to the argument that specific global conditions facilitate inflows and outflows of portfolio capital into emerging markets, and that in the current climate South Africa has benefitted from the effects of such portfolio inflows, though the latter have also created several vulnerabilities and constraints on the economy, as discussed further below. This point was corroborated by a former senior Treasury official, and current senior official in the Reserve Bank, who stated that the tapering of Quantitative Easing (QE) by the US Federal Reserve would raise

\textsuperscript{67} This point was made by the Chief Director of Modelling and Forecasting at the National Treasury, Pretoria, December 7\textsuperscript{th}, 2016.

\textsuperscript{68} In order to preserve space and avoid an overly technical discussion, the regression table and the details of the model have been placed in an Appendix at the end of the chapter.
the cost of capital in South Africa and present future problems for the country and policymakers. Indeed, as one Reserve Bank official put it, “we are watching the Fed constantly.”\textsuperscript{69}

In a semi-closed economy, with limited capital inflows and a small tax base, a higher yield on government bonds in the absence of a coherent industrial policy will require the state to either borrow more to pay the existing interest rates and turnover the debt or further reduce government spending. As noted, the latter is an unlikely option in South Africa, considering the majority of the population receives some form of social service and that the business community would oppose more progressive taxation.\textsuperscript{70} As noted, this would explain why certain policymakers, and the Minister of Finance, have chosen to forge and maintain an alliance with foreign portfolio capital in the post-apartheid period despite the fact that the Department of Trade and Industry (DTI) and the EDD have pushed for capital controls in the interests of developmental programs; by keeping the capital account open, a plethora of finance continues to exert downward pressure on the government bond yield, thus freeing up state resources.\textsuperscript{71}

The relevance of the yield on debt instruments as a driver of economic policies was an issue that cropped up in my interviews with officials in the Reserve Bank and the Finance Ministry. For example, the former Deputy Director General for Economic Policy in the National Treasury made the following statement on the issue of the benefits of unimpeded international portfolio capital inflows:

\textsuperscript{69} Personal Interview, Senior Reserve Bank Official, October 7, 2013. This official made this statement in response to query about South Africa’s current account deficit which, as noted, must be funded largely by foreign portfolio capital. Since the policies of the US Fed often determine the direction of such flows, the Reserve Bank closely monitors its activities.\textsuperscript{70} This will be discussed in greater detail in Chapter 4.\textsuperscript{71} The role of foreign portfolio capital in depressing government bond prices and raising domestic interest rates was examined by Business Day, a leading South African finance publication. The story stated that the rising yield on the government bond set to mature in 2026 was “largely a result of foreign money exiting emerging market bonds following increasing rhetoric that the US Federal Reserve will begin to taper off on its quantitative easing (QE) stimulus programme.” Garth Mackenzie, ‘More pain before gains,’ p.42.
“Since 2008 we have had increased participation from foreigners in the domestic bond market, which has changed the dynamic somewhat. Traditionally the SA institutional investors have preferred higher yield, but with the international investors their preference for yield is much lower.”

This official also emphasized that the linkages with the international financial markets have served to discipline the domestic capital market as well, since the latter understands that South Africa is no longer a closed economy and there are now options for companies and the government seeking to borrow funds, which has contributed to forcing the cost of capital down.

In this context it is also important to note that in the absence of global capital inflows the yield on the ten-year government bond would not have followed the same downward trajectory since the democratic transition and liberalization. South Africa has extremely deep financial markets because of the domestic pension funds, which manage hundreds of billions of rand and have historically funded the government’s debt. However, these funds tend to invest primarily in equities, and in fact they only shift resources into the ten-year bond, or government bonds in general, when the yield reaches 9%, which is usually triggered by an outflow of foreign funds and a spike in the price of these debt instruments. In fact, while from 1998-2009 capital inflows and the declining bond yield could largely be attributed to a conducive investment climate created by fiscal discipline and liberalization measures, since 2009 foreign capital inflows have been driven by global liquidity, and primarily by the actions of the US Federal Reserve and their policy of

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72 Personal Interview, Former Senior Treasury Official, October 3, 2013.
73 Ibid.
74 It should be noted that the domestic pension funds are required, by law, to invest at least 70% of their assets within the country. Personal Interview, Director of Debt Issuance and Management, National Treasury, Pretoria, 2016.
Quantitative Easing (QE). In light of such global dynamics, the IT regime continues to serve as a monetary framework to anchor inflation and draw in capital from abroad.75

Policymakers in the Treasury can thus rely on their access to global liquidity in order to maintain an adequate level of spending, and fiscal expansion in the post-apartheid period has become largely dependent on the bond markets. This point was also corroborated by the former Head of the Budget Office, who noted that this dependence on portfolio capital inflows and FDI was a central reason why the Treasury would be extremely cautious about ever imposing capital controls on such inflows. Such restrictions, it was stated, could give the impression that “we are hostile to foreign capital, when foreign capital is an extremely important element of development in this country.” He went further, stating that in his view the Treasury would only consider imposing capital controls in a prolonged “crisis situation,” and hence would likely only be employed as a temporary last resort if “suddenly confronted with massive capital outflows and a shortage of funds.”76

This reliance on the global bond market to fund the fiscal deficit illustrates the degree to which South African policymakers, specifically those located in the Treasury, must take into account which macro-economic policies and programs will raise the risk premium attached to the country by the financial markets in order to access global capital at a reasonable level and maintain sufficient expenditure levels. This sentiment also indicates that, despite the drawbacks of an open

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75 The information in this paragraph is based on two interviews with senior Treasury officials, the Chief Director of Modelling and Forecasting, December 7th, Pretoria, 2016, and the Director of Debt Issuance and Management, Pretoria, December 13th, 2016. Interestingly, corroboration of this point also came from the President of South Africa’s largest business association, the South African Chamber of Commerce and Industry. He stated that South African pension funds have plenty of capital to fund state projects and the government debt, but they tend to avoid government assets because of their perception of a high risk profile on government securities. Personal Interview, President of SACCI, December 6th, Johannesburg, 2016.

76 Personal Interview, Former Head of the Budget Office, National Treasury, Pretoria, October 8, 2013.
capital account and the impact of unregulated inflows on the value of the currency, regulations that could potentially threaten liquidity in the context of the country’s twin deficits will be avoided by the authorities in the Reserve Bank and Treasury; in fact, a greater concern for such policymakers is the possibility of a sustained outflow of foreign funds, which would threaten future economic growth and jeopardize fiscal expenditure. This precarious dependence on foreign capital was highlighted by Business Leadership South Africa (BLSA), formerly the South Africa Foundation (SAF), a business association representing multi-national corporations in the country:

This reliance on foreign rather than domestic savings creates certain constraints. The vital capital inflows are into rand-denominated bonds and equities. Continued foreign investment in our bonds requires low and stable inflation as well as fiscal deficits. Continued foreign investment in equities requires economic policies that create space for private commercial success. If foreign investors start to worry about major shifts in these policies, we will run out of cash.\(^77\)

As noted, the policies perceived to be necessary by foreign investors for ‘commercial success’ are encapsulated by the neoliberal growth model.

The structural impediments to any regulations on the capital account that would restrict the ability of non-residents to shift funds in and out the country were also clearly spelled out by the Director of Debt Issuance and Management at the National Treasury:

To be honest, we would not generally consider employing capital controls, because we need foreign capital to at least partially fund our fiscal and current account deficits. So we would not impose regulations on capital inflows, and imposing them on outflows would also have a negative effect by sending a signal to future investors that they could not repatriate their funds.\(^78\)

\(^77\) Business Leadership South Africa, ‘Five Million Jobs: A job for every South Africa: Practical Proposals,’ Occasional Paper (Summary), 2009, pp. 3-4. The BLSA, along with other business associations, will be discussed in greater detail in the next chapter.

\(^78\) Personal Interview, Director of Debt management and Issuance, National Treasury, Pretoria, December 13th, 2016.
As noted earlier, this partial dependence on foreign capital inflows began in 1996, when the newly formed democratic government made the decision to lift capital controls on non-residents in order to remedy the decades long problems of stagnation and isolation. The rationale at the time was that the influx of capital would fund the current account and allow for lower rates of corporate taxation, measures which were expected to fuel economic growth. However, as has been illustrated, policymakers now face a dilemma; rapid foreign capital inflows are required to fund the country’s current and fiscal deficits, yet the appreciating currency places pressure on state officials to enact certain reforms to prevent the trade balance from worsening. Thus far, senior officials in the Treasury and Reserve Bank have dealt with the problem by further liberalizing the capital account for South African residents, which has facilitated greater outflows of capital and eased pressure on the appreciating rand.

Thus, the ANC’s adherence to liberalization, even in the context of low economic growth rates, must be understood as a policy choice that enhances the party’s political survival through low risk mechanisms. Reliance on the global bond markets was further illustrated in 2014, when the Treasury issued a press release on the successful conclusion of US$ 1-billion-dollar bond issuance with a 30-year maturity period as well as a 500 million Euro bond with a 12-year maturity on the international capital markets. The coupon (interest) rate on the US dollar bond was 5.375%, which represented a 220 basis point spread above the 30-year US Treasury’s benchmark bond. The report noted that both bonds were oversubscribed by more than three times (demand exceeded supply), an indication of “investor confidence in the country’s stable political environment, sound

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79 Personal Interview, Former Deputy Director General of Economic Policy, National Treasury, Pretoria, October 3rd, 2013.
80 See Wall Street Journal, ‘South Africa’s Currency Dilemma,’ Mariam Isa, March 4th, 2011. The article noted that regulations were changed in 2010 to allow Pension Funds to invest 25% of their assets abroad. This limit has since been increased to 30%.
macro-economic policy framework and prudent fiscal management.” It was also stated that the issuance was a component of the country’s 2014/15 financing programme, and that the 2014 Budget Review contained a provision for an additional US$ 1.5 billion to be raised on the global capital markets to “partially finance the government’s foreign currency commitments.”

Figure 6: The Yield on South Africa’s Ten Year Government Bond
Source: South African Reserve Bank.

Figure 6, which depicts the downward trend of South Africa’s ten-year bond yield since the democratic transition, is one important macro-economic indicator that capital account liberalization has helped reduce the cost of capital at which the South African government can borrow. Regulations on inflows would raise borrowing costs for officials. For example, assuming a hypothetical situation where the National Treasury in South Africa imposed capital controls on

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81 National Treasury, ‘South Africa launches two bonds in international capital markets.’ July 18, 2014.
foreign funds in the form of a tax, international investors would then demand a higher yield on
government bonds in order to recuperate this loss, just as a one percentage increase in the interbank
rate in the US would generate a 0.99% rise in the South African long-term bond yield. This
counterfactual scenario is depicted in Figure 7, and employs calculations based on the time series
multiple regression model presented above in order to estimate the trajectory of the bond yield.
The model assumes a tax on outflows of 1% and a depreciation of the currency caused by investor
panic and the tapering off of QE by the US Federal Reserve, as well as subsequent import inflation.

As the figure illustrates, assuming a one percentage improvement in the current account
caused by capital outflows and currency depreciation, which would then trigger import inflation,
and using 2009 as the base year, the bond yield trajectory would begin shifting upward over a
three-year period to reach a rate of over twelve percent. Note that the trend is for the ten-year
government bond yield. Debt instruments with lower maturity rates would be even more adversely
impacted by controls that regulate short-term capital inflows, causing the yield to shift even further
upwards.

It is important to stress that the projected upward shift in the bond yield triggered by
currency depreciation in the event of regulations on portfolio inflows would be independent of the
increase caused by the restricted pool of available capital also resulting from such controls. This
is because the import inflation caused by depreciation, which as noted earlier cannot be corrected
by the second-round effects of the IT regime on the CPI, would create its own unique effects
irrespective of the capital available, leading investors to raise the foreign exchange risk premium
attached to South Africa’s financial instruments.

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82 See Appendix for this figure.
83 Again, this is a significant result which distinguishes the findings above from the regression coefficients generated
by Mosley’s model which had employed data from OECD countries. For the latter, Mosley regressed an overt inflation
It is clear that the ANC possesses the degree of state capacity necessary to impose minimal regulations over the economy by implementing limited exchange controls on financial flows. While such a move could potentially create a problem by restricting liquidity, which is crucial for the functioning of the South African economy, a tax on inflows and outflows would also serve to channel funds into productive sectors which would generate internal resources over the long-run. At present, the economic rents paid to societal actors are largely sent abroad because of interest payments to global investors and the outward orientation of South African business, a point which will be discussed in greater detail in the next chapter. Thus, the rents in this case are not conducive for economic development and industrial upgrading.

This chapter has examined how South Africa’s dependence on international portfolio capital in the post-apartheid period has shaped the policymaking process within the Finance Ministry and Reserve Bank by structuring a set of financial constraints, capital withdrawal by global investors, and incentives, low borrowing costs for the state, in the context of a specific global economic environment. It has also examined the intrastate conflict between the latter departments and the DTI and EDD. It has been argued that there is strong evidence to suggest that post-apartheid South Africa falls into the category outlined by Pepinsky (2009), of a country with an active group of investors with mobile assets who would not support a regulated capital account with controls on portfolio inflows. This is evident from activity on the JSE which, as noted, is now dominated by foreign investors. Additionally, interviews with officials in the Treasury and Reserve Bank indicate that there is a consensus within these departments that capital controls on portfolio

variable measured by the CPI to predict changes in the ten-year bond yield, and found that there was an association, though not a large one. In South Africa inflation must be measured indirectly, through the current account, and improvements in the latter paradoxically lead to a regression coefficient which is significant and quite large. The difference is that in the former countries coherent industrial policies along with innovation and productivity increases render inflation less important.
inflows would pose a significant risk and could potentially jeopardize economic growth since foreign capital is required to fund South Africa’s current account and the fiscal deficit. Moreover, it is clear that policymakers were concerned about the risk profile that could be attached to the country by international investors in the event of the adoption of heterodox economic programs, which would raise the cost of capital on the financial markets and potentially threaten fiscal expenditure.

Most importantly, however, this chapter highlights a crucial oversight of James Ferguson’s (2015) recent study on the rise of social welfare programs in Southern African countries. Ferguson specifically focuses on South Africa and argues that the emergence and consolidation of social grant payments to 30% of the population has the potential to disrupt the neoliberal emphasis on markets for distribution and usher in an African welfare state that could provide a basic living income grant to all citizens regardless of workforce participation. As such, Ferguson contends that such policies open up new possibilities that could eventually succeed in destabilizing the neoliberal growth model in developing countries. It is certainly true that the social grants have succeeded in alleviating extreme poverty in South Africa, where, as noted, over 25% of the population remains unemployed. Additionally, it has also been argued here that the grants have shored up support for the ANC within the rural areas, where the majority of the population does not belong to any labor unions.

Yet, Ferguson’s thesis ignores the fact that in order to distribute such social welfare payments, in the context of a neoliberal growth model, South Africa must, to a certain extent, depend on the international capital markets. Since, as this chapter has shown, the ability of the Treasury to finance debt on such markets places significant constraints on macro-economic policymaking, it follows that the disbursement of social grants in the absence of industrial
transformation necessitates South Africa’s ongoing enmeshment in the global financial structure, which also creates specific incentives that push the Treasury away from heterodox economic programs that could potentially alter the country’s industrial structure.

However, it is not simply the influx of foreign portfolio capital into South Africa in the post-apartheid period that created constraints against heterodox policymaking and generated a set of incentives that contribute to the persistence of market orthodoxy. The business sector in South Africa, with its outward orientation since the democratic transition, has also contributed to the reproduction of neoliberalism and the concomitant absence of industrial diversification. This will be discussed in detail in the next chapter.
Chapter 3
Accumulation Strategies by the Corporate Sector in Post-Apartheid South Africa: Finance, the Minerals Energy Complex (MEC), and Market Orthodoxy

Chapter 2 examined the political and economic consequences of South Africa’s integration into international capital markets and the manner in which global investors and bondholders have shaped policymaking in the post-apartheid period. Specifically, the chapter employed Wolfgang Streeck’s concept of the ‘debt state,’ and argued that the ANC’s commitment to specific social programs and limited redistribution in the context of low rates of progressive taxation had rendered policymakers in the Treasury dependent on foreign inflows of capital, and that such policies were incompatible with the emergence of a viable developmental state. This chapter examines another piece of the puzzle related to the absence of coherent industrial policies in post-apartheid South Africa through an analysis of the interests and accumulation strategies of the South African business community.

It will be argued that South African firms, such as many of the multi-national companies that belong to Business Leadership South Africa (BLSA), have adopted a strategy premised on
cross-border and outward investment, or, like many of the firms in the mining sector that belong to the Chamber of Mines, have embraced the ‘shareholder value’ aspect of financialization by distributing profits as dividends and opposing wage increases demanded by the labour unions. Both industry groups, as well as other business associations such as the South African Chamber of Commerce and Industry (SACCI), which represents medium sized enterprises as well, have lobbied vigorously against interventionist policies such as progressive taxation, trade tariffs, exchange controls, expansive fiscal policies and domestic regulations on business. Such opposition to heterodox policies has been instrumental in the persistence of the neoliberal growth model throughout the post-apartheid period. More specifically, the investment strategies and lobbying efforts of South Africa’s business community have been a crucial factor responsible for the stagnant corporate tax revenue and the consolidation of the ‘debt state’ outlined by Streeck and discussed in Chapter 2. As noted in the introductory chapter, the emergence and persistence of market orthodoxy in post-apartheid South Africa can be best understood as the outcome of a series of economic incentives and constraints that facilitated the emergence, and consolidation, of a political settlement among three dominant political and social actors, namely, business, labor and the ANC. This portion of the analysis will thus focus on the role of big business, both in the initial democratic/economic transition and in perpetuating the neoliberal growth model.

This portion of the dissertation also highlights a crucial component of the political settlement, as understood within the political survival theory outlined in the introduction, between the post-apartheid state and the business community, specifically the large conglomerate firms. The size of the private corporate sector in South Africa meant that the ANC had a vested interest in maintaining ‘business confidence’ and securing the cooperation of the dominant firms. However, as will be documented below, the political settlement which emerged between the state
and business was marked by an ‘elite compromise’ that ushered in market orthodoxy as the cornerstone of economic policymaking. The new accumulation strategy adopted by the dominant firms in South Africa, which was based around financialization, constitutes another structural factor driving the Treasury’s policies and the ANC’s acceptance of the Finance Ministry and Reserve Bank’s position on economic matters.

Much of the heterodox, Marxian literature has convincingly highlighted the crisis facing South African capital in the 1970s and 80s, as the economy entered into a period of stagnation. The global opportunities for private profit-making, in other parts of Africa and the OECD countries, thus constitute the structural factors that were partially responsible for compelling the South African business community, specifically the large conglomerates, to push for the termination of apartheid and an economic transition predicated on liberalization and free capital flows. However, as will be shown, this economic component of the transition did not automatically materialize; rather, it was the product of a political settlement reached between the ANC leadership and the business community prior to the transition to liberal democracy. Framed within the political survival approach, the South African conglomerates had clear material incentives driving their preference for a liberal political and economic arrangement.

Such incentives converged with certain political and economic realities facing the ANC at the time; namely, the necessity of placating a powerful domestic constituency in the context of a stagnating economy and the threat of disinvestment and capital flight. Indeed, as will be shown below, both the structural and direct influence of capital have been important elements driving the persistence of neoliberal orthodoxy in post-apartheid South Africa. Moreover, as will be discussed in greater detail in the next chapter, the implementation of a ‘home-grown’ program of market orthodoxy which, at the time, was expected to facilitate inflows of private capital and higher rates
of investment, permitted the ANC leadership to reject foreign loans and conditional policy prescriptions from international organizations such as the IMF and World Bank and thus avoid the political perception of external influence.

The chapter will begin by briefly describing the evolution of South Africa’s business sector. It will then examine how South African firms have undergone specific changes through rationalization and unbundling since the democratic transition, and will link this to the general process of financialization discussed in Chapter 1. This section will also examine how South African corporations influenced and participated in the democratic transition and the initial neoliberal shift. The next section will examine the new financialized accumulation strategies of the large corporations, and analyze its implications for policymaking in the post-apartheid period, with an emphasis on the activities of the mining sector and the two major industry associations.

Two central points emerge from this analysis: First, the business community has largely abandoned the National Economic Development and Labor Council (Nedlac) as a forum to influence and negotiate socio-economic policymaking in favor of lobbying; secondly, the MEC has prioritized investment in financial activities and operations abroad over domestic productive investment. The final section will examine the significance of the Black Economic Empowerment Program (BEE) in terms of state-business relations and economic transformation, and will also evaluate the oligopolistic structure of much of the South African business community.

The rise of conglomerate capital and the ascendance of neoliberal financialization

As noted in Chapter 1, South Africa’s economy was initially dominated by large mining houses infused with largely British capital. The main mining houses, which included Anglo-American,
DeBeers, and Goldfields and Harmony, created the Chamber of Mines to protect their domestic interests. The houses were also instrumental in creating the South African capital and money markets by essentially acting as investment banks in addition to mining companies (Antin 2013: 3). The implementation of segregation and later apartheid generated social unrest, capital flight, and the adoption of capital and exchange controls. Such measures, in conjunction with the isolation generated by international sanctions and boycotts, as well as state industrial and ISI policies, compelled South Africa’s core mining firms to diversify through the acquisition of non-core businesses which led to the emergence of six conglomerate firms that represented 80% of market capitalization on the Johannesburg Stock Exchange (JSE) by 1992 (King et al. 2015: 340; Roberts and Makhaya 2013: 557). This process was accelerated between 1984-89 when, in response to the balance of payments and debt crisis of the period, over 300 multinational firms disinvested from the South African economy, reinforcing the trend towards concentration and the centralization of capital, as the domestic conglomerates purchased the subsidiary shares of the blue chip multinational companies (O’Meara 1996: 358). The cross-ownership patterns and diversification strategies are highlighted in Table 6 below. By the late 1980s the economy was dominated by six wealthy families, the Oppenheimer family being the most influential (Roberts and Makhaya 2013: 557).
The high levels of concentration and cross-ownership, while enhancing the political influence and market power of the business community, also generated market distortions and economic inefficiencies associated with such oligopolistic structures (Handley 2005: 214). Moreover, the importation of capital goods and the limited domestic consumer market that resulted from apartheid policies led to several balance of payments crises in the 80s (Price 1991: 274). Thus, by the late 1980s and early 1990s, the South African business community, specifically the

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Table 6: Conglomerate Ownership Structure, 1988
large conglomerate firms, were actively seeking a new accumulation regime to revitalize economic growth, fuel expansion and boost their stagnating profitability (Terreblanche 2002; Nitzan and Bichler 2001). Moreover, the political uncertainty that accompanied the later stages of apartheid discouraged investment in fixed capital assets. Thus, the conglomerates began to channel profits into the financial sector and non-financial corporations increased their acquisitions of financial assets during this period (Newman 2014: 9). In this sense, the foundation for financialization was established prior to the democratic transition and the neoliberal shift.

There is now an extensive literature that examines the influence of the South African business community on various aspects of both the country’s political transition as well as the economic component behind the shift to democracy (Terreblanche 2002: Chapter 3; Handley 2005; Bond 2014: Chapter 2; Price 1991: Chapter 8; Adam and Moodley 1993: Chapter 3; O’Meara 1996: Chapter 19; Marais 1998). This scholarship focuses on the direct lobbying efforts of the large conglomerate firms and business associations in addition to the shifting domestic and global political and economic environment in which South African capital was operating from the late stages of apartheid to the democratic transition. A common thread that runs through much of this literature is the recognition that by the time of the democratic transition, conglomerate capital in South Africa had exhausted most avenues for further accumulation in the context of economic autarky.

Sampie Terreblanche (2002: 68-70) has argued that South Africa’s business sector operated in the context of three different accumulation strategies from the period of segregation to the present neoliberal era. The “segregationist accumulation strategy,” which lasted from 1907-48, was initiated by the Chamber of Mines in order to cultivate an abundant supply of cheap African migrant labour for their member’s gold and diamond mining operations. This accumulation
strategy was characterized by an ‘alliance of gold and maize’ forged between the Chamber and the Afrikaner elite, and was premised on three fundamental factors: 1). The export of primary commodities (agricultural products produced by maize farmers as well as gold and minerals by the mining companies); 2). The exploitation of a cheap and impoverished African labour force relegated to the ‘Native Reserves; 3). General political stability in South Africa through a process that excluded poor whites and especially blacks from policymaking (Terreblanche 2002: 69). The second accumulation regime began in the aftermath of World War II and involved diversification and the implementation of the industrial and ISI policies discussed in Chapter 1; essentially, this phase consolidated the dominance of the Minerals-Energy-Complex across numerous sectors. Moreover, during this period the National Party (NP) replaced segregation with the more comprehensive policy of apartheid in order to repress black worker resistance and perpetuate labour exploitation (Terreblanche 2002: 70; see also Wolpe 1972).

The search for a third accumulation regime by big business began in the late 1970s and culminated in the shift to market orthodoxy and an open economy in the mid-1990s. Terreblanche (2002: 72) has termed this third phase the “Anglo-American Corporation (AAC)-led accumulation strategy, since AAC and the South African Foundation (now the South African Chamber of Commerce) played a leading role in the lobbying efforts employed on behalf of big business to facilitate a smooth political and economic transition between the National Party (NP) and the ANC. As was noted in Chapter 1, dominant capital in South Africa (the conglomerate firms), were compelled, at least partially, to establish a new accumulation strategy because declining gold prices, in conjunction with international sanctions and boycotts, had rendered apartheid obsolete as a system of labor exploitation in the context of a globalized economy (Nitzan and Bichler 2001).
The implementation of market liberalization by the ANC in 1996 was thus partially facilitated by the new accumulation regime being pursued by the country’s conglomerate firms. Big business vigorously lobbied the incoming government in the years leading up to the democratic transition in an attempt to influence economic policymaking and to ensure a shift away from macro-populism. Patrick Bond (2014: Chapter 2) has noted that the business community, led by the South Africa Foundation (SAF) and Anglo-American (AAC) sponsored several economic planning scenarios aimed at government officials to highlight the potential dangers of the ANC’s initial growth through redistribution platform. Two of the most influential economic planning scenarios were the recommendations made by the ‘Professional Economist’s Panel’ and the *Mont Fleur* scenario. The former was sponsored by Nedcor/Old Mutual, was published in the *Weekly Mail*, and specifically stated that “Neither individual [economic] proposals nor the package as a whole should result in any additional taxation or any increase in government expenditure overall” (Bond 2014: 56).

The second *Mont Fleur* scenario was sponsored by the Institute for Social Development and included business executives from Shell in addition to influential ANC officials such as Trevor Manuel and Tito Mboweni. The scenario was packaged as a video and offered the core message that economic populism, in trying to initially fly too high to meet the expectations of the working class, would quickly crash and maim the economy (Bond 2014: 56; see also Handley 2005: 221). According to Bond, such planning scenarios played a crucially important role in influencing the post-apartheid economic trajectory, and only by focusing on their policy impact can one begin to understand and gain insight “into the particular way in which ‘agency’ (ANC leadership) was shaped” (Bond: 2014: 42). Indeed, as Jeremy Cronin, Deputy General Secretary of the SACP put it, “The think tanks, the safari junkets? I’m sure these had an impact” (cited in Handley 2005: 217).
Terreblanche (2002: Chapter 4) has noted that in parallel to the official constitutional negotiations that took place between the ANC and the National Party (NP), a second set of informal discussions were held between ANC leaders and members of the South African corporate elite behind closed doors during the early 1990s. According to the author, the latter set of discussions played a crucial role in consolidating the market-oriented nature of the economic policies implemented in the mid-1990s. The informal negotiations between the business community, in essence the large corporate sector, and the ANC culminated in an ‘elite compromise’ on economic policymaking in 1993. The pre-election ‘Statement on Economic Policies’ contained a commitment to a ‘redistribution through growth’ strategy, which entailed a clause for fiscal balance as well as a commitment to reduce deficit spending over the long-term and a pledge not to raise taxes (Terreblanche 2002: 96-7).

Terreblanche argues (2002: 98) that this “elite compromise should be regarded as one of the most decisive ideological turning points in the ANC’s approach to economic issues.” Essentially, the agreement reached during the informal negotiations meant that macroeconomic policymaking in post-apartheid South Africa had already been injected with a strict dose of market orthodoxy even before GEAR was officially unveiled by technocrats in the Finance Ministry in 1996. Alec Erwin has verified that informal discussions did take place between incoming government officials, the business sector and the unions. For instance, Erwin recounted that ANC party leaders met with business representatives at Barlow Rand, a South African conglomerate, to discuss the outlines of future economic policy. However, it is important to note that while Erwin acknowledges that such informal negotiations took place, and that Terreblanche was in fact included in some of these negotiations, he nonetheless maintains that the author’s own account of how the content of the talks is exaggerated and at times flawed. For instance, Erwin maintains that
while a decision was made by senior ANC officials during this period not to antagonize the business community because of all the challenges the incoming government would be facing, the results of the meetings should not be described as a class compromise whereby the ANC was pressured by the business sector to sacrifice the substantive elements of its redistributive platform.  

Alan Hirsch has also highlighted the significance of the business sector’s exerted effort to direct the future course of the ANC’s commitment to redistribution. The former official noted that near the end of apartheid the corporate sector took the initiative to help broker talks between the National Party and the ANC. By facilitating a peaceful transition, the corporate sector hoped to preserve certain elements of South Africa’s economic structure, such as its oligopolistic organization, while removing others. Redistribution and taxation would be constrained as much as possible, but exchange and capital account liberalization would be promoted. In contrast to Erwin, Hirsch, who was one of the members of technical team that helped craft the 1996 GEAR document, does attribute much of the shift in economic policy to opposition emerging from the business community and the informal talks between the latter and the ANC from 1993-4. Hirsch has maintained that the campaign by the corporate sector to bring an end to apartheid and then to influence post-apartheid government/business relations was far more influential in shaping economic policymaking than any efforts put forward by the IFIs in this context. Hirsch situates

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84 The information in this paragraph was derived from an interview with Alec Erwin, former Minister of the DTI, Cape Town, January 9th, 2017. As noted in previous chapters, Erwin tends to attribute far more influence to the global capital markets as decisively shaping economic policymaking in the post-apartheid period. In terms of the persistence of market orthodoxy in South Africa, Erwin’s position is closer to the central argument advanced in this dissertation.
this campaign by the business sector within its long-term strategy to internationalize their operations after the termination of apartheid.\textsuperscript{85}

A 2002 discussion paper released by COSATU, entitled ‘Theory of the Transition,’ and cited in the previous chapter, identified two separate socio-economic perspectives: one which advocated for an interventionist state, while the second position adopted a far more cautious approach in light of the globalization of capital and the disintegration of the Soviet Union. This socio-economic divide within the movement was largely masked during the early 1990s, however, and thus the shift in policy that accompanied the democratic transition appeared to be abrupt and was unexpected.\textsuperscript{86} The South African corporate sector, specifically the large conglomerate firms, exploited this divide within the ANC to great effect. As Neil Coleman, the strategic coordinator for COSATU and a former special advisor to the Economic Development Department (EDD) put it, “The neoliberal shift in South Africa cannot be solely attributed to objective forces; subjective factors, businesses’ influence over political officials, were also responsible.”\textsuperscript{87}

In addition to the discussions that took place between the corporate sector and the ANC, business associations also exerted some effort to influence future economic policymaking. For example, the South African Foundation (SAF), on behalf of fifty of the largest corporations in the country, increased their pressure on the ANC during this period by publishing a document in February of 1996 entitled \textit{Growth for All}, which again highlighted the danger of macro-populist policies based on redistribution and state intervention in the economy. The document called

\textsuperscript{85} The information in this paragraph is based on an interview with Alan Hirsch, Former Chief of Industry and Technology Strategy, DTI, Cape Town, January 10\textsuperscript{th}, 2017. See also Alan Hirsch, ‘Fatal Embrace: How Relations between Business and Government help to explain South Africa’s Low-Growth Equilibrium,’ (Forthcoming, 2017). The removal of capital and exchange controls on non-residents as part of business’ international strategy will be discussed further below.

\textsuperscript{86} COSATU, ‘Theory of the Transition,’ 2002, pp. 5-6.

\textsuperscript{87} Personal Interview, Neil Coleman, Strategic Coordinator for COSATU and Former Special Advisor to the EDD, June 22, 2017.
specifically on the government to exercise fiscal restraint, and singled out social security and welfare programs as especially debilitating for economic growth due to the disincentive effect such expenditure created on the supply of labor and the waste of resources it involved due to the diversion of capital to interest payments (Terreblanche 2002: 113).

Moreover, during the period of the early 1990s the business community embraced a corporatist social arrangement by throwing its support behind the formation of Nedlac, which, as mentioned in the introduction, was a bargaining body created so that capital, labor, and the state could negotiate economic and social issues before their introduction in parliament. This institution will be discussed in greater detail in Chapter 5, suffice to say that from the standpoint of big business the creation of Nedlac would serve as another mechanism to enable the corporate sector to shape the direction of economic policymaking. In fact, Raymond Parsons, who served as a business convenor at Nedlac, stated in an address to the Economic Society of South Africa, that once it became clear that the “ANC and its allies would assume the dominant role in any future government—so concern grew within business over the extent of the ideological divide, the kind of economic policies that might be adopted, and its own ability to influence future policymakers” (Parsons 2006: 6).

Business leaders also published papers and opinion pieces pushing for market orthodoxy throughout the period of the transition. Leslie Boyd, the Deputy Chairman of Anglo-American, wrote the following in the widely circulated labor journal, SALB:

In order to attract investment, and indeed to encourage more investment by South African companies, you need an environment that is totally conducive to investment...The one thing that needs to be established is that we are going forward on the basis of a free market economy. We have to have low inflation. We need a climate of low taxation. Personal tax also needs to be kept low. In South Africa we have the financial rand and we have exchange controls. There will be no major investment in this country—I think I can
say this with complete confidence—until we remove exchange controls, certainly for foreigners. There are enormous opportunities to privatize in this country. Privatization gives the message to the world that you are serious about a free market economy, so it is an absolute must (Boyd, cited in Bassett 2008: 191).

Despite the attempt to frame the shift to market orthodoxy as a strategy to encourage domestic investment and stimulate economic growth, the large conglomerates were in fact more concerned with cultivating the new accumulation strategy that involved corporate restructuring and asset relocation. Thus, having been confined to the domestic sphere throughout apartheid, the conglomerates now ‘wanted the freedom to move their capital out’ (Bassett 2008: 194).

Indeed, the shift to market orthodoxy enabled these companies to shed their non-core activities and specialize in order to become competitive abroad. A key component of this rationalization involved the removal of trade protection. As noted in Chapter 1, South Africa underwent significant trade liberalization in the post-apartheid period, which was designed to rationalize production and weed out inefficiencies, and thus played a crucial role in the process of unbundling. A number of studies have drawn a link between the trade liberalization that took place in the 1990s and increased efficiency across South African sectors. Thurlow (2006: 3) conducted a review of several studies and concluded that trade liberalization in the country was linked to higher exports, greater economic growth and rising total factor productivity (TFP). Similarly, Ramos and Mabugu (2014: 260-1, 265) have illustrated that trade liberalization during the post-apartheid period was associated with rising labor and total factor productivity, although this has generated higher unemployment. The authors also conclude that tariff reductions generate a small increase in economic growth, as well as rising exports over the long-run. Finally, Vickers (2014: 61-2) has argued that the evidence shows that comprehensive tariff reform in South Africa has
increased exports, but that financial deregulation has led to persistent current account deficits as dividend and interest payments are remitted abroad.

Moreover, Chabane et.al (2006) undertook a study of South Africa’s post-apartheid business environment in order to determine what impact liberalization has had on the country’s conglomerate structures. The authors point out that diversification and conglomerate restructuring has in fact occurred since the shift to democracy in 1994, though oligopoly and market power remain part of the economic landscape (see also Makhaya and Roberts 2013; Roberts and Rustomjee 2010). For instance, heightened Merger and Acquisition (M&A) activity after exchange rate and capital account liberalization led to significant shifts in ownership patterns and capital restructuring in general. In 2004, for example, only 41 of the top 100 companies listed on the JSE (by market capitalization) in 1994 still maintained their position a decade later. Moreover, the ownership structures of the companies had undergone a transformation, so that by 2004 the number of firms on the JSE among the top 100 that were controlled by the top six conglomerates in 1994 had been reduced from 83 to 47.

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<td>85.9</td>
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Table 7: Market Capitalization of the Top Six Conglomerates as a Percentage of the JSE
Table 7 depicts the transformation of the top six conglomerates in terms of their market capitalization on the JSE from 1985-2004. As the chart illustrates, liberalization measures since the 1990s have in fact led to a decline in the level of concentration since the 1980s. The leading conglomerate companies represented 38.5% of the market capitalization on the JSE compared to 82.3% in 1985. This unbundling of the major conglomerate corporations, facilitated largely through M&A activity, thus encouraged a shift away from diversified operations and investments to focus on core competencies (Isaacs 2014: 14). One example of this is SAB Miller Breweries, which, in 2014 divested its ownership stake, worth $1.1bn, in Tsogo Sun, a South African hotel and gaming company. Chabane et al (2006: 557) also draw attention to the fact that the sectoral composition of the conglomerates has shifted as well, with the number of companies engaged in finance and services having risen significantly, although six of the top twenty firms are still predominantly involved in mining operations.

As discussed in Chapter 1, the adoption of a new accumulation regime by the large firms within South Africa’s business community, which, as noted, has entailed the outward expansion of capital, also coincided with a general shift to financial activities on a global level, a process labeled by scholars as financialization. This has important implications for South Africa’s domestic economy and the trajectory of post-apartheid policymaking. In an updated study of the MEC model, Fine (2012) has argued that in the post-apartheid economic landscape the financialization of conglomerate domestic capital as a result of market orthodoxy has witnessed

largely rent-seeking extractive oligopolistic behavior as opposed to increased price competition. In fact, Fine estimates (2012: 556) that illegal capital flight, through practices such as transfer pricing, exceeded 20% of South Africa’s GDP in 2007. Additionally, Chabane et al. (2006: 558) point out that during five out of the ten years from 1994-2004 outflows of capital have exceeded inflows, and that most of the inward FDI in South Africa has been “market-seeking” as opposed to green field investment.89

The outflow of dividend and interest payments is depicted in Figure 7. Note that both payments to foreign and domestic investors have followed an upward trajectory since 1995, the year the capital account was liberalized for non-residents. Furthermore, although the dividend to export ratio has fluctuated, the outflow of such payments reached nearly 14% in 2014. This outflow of capital since the democratic transition has further eroded the tax base in post-apartheid South Africa, thus reinforcing the ANC’s dependence on the global financial markets for fiscal expansion, as discussed in Chapter 2.

89 “Market-seeking” investment refers to acquisitions of pre-existing companies in contrast to the construction of new plant and productive capacity. This type of FDI does very little in the way of generating employment or stimulating economic growth. The full implications and rationale of market-seeking investment in post-apartheid South Africa will be discussed in the next section of this chapter.
Figure 8 depicts South Africa’s trade trajectory for merchandise, manufacturing, and high technology exports. As the graph illustrates, manufacturing exports have followed an upward trend since 1981, and stood at 50% of total merchandise exports in 2014. However, the percentage of strategic, high technology goods that make up this proportion is quite low, reaching a high of 8.7% of all merchandise exports in 1998 and then declining to 5.9% in 2014. In fact, much of the surge in the manufacturing share of South African exports is attributable to the DTI’s Automotive Investment Scheme (AIS), which incentivized the production of automobile component parts by offering a tax-free cash grant of 25% of the investment in productive assets. However, such exports have not led to significant improvements in the current account, especially since, as previously noted, an open capital account enables the persistent repatriation of dividend and interest payments. Moreover, as Edwards and Alves (2006: 478) point out, if agro-based and mineral-based manufactures are excluded from the manufacturing category (which is consistent

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with an MEC analysis), then resource-intensive products still account for 60% of all of South Africa’s exports. In addition, total merchandise exports as a percentage of GDP have fluctuated between 20-25% since 1995.

![Graph: Merchandise and Manufacturing Exports, 1981-2014](image)

**Figure 8: South African Merchandise and Manufacturing Exports, 1981-2014.**
Source: SARB for Total Merchandise Exports; World Bank Database for Manufacturing and High Technology Exports. Note: The gaps in the series represent years for which data

Moreover, this outward projection of South African based companies, as well as the inflow of foreign capital in the context of general capital mobility, has been recognized as a crucial component of the country’s post-apartheid political economy by the ANC government. In the 2000 budget review the Treasury highlighted, for example, that with the reduction of exchange controls corporations have restructured “into focused international groupings,” and that “the foreign listing of several large South African companies during 1999 contributed significantly to the inflow of funds, as foreign investors bought shares from South Africans.”[^91]

document from the Treasury further encourages the international growth and expansion of South African companies.\textsuperscript{92}

Indeed, regional integration with other African countries has been identified as a primary strategy for economic growth and has been cultivated by post-apartheid policymakers. By the year 2000, South Africa had emerged as the largest source of FDI for the rest of Africa; by 2001 investment throughout the continent had increased by 300% since the democratic transition, as the domestic capital that had been largely confined within the country due to sanctions and capital controls began flowing outward into surrounding countries to take advantage of higher returns (Adebajo 2007: 40). Throughout this period South African transnational corporations established control over 80% of the regional economy, which has enabled the country to reap the benefits of a 9:1 trade balance with other economies in the continent (Adebajo 2007: 30). South African firms have accumulated substantial interests in Tanzania’s national electricity company, Cameroon’s national railroad, and shopping centres throughout the continent (Adebajo 2007: 40). A former Chief Director of Fiscal Policy at the Treasury stated that in light of such developments regional economic integration had become an extremely important component for facilitating growth through exports.\textsuperscript{93}

The South African State-owned Industrial Development Corporation (IDC) has also actively promoted the policy of regional integration. As of 2012, the IDC had invested in 60 projects in 21 African countries, facilitating infrastructural investment and bilateral ties with host countries, and the DTI has spearheaded a Capital Project Feasibility Program designed to determine the cost of projects outside of South Africa that could potentially stimulate local exports.

\textsuperscript{92} National Treasury, 2016.
\textsuperscript{93} Personal Interview, Former Chief Director of Fiscal Policy, National Treasury, Pretoria, October 8\textsuperscript{th}, 2013.
and expand the market for South African capital goods and services (Carmody 2012: 225). By 2005, all but 8 of the largest 100 corporations listed on the JSE had operations in other African countries; however, after subtracting for infrastructure, the composition of this investment has been largely extractive, comprising mainly of mining, telecommunications and oil and gas (Carmody 2012: 225).

This outward expansion has benefitted multiple firms within the MEC. Such firms include AngloGold Ltd, Sasol Ltd, Stanbic Africa, ABSA, and Naspers Ltd, as well as telecommunications firms such as MTN Group Ltd (Alden and Le Pere 2009: 156). This expansion by South African capital, as well as the SOEs such as the IDC and the energy giant Eskom, throughout the Southern Africa region has bred resentment among the local populations. A great source of this resentment arises from the trade surplus South Africa enjoys with the rest of the continent and the fact that South African transnational corporations have aggressively acquired local counterparts through vertical integration, “where very few inputs are sourced locally, and there is very little knowledge and skills transfer, let alone training and hiring locals at management levels” (Alden and Le Pere 2009: 160). Moreover, much of the trade surplus South Africa enjoys with the continent has flowed from this type of vertical integration. For example, South African retailers opened shopping malls and entertainment franchises in the city of Lusaka, and devalued inventories of goods were then imported from South Africa (Saunders et al., 2008: 2). Additionally, Shoprite, a major South African retail firm, has opened 70 outlets in Nigeria but imports most of the goods from South Africa in contrast to local companies (Carmody 2012: 230). This process of regional expansion through trade and vertical integration also provides an outlet for South African produced goods that are not competitive on international export markets (Taylor 2011: 1238).
The internationalization of South African firms was highlighted by participants at the conference on financialization discussed in Chapter 2, and several presenters linked this process to South Africa’s integration with global financial markets and the general shift to financial activities by non-financial corporations in the domestic arena. For instance, Ashman et al argued that financialization enabled South African corporations to increase their rents through unproductive domestic operations which are then channelled abroad to consolidate their position in global value chains where rates of return are higher.\footnote{Sam Ashman, Seeraj Mohamed and Susan Newman, ‘Financialization of the South Africa Economy,’ Financialization Conference, EDD, October 3rd, 2013.} In this sense, capital inflows, attracted by short-term high interest rates as discussed in Chapter 2, provide some of the financing for South African corporations to globalize their operations, and capital account liberalization fuels the entire process.

In the aftermath of the conference I interviewed a senior official in the Treasury who had attended the event. I asked specifically about the Treasury’s policy on capital controls and why, considering their effectiveness in other national contexts in regulating financial flows and preventing excess capital from migrating abroad, government officials have thus far chosen not to regulate or restrict outflows for non-residents and corporations with listings on foreign stock exchanges. The answer she offered again highlighted the globalizing interests of South Africa’s corporate sector and conglomerate capital. The official stated that capital account liberalization was, and remains, a vitally necessary policy change because ‘firms require a lot more fluidity’ in order to ‘increase their linkages with global value chains,’ and because firms are ‘a lot more comfortable knowing they have access to funds and can move them out.’ In other words, the ability of South African firms to borrow from financial institutions or to use their own retained profits to
invest abroad in branch plants where it is possible to realize higher rates of return remains an important driver of market liberalization in South Africa.  

The outflow of FDI to Europe and other countries in Africa has been matched by stagnation in productive investment in the domestic arena, even in the mining industry, where South Africa enjoys a comparative advantage, and which is an industry that requires large amounts of fixed capital to operate at a profit. This stagnation can be attributed to both supply constraints and the sectors’ integration into the global financialized circuits of capital. As was discussed in Chapter 1, industrialization in South Africa evolved around the minerals-energy complex (MEC), now with a financialized bent, with many of the firms represented by the Chamber of Mines. Since the democratic transition, and with the implementation of the neoliberal growth model, the sector has focused more on shareholder value than on growth and the expansion of capacity through productive investment.

During the commodities boom, for example, which was interrupted by the 2007/8 global financial crisis, the three largest platinum producers in South Africa, including Anglo-American, realized a value-added profit share of over 60%, of which nearly half was distributed to shareholders, many located abroad, instead of being channeled into wage increases or new investment (Bowman and Isaacs 2015: 648). In fact, while the platinum producers did invest some of their profits into new mining projects during this period, for the most part the mining industry did not take advantage of the commodities boom to invest in new plant and capacity, and instead

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95 Personal Interview, Former Deputy Director General of Economic Policy, National Treasury, Pretoria, October 3rd, 2013.
96 The Chamber represents approximately 90% of all companies operating in the minerals sector. Members include Anglo-American; Anglo-Platinum; ARM Platinum; Gold Fields; Harmony; Implats; Pan African Resources; Anglo Coal; DeBeers; Petra Diamonds; Platinum Group Metals; and others. There is cross-membership between the Chamber and the South African Chamber of Commerce and Industry (SACCI), formerly SAF, which will be discussed further below.
simply took advantage of the rising share prices to borrow on the capital markets and engage in speculative operations.\(^\text{97}\)

In a recent study on the ‘Finance-Mining Nexus in South Africa,’ Ewa Karwowski (2015) demonstrates, through an original empirical analysis of the annual company reports of South African mining companies listed on the JSE, that the deepening of financial and capital markets since the transition has, contrary to conventional economic arguments, served to undermine productive investment in fixed assets. Specifically, Karwowski argues that non-financial firms with a cash + cash equivalent/liabilities ratio that exceeds 45\% are generally overcapitalized (mining) companies. It is further argued that non-financial firms that are overcapitalized are holding onto excess cash reserves not to finance their core business activities, but rather for speculative purposes, utilizing the equity markets simply to profit from short-term asset price inflation as opposed to productive endeavors. The author’s data shows that there is a concentration of overcapitalized non-financial firms in the basic materials industry, and Karwowski thus argues that many such firms are utilizing the equity and capital markets for the purpose of financial speculation and not productive, employment generating investment. Additional studies have also documented the link between financialization, corporate tax evasion, and declining rates of investment and stagnation in the context of the accumulation regime in post-apartheid South Africa (see Ashman et al 2011; Isaacs 2016; Newman 2014; Newman et al 2013).\(^\text{98}\)

The low rates of productive investment can also be attributed to supply constraints in the South African economy, most notably energy shortages. A cabinet decision was made in 1998 that

\[^{97}\] Personal Interview, Chief Director of Modelling and Forecasting, National Treasury, Pretoria, December 7\textsuperscript{th}, 2016.

Eskom was operating well below full capacity, and that further investment was not necessary in the context of domestic economic growth rates. However, once the global commodities boom began the level of world wide demand for primary products greatly exceeded the productive capacity of the mining firms given the current levels of energy available to support expansion. As a result, productive investment was curtailed.  

The integration of the mining sector into the financialized circuits of capital, and the concomitant stagnation in productive investment, highlights an important component of Pepinsky’s (2009) analytical framework, as discussed in Chapter 2. Recall that Pepinsky argues that if a coalitional alliance is dominated by economic actors with non-mobile assets, such as investors in fixed assets or labor, then state officials will be more likely to find support for non-orthodox economic policies such as capital account regulation and expansionary fiscal policies. However, since the MEC is now integrated into speculative global financial circuits, and given the supply constraints in the domestic economy, the mining industry also has a vested interest in maintaining global capital inflows and outflows through a liberalized capital account. In other words, since the equity markets are largely being employed by mining companies to inflate asset prices and to issue new stock without the accompanied investment in productive operations, it is possible to argue that this financialization of non-financial corporations in the mining sector has helped shape macroeconomic policies. Firms in this sector do not have as much of an incentive to lobby for non-orthodox policies such as capital controls on inflows.

Capital inflows are, in fact, largely responsible for the disjuncture between South Africa’s equity markets and the country’s actual economic growth rate. Even though GDP has remained

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99 The information in this paragraph was derived from an interview with the Director of Debt Issuance and Management, National Treasury, Pretoria, December 13th, 2016.
sluggish at 2% over the last couple years, the JSE has consistently rallied during the same period, facilitating the delinking of asset prices from the underlying real economy. As the *Wall Street Journal* put it, “Stocks soar as South African Economy stumbles; foreign investors prop up the Johannesburg exchange.” The article noted that global investors and asset managers were pouring money into South African equity stocks despite low growth rates for the simple reason that a great deal of the corporate profits of South African multinational companies were earned *outside* of South Africa. The article quoted global investment managers who remained optimistic because of outward investment by South African corporations, despite the fact that the mining sector was plagued by supply problems such as rolling electricity blackouts and labour strikes.100

Domestically, the South African corporate sector has generally continued to lobby in support of the macroeconomic policies associated with the neoliberal growth model. As noted, the other major business associations in South Africa are the South African Chamber of Commerce and Industry (SACCI) and Business Leadership South Africa (BLSA) (formerly known as the South Africa Foundation). As noted, members and representatives from these associations can attempt to negotiate and introduce economic policy ideas in the various chambers of Nedlac before the relevant government ministers submit the matter to parliament.

SACCI, which also has a voice on Nedlac, represents over 20,000 small, medium, and large enterprises across the country, including some of the largest multinational corporations such as Anglo-American and Philip Morris South Africa. As a result of the composition of the Chamber, the association sometimes must adopt different approaches regarding certain aspects of macroeconomic policymaking. As the SACCI CEO Alan Mukoki stated, “the big boys

[multinational corporations] always want a free flow of capital in and out of the country, while the little guys sometimes want protection.”

However, despite occasionally lobbying for certain protective measures, SACCI has generally supported, and lobbied in favor of, the central economic indicators of the current neoliberal growth model. For example, regarding fiscal policy, the Chamber takes the position that once debt servicing and the debt/GDP ratio breaches a threshold that causes the global ratings agencies, financial institutions and other external organizations to begin to take notice and deliberate over potential downgrades, then such expansionary fiscal policies must be opposed. Moreover, Mukoki asserted that the Chamber is deeply concerned about inflation and thus has a keen interest in the government’s current IT monetary policy, and was also primarily interested in securing long-term “macroeconomic stability.”

It should also be noted that the association’s professed commitment to lobbying, emphasized by Mukoki during our interview, highlights the extent to which the business community has largely bypassed corporatism by abandoning Nedlac as a forum for economic policymaking, with the exception of wage negotiations, opting instead to attempt to influence the government through channels that allow it to ignore the interests and preferences of organized labor. This development will be further examined in Chapter 5.

Mukoki also emphasized the need to reduce unemployment and stimulate economic growth and investment by strengthening institutions and investing in education and skills training. The latter form part of the central ‘pillars’ that SACCI endorses for economic growth and development, another one being ‘strong markets.’ An interesting point made by Mukoki, briefly mentioned in

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101 Personal Interview, Alan Mukoki, Johannesburg, December 6th, 2016. The ‘little guys’ Mukoki was referring to comprise the textile and steel manufacturers who often face an onslaught of imports from Chinese manufacturers, and thus occasionally lobby for protective tariffs.
Chapter 2, was that the government could potentially crowd in investment if the domestic pension funds would lend to the state at lower interest rates, but the perceived political and economic risks compel the fund managers to invest mainly in equities. Despite SACCI’s endorsement of investment in education and human capital, the association’s commitment to macroeconomic stability in the context of global capital inflows make the former difficult to realize.102

Also active in the area of domestic macroeconomic policymaking is Business Leadership South Africa (BLSA). The BLSA represents the largest multinational firms and investors operating or domiciled in South Africa, and many of these businesses are among the multinational companies that have significant investments in other countries on the continent.103 In 2004 the BLSA surveyed executives and managers at 25 of the largest corporations listed on the JSE and asked them what type of economic policies might compel them to increase their investment in fixed capital assets. Their response, in order of importance, is listed in Table 8 below.

102 Ibid. Mukoki was referring to the specific type of ‘macroeconomic stability’ that is generally favored by the IFIs and the global ratings agencies; in other words, a low debt/GDP ratio, low inflation, and a competitive corporate tax rate. The association also fiercely opposes most regulations, and is currently lobbying against potential warning labels for foods with high sugar content and tobacco products. The association was also in talks with labor and the government over a national minimum wage, which they oppose.
104 There is cross-membership between the BLSA, SACCI, and, as noted, the Chamber of Mines. BLSA members include Anglo-American, Sasol Limited, South African Breweries, Shell Downstream South Africa, Nestle South Africa, MTN Group Limited, Barlow World Limited, and other large multinational firms that are listed on the JSE, foreign exchanges, and which comprise the MEC. A crucial difference between the BLSA and the other two associations is that SACCI and the Chamber of Mines include many start-up firms and small/medium enterprises. As noted earlier, many of the firms belonging to the BLSA took the initiative in helping to facilitate talks between the NP and the ANC.
Policy Preferences of the 25 Large Corporations in South Africa

1). Investment incentives or tax relief for fixed investment

2). The need to reduce the negative impacts on business of various legislative and policy initiatives aimed at racial transformation in business

3). The need for a more flexible labour market, for sound macro economic policies to continue and the lifting or lightening of exchange controls, import tariffs and duties

4). Combating crime and corruption, less racial favouritism, a contract with labour to encourage wage restraint, the stimulation of local savings and lowered interest rates

Table 8: SA Corporate Sector’s Macroeconomic Policy Preferences

The policy recommendations, especially 1-3, were all aimed at deepening the neoliberal growth model and accelerating the pace of deregulation. As noted in the table, the absence of sufficient investment levels was largely attributed to South Africa’s corporate tax structure and the reduction of corporate taxes was thus framed as the solution; moreover, the 25 corporations surveyed favored the type of liberalization policies which promote unobstructed inflows and outflows of capital across the continent, which is consistent with the new accumulation strategy discussed earlier, involving FDI in countries within Africa and in Europe that offer a higher rate of return on capital.

In 2007 the BLSA released another position paper entitled ‘Déjà Vu?, which criticized the DTI’s National Industrial Policy Framework while highlighting exchange rate competiveness as the preferred method of export competiveness. The paper took issue with the DTI’s proposal to diversify South Africa’s export basket through targeted intervention, such as tariffs and taxes on exports of mineral commodities, arguing instead that the “most effective tool in the industrial
policy-makers’ toolkit is exchange rate manipulation,” and that “if one can control the side-effects of an artificially weak currency, manufacturing exports will respond.”\textsuperscript{105} The paper went on to advise the DTI against adopting tariff protection for strategic industries, arguing that trade liberalization has provided vital benefits to the economy. Finally, the authors of the report concluded that the DTI lacked the necessary capacity for successful interventionism, and suggested that there was reason to believe that the department had been “captured” by the automobile manufacturing firms.\textsuperscript{106} In general, the association continued to champion market orthodoxy as the path to industrial competitiveness and economic advancement.

The BLSA also champions labor market flexibility as a solution to South Africa’s unemployment problem, and in a policy paper published in 2009 argued that concessions to labor unions, in conjunction with inflation targeting and trade liberalization, had created an economic climate in which business was persistently shedding unskilled workers. Among the main proposals floated in the paper was the recommendation to establish export-oriented, industrial development zones, while granting massive tax and tariff concessions, as well as other regulatory incentives, to businesses operating in such areas; the creation of employment schemes in rural areas where everyone applying for a job would receive one at subsistence wages only; and offer year long exemptions to employers hiring first time youth workers in the area of hiring and firing laws, along with large tax breaks.\textsuperscript{107}

The proposal outlined in the position paper to increase employment generating economic growth is similar to the model adopted by certain East Asian states during the initial stages of

industrial upgrading, and is generally favored by the business community as a solution to South Africa’s unemployment problem. However, the presence of COSATU in the tripartite alliance and the strength of the trade unions serve as an impediment to this type of proposed development strategy. The senior manager of the treasury at Land Bank South Africa, for example, attributed the high rate of unemployment in the country to “minimum wages that prevent employers from employing staff at a rate that both parties would be prepared to work/pay for,” and that such a situation “reflects the strong political bargaining power of organized labor.”\textsuperscript{108} Moreover, it was stated that despite some noise being made by opposition parties and business associations, it was highly unlikely that the ANC would be able to adopt a labor intensive export industrialization program precisely “due to overprotective labor laws.”\textsuperscript{109} Although the Economic Development Department (EDD) is currently in the process of developing a plan that utilizes special economic zones where goods would be produced for export, the details of this plan will be determined through consultation with the labor unions.\textsuperscript{110}

The issue of corporate taxation is also quite relevant in post-apartheid South Africa because of the large unemployment problem. In 2016, the South African corporate income tax rate for both resident and non-resident companies stood at 28%.\textsuperscript{111} In fact, 30% of all taxes are paid by the top earning classes in South Africa; and while the effective tax rate is not substantially lower when compared to other emerging market economies, the legacy of apartheid and segregation created problems relating to social inequality that warranted a higher corporate tax rate (see Terreblanche 2002: 117). In fact, as was discussed in detail in the last chapter, the proportion of the South

\textsuperscript{108} Personal Interview, Senior Manager, Land Bank South Africa, Pretoria, November 6\textsuperscript{th}, 2013.
\textsuperscript{109} Ibid.
\textsuperscript{110} Personal Interview, Deputy Director: Strategic Frameworks, EDD, Pretoria, December 15\textsuperscript{th}, 2016.
\textsuperscript{111} Pricewaterhouse Coopers, ‘South Africa: Corporate-taxes on corporate income.’ http://taxsummaries.pwc.com/ID/South-Africa-Corporate-Taxes-on-corporate-income
African population receiving some of form of a social grant, in conjunction with the small tax base, necessitate a constant flow of foreign capital to fill the gap. Nonetheless, the BLSA, as documented above, has called for lower taxes as a method of stimulating investment and economic growth.

Significant controversy also surrounded the introduction of the Mineral and Petroleum Resources Development Act (MPRDA) in 2002. The Act established that in exchange for the right to mine non-renewable natural resources, the mining companies would have to pay a royalty to the Treasury of 5% from their gross sales value (Zwan 2013: 645). Although the MPRDA has come under attack in recent years by opposition groups such as the ANC Youth League, who have called for the complete nationalization of the mining industry as a strategy for dealing with high unemployment and inequality (Zwan 2103: 642).112

Nonetheless, while the draft bill was under consideration in parliament the mining industry, through the Chamber of Mines, lobbied vigorously against it. The Chamber released a memorandum in 2000 to the Director General of Minerals and Energy at the Department of Minerals and Energy. The Chamber argued in this 225-page memo that several of the proposed elements within the Minerals Resources Act violated the economic principles outlined in the ANC’s 1996 GEAR document. For instance, the memorandum took issue with the proposal to impose an export duty on diamonds as a method of promoting beneficiation, stating that such a policy would not produce “international competitiveness or align itself with market trends.” Moreover, the memo asserted that if the government did in fact insist on an interventionist policy then such a strategy should aim to boost the “competitiveness of the South African diamond cutting industry” through “training, increased labor flexibility, and broadening diamond skills and

112 This topic will be discussed in greater detail in the next chapter.
enhancing market capabilities.” Perhaps most tellingly, the memo stated that the “economic thinking” behind the interventionist policies outlined in the MPRDA was “autarkic and simply not aligned to government policy to liberalize all regulated sectors of the South African economy.”

After extensive deliberations the MPRDA was passed by parliament and came into effect in 2002. Mining companies are, as noted, now required to pay a portion of their gross sales revenue to the Treasury in exchange for mining rights. However, the bill did not include the proposed export levy on diamonds or other natural resources. In 2005, the Diamonds Amendment Acts was passed. It required diamond producers to sell a certain percentage of their rough diamonds at the market rate to the State Diamond Cutter, who would then transfer the diamonds to a local diamond cutter in order to facilitate value added production at the domestic level. The export levy on diamonds that had been passed by parliament in 1986 was reduced and certain provisions were put in place to enable producers to bypass the duty altogether.

Additionally, aside from the direct lobbying efforts of the various associations, the business community enjoys direct access to key ANC officials. This type of direct influence was exercised when President Zuma first dismissed Finance Minister Gordhan, who was highly favored by the corporate sector. Aside from the reaction of the financial markets, which was discussed in the previous chapter, the firing provoked a great deal of concern within business circles as well, and Zuma reversed his decision after he met with several ANC aligned business executives who impressed upon him the dangerous domestic and global implications of appointing an individual as the Finance Minister who did not have the confidence of the markets, a point with which several

senior party officials agreed. Moreover, in the context of globalization and the South African business community’s new accumulation regime, which prioritizes cross-border investment, there are clear structural realities that would make certain interventionist policies difficult to implement. The sheer size of the business sector in South Africa enhances the structural power the community wields in relation to the state, thereby reducing the likelihood of progressive policies that generate a short-term decrease in business confidence (see Handley 2005). Higher taxation, in the absence of capital controls on outflows, could result in even lower rates of domestic investment and capital flight. Furthermore, the integration of South African multinational firms into global supply chains and the number of corporate subsidiaries operating on the continent and across the globe would make higher tax rates difficult to enforce. Indeed, senior officials in the Treasury believe that a primary argument against increasing the corporate tax rate is that corporations would attempt to evade the new regulations through the practice of transfer pricing, which is already the source of much capital flight in South Africa.

All the above issues pertaining to corporate taxation, domestic stagnation, and outward investment are related to the structural features of post-apartheid South Africa’s economy. Despite the unbundling and rationalization that took place in the aftermath of liberalization, oligopoly and concentration continue to define the market at a sectoral level. In fact, a 2013 report released by the South African Reserve Bank (SARB) attributed the country’s chronic unemployment problem and slow growth rates to its oligopolistic market structure. For example, the report stated that “The high levels of market concentration shown in [price] mark-up studies represent a serious underlying constraint to South Africa’s potential for achieving sustained higher growth...”

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115 Personal Interview, Head of Policy and Development, Reserve Bank, Pretoria, December 14th, 2016. This information was also confirmed during an interview with Alan Hirsch, Former Chief Director of Industry and Technology Policy at the DTI, and former Deputy Director General of the Presidency, January 10th, 2017.
116 Personal Interview, Director of Debt Issuance and Management, Pretoria, December 13th, 2016.
percent reduction in South African mark-ups would increase productivity growth by between 2 percent and 2.5 percent per year.\textsuperscript{117}

In fact, this is one of the primary reasons why inward FDI in South Africa is not traditional ‘green-field’ investment. Much of the FDI that has flowed into South Africa during the post-apartheid period has taken the form of investment by foreign companies into pre-existing domestic firms, in contrast to the construction of new plant and equipment.\textsuperscript{118} This form of FDI, which does not involve the construction of new plant and capacity, requires a liberalized capital account so that global investors can channel funds into corporate equities and bonds.\textsuperscript{119} The reluctance of foreign investors to build new plant alongside pre-existing domestic firms can partially be attributed to the high barriers of entry, and thus low competition, existing at the sectoral level.\textsuperscript{120} Moreover, the low rates of return in post-apartheid South Africa, which are related to the high rates of market concentration and excess capacity, are responsible for driving South African corporations abroad in search of higher profits.\textsuperscript{121}

This peculiar form of FDI was highlighted by the Director of Economic Policy and Analysis at the Treasury and current Head of Research at the Reserve Bank, who referred to specific cases of domestic company acquisition: “In some ways this is a very developed market but also a very small market,” he stated. “What that means is that you have very established players and established firms in a lot of industries, so if you want to do FDI then the deals that come into

\textsuperscript{118} Personal Interview, Former Director of Economic Policy and Analysis, October 3, 2013.
\textsuperscript{119} As previously noted, one option available to policymakers, however, would be to impose a tax on inflows in order to ensure that investment in stocks or bonds must be held for a certain duration to avoid sudden reversals, much like the Chilean model. Aside from the issues discussed in the last chapter, most of the officials I spoke with stated they would be reluctant to impose such controls out of fear that investors would simply reallocate their funds; moreover, as noted in Chapter 2, the depreciation of the rand that would follow from such regulations would raise the risk premium on assets and raise the yield.
\textsuperscript{120} Personal Interview, Chief Director of Modelling and Forecasting, National Treasury, Pretoria, December 7\textsuperscript{th}, 2016.
\textsuperscript{121} Personal Interview, Alan Hirsch, Cape Town, January 10\textsuperscript{th}, 2017.
this country are about buying outright other companies.”

He then went on to cite several important examples, including Walmart’s purchase of a large retail chain in South Africa, Mass-Mart. As he further stated, “It is a very odd pattern of FDI that we have; we do not have a steady flow. We have these one-off inflows of capital.” Additionally, in the context of the country’s low domestic savings rate and the new accumulation regime premised on outward capital migration, South Africa is now largely dependent on foreign capital inflows to fund even limited fixed capital formation.

The prevalence of oligopolistic market structures in the post-apartheid landscape and the low rates of return on capital would also render certain heterodox policies aimed at stimulating investment ineffective unless accompanied by other interventionist measures. Indeed, when I asked the current Head of Policy Research at the Reserve Bank about employing capital controls on outflows as a mechanism for “locking capital down” and diverting it into domestic projects, he offered the following reply: “If you lock capital down in that fashion with capital controls, the capital currently migrating abroad would simply sit in the bank and earn interest. It would not be invested domestically.” In other words, extractive, rent-seeking behavior by oligopolistic firms serves as a barrier to domestic investment while also driving idle capital abroad.

122 Personal Interview, Current Head of Research, South African Reserve Bank, October 3rd, 2013.
123 Ibid.
124 ‘South Africa’s Experience with Capital Flows since the Financial Crisis,’ South African Reserve Bank (July, 2015). In a sense, this situation is simply a reversal of the process that marked the consolidation of the domestic conglomerates in South Africa, which, as noted, was triggered by the rapid sale of corporate shares by foreign investors and their relocation to other countries in Africa. As O’Meara (1996) has argued, this transfer of shares to domestic firms was not accompanied by increased employment and economic growth or the construction of new capacity. Similarly, the massive inflows of foreign capital into domestic firms since the late 1990s, and the listing of South African based corporations on foreign exchanges, have solely represented a transfer of shares back to global investors without generating new investment in plant or higher rates of employment.

125 Personal Interview, Head of Policy Research, Reserve Bank, Pretoria, December 9th, 2016. This Reserve Bank official went on to state that the country has more access to capital now than ever, specifically due to foreign inflows, which was the subject of Chapter 2. While this may be the case, it is important to remember that foreign portfolio
In sum, the business community in post-apartheid South Africa, specifically the large multi-national corporations, has adopted an accumulation strategy based on the financialization of profits and global expansion. In this economic context, the probability that a new heterodox policy course might emerge as victorious over the market orthodoxy of the Treasury officials will depend on whether a new incentive structure emerges. Given the supply constraints currently interwoven into the domestic economy, in conjunction with the shift to financial/speculative activities and the oligopolistic market structure, it is highly unlikely that corporate actors would have any interest in deviating from the present accumulation regime. Thus, pressure to alter policies grounded in market orthodoxy would have to emanate from below, a point which will be discussed in greater detail in Chapter 5.

The final section of this chapter will briefly examine a controversial interventionist program initiated by the ANC in the 1990’s after the transition, namely, the Black Economic Empowerment project (BEE). This program is premised on a specific form of redistribution based on the transfer of corporate shares to the growing layer of black entrepreneurs. A discussion of this program is relevant for two reasons; first, it identifies the level of state capacity that currently exists within government departments and identifies how the latter operate in relation to the corporate sector when redistribution is involved; secondly, it illustrates the extent to which the ANC policymaking has aimed to cultivate a new capitalist class to buttress support for their broader market orthodox economic program.

capital flows into either pre-existing firms or government bonds, and such investments must be serviced through dividend or interest payments, and hence entail an outflow of capital as well.
The State, Anglo-American and BEE

The BEE program forms a crucial element of the post-apartheid economic landscape as it relates to privatization. Although this component of neoliberal orthodoxy did not penetrate very deeply in terms of South Africa’s SOEs, a point which will be further discussed in Chapter 5, the ANC has embraced one aspect of it by requiring purchasers of those limited number of state assets being privatized to distribute a certain number of shares, or management stakes, in a manner that conforms to the equity ownership guidelines of BEE (see Iheduru 2004: 11; see also Rumney 2005: 404). Additionally, the BEE fits within the broader neoliberal project of financialization and an open capital account, since it primarily involves the transfer of conglomerate equity shares between investors as opposed to the construction of new capacity or wide scale redistribution and employment generation (Isaacs 2014: 17).

Although the program was formalised by the ANC after the democratic transition, the roots of BEE in fact predate 1994. The program was initiated by Sanlam, a financial conglomerate, and Anglo-American during the negotiations between ANC officials and the business community (Gentle 2015: 670). Kgalema Motlanthe, who served as President of South Africa for a brief period in 2008 after Mbeki resigned, has stated that BEE was an innovation of the mining industry designed to co-opt South Africa’s black nationalist class of leaders: “They [mining companies] basically went out in search of blacks who were ‘connected’ and therefore could guarantee some sort of protection” against the possibility of radical redistribution. As a result, they cultivated “a small pool of people that they could rope into the first BEE deals.”

Ronnie Kasrils, a member

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126 Neil Coleman, ‘Do we have to choose between a predatory elite and white monopoly capital,’ Daily Maverick, 21 April, 2017. https://www.dailymaverick.co.za/opinionista/2017-04-21-do-we-have-to-choose-between-a-predatory-elite-and-white-monopoly-capital-part-one/#WThrY4WcHzV
of the South African Communist Party who served in the ANC cabinet and was a member of the political negotiations prior to the transition, has noted that representatives from the mining industry met with young ANC economists at the Development Bank of South Africa where such issues were discussed with reports then being made for Mandela.\textsuperscript{127} Thus, the limited form of redistribution that was agreed to during negotiations was fully compatible with the accumulation strategies cultivated by the financialized MEC for the post-apartheid period.

It should be noted, however, that BEE has also led to advances in state capacity, as the example of Anglo-American Corporation demonstrates. As noted, AAC still wields enormous power in post-apartheid South Africa, despite the unbundling and restructuring of the economy in the 1990s that was discussed earlier in the chapter. Yet in certain areas the ANC has succeeded, through a combination of incentives and coercion, in facilitating the conglomerate’s compliance with limited redistributive policies.\textsuperscript{128} One such area was the (BEE) program. BEE went through two phases. In the first phase, financial firms provided the funds for black investors to enable them to acquire shares in existing companies. In the second phase the ANC employed a number of other measures, such as sector specific charters and the promotion of mergers and acquisitions (the latter consistent with the trend of financialization discussed above) as a means of accomplishing the same goal. Although heavily promoted by the MEC, the program was also largely driven by a central political consideration that weighed heavily in ANC decision-making, namely, the

\textsuperscript{127} Ronnie Kasrils, ‘How the ANC’s Faustian pact sold out South Africa’s poorest,’ \textit{The Guardian}, 24 June, 2013. Kasrils’s account of the economic dimension of the transition thus corroborates Terreblanche’s argument regarding the pact reached in secret negotiations between ANC officials and the business community. https://www.theguardian.com/commentisfree/2013/jun/24/anc-faustian-pact-mandela-fatal-error

\textsuperscript{128} See, for example, \textit{Business Day}, ‘South Africa: Mega-Thinking Anglo Blazes a Trail for BEE Deals,’ Charlotte Matthews, October 20, 2005.
cultivation and creation of a viable black bourgeoisie to buttress their own political rule (see Isaacs 2014).

The promotion of BEE has in fact led to the establishment of financial holding companies owned by black South Africans with interests in a number of sectors, especially mining. The incorporation of black South African capital into mining and other industries is similar to the incorporation of Afrikaner capital into the MEC (Ponte, Roberts and van Sittert 2007: 938), although an important difference is that the latter involved investment in the real economy and the formation of new manufacturing industries, while BEE has largely entailed investment in pre-existing enterprises through the transfer of shares to largely politically connected black entrepreneurs (Tangri and Southall 2008: 700). In this sense, it is consistent with the overall trend of FDI that has flowed into South Africa in the post-apartheid period.

One interesting aspect of BEE, however, is the extent to which a dominant conglomerate firm, such as Anglo-American, and domestic capital in general, has complied with the policy. Iheduru (2008) has argued that under economic globalization it is not only states that are constrained in their policymaking—rather, global and domestic firms are also pressured to accept certain state prescriptions based on redistribution because capital also competes for state concessions in both developed and emerging market economies. Transnational firms are also more willing to accept certain forms of state intervention if such policies are also seen to further certain interests of capital as well (Iheduru 2008: 338).

Moreover, Iheduru also argues that such bargains in South Africa have bolstered state capacity, enabling state officials to reassert their power over the business community in some areas. The latter point on state capacity recognizes that compliance with the BEE requires that state officials engage with corporate actors on this issue and at times must threaten coercive measures
if specific demands are not met. This process can entail legal challenges that test state resolve and persistence. For example, SACCI has challenged some of the requirements outlined in the BEE, specifically disputing the percentage of shares that must be allocated to black African entrepreneurs. In fact, on this issue the association has made it clear that it intends to challenge the state issued requirements in court.  

In the case of Anglo-American, compliance was driven by a number of considerations. First, it is important to note that the conglomerate’s operations in South Africa are primarily centred on mining and the extraction of minerals. As such, the firm’s activities are location specific and their assets cannot simply be shifted from one geographical region to another. Thus, the absence of the ‘exit option’ created a certain amount of policy space for the state. Moreover, business had an incentive to integrate black entrepreneurs into dominant positions within their companies in order to coopt a potentially explosive segment of the population that could easily have devolved into a base for a populist anti-business political platform (Iheduru 2008: 340; see also Southall 2006: 71). To this end, compliance with the BEE targets is viewed by dominant capital as a strategic necessity. For example, in a ‘Transformation Report’ issued by Anglo-American, the company stated that as the “largest private-sector investor in the country,” it had “committed itself to sustainable economic empowerment and considers transformation a strategic imperative.” The report also noted that BEE was a ‘government priority,’ and that the ability of mining companies to secure new mining licenses from the state was dependent on compliance with the program. As a result, Anglo was accelerating its transfers of equity shares to black-owned investment companies.  

129 Personal Interview, Alan Mukoki, Johannesburg, December 7th, 2016.  
Additionally, the ANC had an incentive to prevent political destabilization, and in this sense there was a clear convergence of interests. In addition, because the ANC could not simply expropriate white capital, state officials chose to generate compliance through a set of incentives in the form of subsidies for protected sectors such as energy, mining, petroleum, agriculture and automobiles (Iheduru 2008: 340). However, it is interesting to note that foreign investment, which as noted is dominated by international portfolio capital, has been excused from the BEE rules (Freund 2007: 669), which is not surprising considering the exit option available to this form of capital.

The ANC has also employed an element of coercion against AAC to compel compliance with the BEE. For example, in 2005 the Department of Minerals and Energy determined that Anglo-American was not meeting the program’s standards fast enough, and thus withheld certain mining rights and licenses. After a protracted standoff, Anglo-American set in motion a series of deals that saw its subsidiaries transfer a significant quantity of their assets to black investors—for instance, in 2007 Anglo Platinum, the largest producer of platinum in the world, placed nearly $5 billion in mining assets, at a 30% discount of the market value, in the control of Anooraq Resources Corporation and Mvelaphanda Resources Ltd, two firms owned and managed by black investors (Iheduru 2008: 353). By 2009 Anglo-American had fulfilled its BEE obligations, even exceeding some of the ownership requirements (Iheduru 2008: 354).

Overall, the general framework of BEE falls within the broad contours of the accumulation strategy adopted by oligopolistic capital, which is premised on financialization. As has already been pointed out, the diversification of ownership claims under BEE is largely based on the redistribution of pre-existing asset shares, as opposed to new investment in plant and equipment (which could generate employment growth). Moreover, the absence of capital controls still enables
institutional investors to wield a partial veto over policy by selling shares on the domestic and foreign stock exchanges. Indeed, in 2002 a policy document entitled ‘the Minerals and Petroleum Development Act’ was leaked to the press. The document stated that by 2014 50% of the Petroleum and Minerals sector should be in the control of black South Africans, and that if certain ownership targets were not met their mining rights would be forfeited to the state (Tangri and Southall 2008: 707). The report triggered a very negative response from the mining industry as well as a panic on the JSE which culminated in a decline in value of South Africa’s leading mining company stocks within a period of two days, as well as an outflow of capital (Southall 2004: 323; Iheduru 2008: 355). Clearly, within the context of an open capital account and the current MEC accumulation regime there are limits to the type of redistributive policies that can be adopted.

Yet, as noted in the last chapter, the ANC has not been compelled by a clear incentive structure, generated through popular struggle, to adopt the type of heterodox program which would upset the interests of conglomerate capital while the party continues to enjoy strong and steady support from its popular base. The BEE is a crucial program in this regard; by bolstering a layer of successful black capitalists the ANC can not only count on the political and economic support of this new class, but can also mobilize the program for ideological reasons. This strategic element of the BEE was highlighted by Alex Mashilo, the National Spokesperson for the SACP, which, as previously noted, is part of the tripartite alliance:

The BEE was essentially designed to create a black bourgeoisie. It basically entails inserting black faces into the pre-existing capitalistic structures without altering the current system of economic distribution.\(^\text{131}\)

\(^{131}\) Personal Interview, Alex Mashilo, National Spokesperson, SACP, Johannesburg, December 28\(^{th}\), 2016.
Overall, the BEE is thus compatible with market orthodoxy and the new accumulation regime adopted by the large multinational firms within South Africa’s business community. While the program has arguably helped to bolster the degree of state capacity at the national level by facilitating negotiation and conflict resolution between state officials in different government departments and corporate actors, the type of redistribution that has occurred under the program has not alleviated the high levels of economic inequality that exist in the country, nor has it tackled the unemployment problem.

The new accumulation strategy adopted by multinational firms within the business sector in the aftermath of apartheid was a significant rupture from the autarky that marked the period of late apartheid. The expansion of South African based firms to other parts of the continent and the globe has coincided with several important domestic policy changes, some of which, as discussed throughout this chapter, are linked to the present accumulation regime. Big business, represented by their associations such as the SAF, and firms such as AAC, eventually began to lobby for the termination of apartheid once the system was no longer profitable, as well as for the implementation of specific liberalization measures to facilitate the migration of capital. This program has been accompanied by high rates of unemployment, social inequality, oligopoly and stagnant investment.

The corporate sector, at least the dominant faction made up of the large multinational firms, is thus part of the political settlement that marked the end of apartheid and the ushering in of the elite compromise between the ANC, the majority of labor unions and the SACP. As such, the persistence of market orthodoxy in post-apartheid South Africa must be partially attributed to corporate interests and the endurance of the business sector’s most recent accumulation regime, which links financialization with outward expansion. In Chapter 5 I examine the societal forces
that have recently arisen to challenge this neoliberal growth model. In the next chapter, however, I examine the ANC interaction with the IFIs, both prior to the time of the democratic transition and during the current period.
Chapter 4
South Africa and the IFIs

Previous chapters examined the influence international investors and the domestic business community—specifically that segment belonging to the MEC—have exerted over economic policymaking during the post-apartheid period. This chapter breaks down the international financial institutions’ (IFI) early interactions with the ANC in the immediate aftermath of the democratic transition, focusing specifically on the international monetary fund (IMF), in order to evaluate the role that the Fund might have played in facilitating the official shift to market orthodoxy in 1996, as well as the influence exercised by the organization throughout the current period. It will be argued that the ability of the Fund to influence South Africa’s policy trajectory has been quite negligible, and that ANC officials preferred to adopt a ‘home-grown’ structural adjustment program during the early years of the transition in order to induce private capital inflows and avoid long-term dependency on IMF lending.

Moreover, it will be argued that while ongoing policy dialogue between officials in the Treasury, the Reserve Bank and the Fund during Article IV consultations may have bolstered certain aspects of market orthodoxy during the post-apartheid period, the main channels of influence shaping the policy trajectory in South Africa remain the global capital markets and the MEC’s new accumulation regime. However, it must also be emphasized that because the Fund can influence the terms of private financing and the flow of private investment through their reports and public statements, there has been a clear convergence between the type of economic measures
advocated by Fund staff and the policies produced and implemented by the ANC over a twenty-year period.

A close examination of IFI involvement in South Africa illustrates that there was a clear divergence of political and economic incentives between the Fund and the ANC leadership during the early years of the democratic transition. The Fund had a clear objective in post-apartheid South Africa; namely, to shape the future economic trajectory of the new democracy through the disbursement of loans and targeted dialogue. However, despite the fact that the ANC was eager to attract capital and placate investors and the business sector, the party leaders did not want to create the impression, to their domestic constituents or global community, that policy-making was susceptible to outside influence. The absence of an external debt owed to the Fund or the World Bank by South Africa at the time of the transition largely rendered the latter organizations powerless in extracting concessions from the ANC. Thus, the ‘political survival’ of the new government did not depend on formal external financing from the Fund or international institutions, thereby enabling the party leadership to focus on attracting private capital inflows through an internally generated orthodox program.

The bulk of the empirical evidence for this chapter was derived from interviews conducted in 2016 with two key senior officials who served in government ministries during the early years of the transition, Alec Erwin, former Minister of Public Enterprises and the Department of Trade, and Alan Hirsch, who served in the DTI and was also a senior economic advisor in the President’s Office. However, for the later period I also rely on interviews conducted with Fund officials located in the South Africa bureau as well. The chapter will begin by briefly reviewing the literature on the key arguments regarding debt negotiations between the Fund technocrats and sovereign governments, as well as the imposition of conditionality. The second portion will then
examine the history of the IFI’s involvement in South Africa’s economic policymaking and how
the Fund’s influence has evolved since the transition from apartheid to a liberal democracy.
Although I will examine the trajectory of South Africa’s relationship with both the Fund and the
World Bank, greater emphasis will be placed on the IMF since it is the latter organization that
advises countries on financial issues and regulation of the capital account.

The imposition of conditionality on sovereign governments and the implementation of
stabilization measures and structural adjustment policies in emerging market economies has been
the subject of significant debate and controversy among scholars and analysts of the IMF. A
number of authors, for example, have argued that the Fund’s central purpose in the developing
world is to impose, with help of domestic economic and political elites, market orthodox policies
that negatively impact growth, redistribute income to the upper classes, and primarily benefit
Western capitalist nations (see especially Mueller 2010; Bond 2005; Vreeland 2003;
Chossudovsky 1997; Payer 1974). Additionally, certain scholars have sought to demonstrate that
Fund decision-making is primarily a reflection of the dominant shareholders, primarily the United
States, as opposed to the technocrats in the bureaucracy who conduct the negotiations and
formulate the letters of intent (Dreher et al. 2015; Breen 2014; Momani 2004).132

Recent scholarship has also documented how targeted dialogue between Fund technocrats
and state officials in Central Banks and National Treasuries can facilitate policy shifts in member
countries (Sengupta 2009; Teichman 2001). It has also been argued that the debt crisis of the 1980s
led to the creation of tightly knit transnational policy networks between multilateral organizations
such as the World Bank and emerging market governments in Latin America, and that the

132 There are, of course, other models that attempt to make sense of the Fund’s operations in the emerging markets.
For example, Stiles (1991) posits that debt negotiation is a “bargaining” process, whereby technocrats within the IMF
and government departments strenuously negotiate over conditionality and the disbursement of funds.
establishment of such policy networks enabled the multilaterals to influence policymaking by engaging relevant state officials in dialogue, even in countries where such organizations had little to no leverage, such as Chile (Teichman 2007: 565).

This shift in strategy by the IFIs is partially attributable to the alternative commercial sources of finance that developing countries have been able to draw on since at least the early 1990s, especially as capital markets have become increasingly integrated on a global scale. Moreover, emerging market economies, especially since the late 1980s, have begun accumulating large amounts of foreign exchange reserves in order to defend and stabilize their currencies in the event of significant capital outflows. In this sense, developing countries are able to safeguard their policymaking autonomy even in the context of financial crises and mild recessions. As a result of this development, it is not surprising that the IFIs have increasingly resorted to policy dialogue in their dealings with member states, specifically in the form of technical advice to domestic authorities.

Regarding South Africa, several authors have argued that the IFIs played a decisive role in influencing top ANC officials in the area of economic policymaking in the years leading up to the democratic transition (Taylor and Williams 2000: 27; Bond 2001; Padayachee 1994). Padayachee (1994: 585-6), for instance, near the beginning of the transition put forward the argument that the ANC lacked a coherent strategy in dealing with the IFIs, and that if they did not develop one, state officials would eventually succumb to economic ideas being propagated by the technocrats at conferences and in reports. Padayachee further argued that there were four different viewpoints

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133 This is not to imply, however, that the IFIs cannot overtly influence policies even in large and independent emerging market economies under certain circumstances. For example, if a crisis is particularly severe, such as the East Asian crisis, and developing countries begin to exhaust their reserves, then the IMF can impose austerity and inflation targeting as a condition for accessing funds.
within the party during the early period: 1). The IMF was correct its policy prescriptions regarding
growth and distribution; 2). The IFIs represented the interests of imperialist powers; 3). The notion
that the IFIs could be potential allies in support of interventionist redistribution; 4). Both the Bank
and the Fund could play a minor, and complementary, role in facilitating development policies. At
the time Padayachee argued (1994: 593) that if the ANC wanted to preserve the integrity of the
RDP it was imperative that the party overcome this type of fragmentation and develop concrete
and specific policies pertaining to trade, exchange rate liberalization and industrial policies in order
to establish a secure foundation from which to negotiate.

Patrick Bond (2001) has argued that a number of brainstorming events and corporate
scenarios were aimed at cementing a social contract between the ANC, the National Party and the
IFIs in order to secure a transition to conventional supply side economics in the post-apartheid
setting. He further argued that, in conjunction with elite policy planning scenarios and exercises,
the World Bank succeeded, through economic policy publications and their general diffusion of
developmental knowledge to key policymakers such as Finance Minister Trevor Manuel, in
fostering the belief that there was no real alternative to neoliberalism given the realities of
economic globalization (2001: 178). Moreover, Bond (2001: 68) points to an $850-million-dollar
loan was issued by the IMF to the Transitional Executive Committee (made up of members of the
National Party and the ANC prior to the official democratic transition) in December of 1993 for
the purpose of drought relief. The loan came with certain specific conditions, as detailed in
Business Day, which included tariff reduction and cut backs in public expenditure (Bond 2001: 68).

However, while some analysts have argued that this loan from the Fund placed certain
policy constraints on the incoming ANC government, a few points must be noted. Firstly, as was
discussed in the last chapter, ANC officials were also engaged in informal discussions with the business community, and as noted, it was the latter who played a crucial role in facilitating a shift away from heterodox, redistributive policies. Secondly, there is evidence that during this period several ANC leaders were far more concerned with whether the incoming government would be able to access the global capital markets on favorable terms, and thus faced far greater constraints, over a longer time period, from the latter than from the IFIs. This component of the early shift in ANC policy will be further unpacked below.

The IFIs and South Africa: The Period of Apartheid to the Democratic Shift

During the apartheid era South Africa enjoyed a privileged relationship with the IMF, largely because of the strategic position the country occupied in the region for the United States and other Western powers during the Cold War. The first loan was granted by the Fund to South Africa in 1957/58 and was offered without any imposed conditionality, despite the fact that during this period the IMF was not in the habit of disbursing funds to developing countries without demanding the implementation of specific macroeconomic policies, as evidenced by its relationship with Latin American countries (Padayachee 1993: 189). An IMF delegation had advised the South African authorities to implement capital controls in the aftermath of the Sharpeville massacre in order to stem the outflow of capital triggered by investor panic. The Fund disbursed several other loans to South Africa in the 1970s and then, in 1982, the IMF approved 1.07 billion dollars in funds to the apartheid government despite a UN General Assembly resolution calling for the termination of additional credits to Pretoria. American and European voting power in the IMF was crucial in enabling South Africa to secure the 1982 loan, and the funds permitted the authorities to cover the
country’s deepening balance of payments deficit, caused largely by declining gold prices, and navigate the economic recession (Beri 1982: 549).

The strategic role played by the apartheid government during the Cold War, and the privileged relationship the state enjoyed with the IMF throughout this period, was an important variable in determining the degree of influence that the multilateral organizations could exercise in shaping domestic economic policy within the country. To begin with, in the absence of a large sovereign external debt the multilaterals could not employ conditionality as a mechanism to bolster policy dialogue with domestic authorities (see Handley 2005: 222). In other words, a small external debt set South Africa apart from other borrower countries such as India or those in Latin America, where the Fund and the Bank often employed the ‘hard sell’ tactic of conditionality in conjunction with targeted dialogue as a means of bolstering the organization’s influence over domestic macroeconomic policy decisions (Sengupta 2004: Chapter 6). Additionally, South Africa’s role as a strategic asset to the United States during the Cold War meant that the apartheid government could pursue a number of highly nationalist and protectionist economic policies even while drawing on IMF resources when necessary.

Furthermore, South Africa’s relatively small sovereign external debt meant that the GNU government was accorded a significant level of policy autonomy during and immediately after the democratic transition. As noted, South Africa’s position was, in this sense, rather unique among emerging market economies despite the fact that private external finance had always been an important component for the functioning of the economy, especially due to the absence of a domestic capital goods industry.134 For instance, although the apartheid government was forced to

134 On the contradictions of South African capitalism, see Marais (1998).
declare a debt moratorium in 1985 because $14 billion in short-term liabilities could no longer be serviced, mainly as a result of the refusal of private creditors to issue new loans due to political considerations, it is noteworthy that the debt was held entirely by domestic banks which had borrowed on the short-term international money markets in order to lend to the private sector (Harris 1986: 794). Even during this period South Africa’s strategic importance to the international economy, and as a political asset, was evidenced by the fact that a consortium of international bankers was willing to reschedule debt payments on short-term interbank credits.\textsuperscript{135} Not only was this decision extremely rare but the international creditors did not even consider freezing the assets that South Africa held abroad in these banks in response to the moratorium, despite the fact that such asset freezes would have repaid the debt. This is an indication of the extent to which the international banks were willing to go in order to maintain relations with the apartheid regime (Harris 1986: 816).

In light of this history between the IFIs and South Africa, a critical question is whether targeted dialogue and policy networks between the IFIs and South African authorities have served as one of the contributing variables in the reproduction and persistence of market orthodoxy within the country during the post-apartheid period. This question is especially crucial since, as noted in the introduction, neoliberal orthodoxy failed to meet its policy objectives in several vital areas, and hence the continued implementation of such orthodox policies over several ANC administrations by various finance ministers and Reserve Bank governors requires an explanation, especially if the influence of external actors is largely responsible for such persistence. One

\begin{itemize}
\item \textsuperscript{135} According to Harris (1986: 807), the nature of South Africa’s private debt during this period was connected to the stigmatization of the apartheid regime and the pressure foreign governments and banks faced in terms of their lending practices to the country. Since transactions on the interbank market are not published it provided the perfect disguise for Western banks seeking to lend to the apartheid government; however, the short-term nature of this debt also rendered it highly unstable. This also explains why, in comparison with other emerging market economies, there was relatively little reliance on medium or long-term financing from the multilateral organizations during this period.
\end{itemize}
possible explanation is that such policies and ideas were reproduced over time by the bureaucratic and technocratic corps within the Treasury in order to win political favor with early finance ministers such as Trevor Manuel, who was an early proponent of fiscal restraint. My interview with a former Director of Labour at the National Treasury found support for this hypothesis. This senior official emphasized that Manuel was adamant that employees not formally criticize the prescriptions of the GEAR document or loudly question the wisdom of market orthodoxy.¹³⁶

Hentz and Hanson (1999: 481) posit that the continuity of such policies flows from the ownership of such ideas by national governments which come to accept them as their own. According to this argument, the intervening variable between technical advice or financial coercion, which as noted was largely absent in the South African case, and the economic policy change that conditions the development of domestic internalization of neoliberalism over the long-run, is internal coalition formation. As the authors state, “We find that the intervening variable between international financial pressure and domestic policy change is the electoral cycles of domestic politics. Building a domestic consensus in favour of neoliberal strategies of growth is a far more complex process of consolidating political support for those policies than the one-way imposition of ideas…” (Hentz and Hansen 1999: 480).

However, it must be noted that although Hentz and Hansen have identified an important factor responsible for the reproduction of certain economic ideologies, this type of analysis does not adequately explain how, or whether, external actors have been able to decisively influence a cluster of bureaucratic policymakers over successive administrations so that market orthodoxy could be reproduced in a systemic fashion in South Africa, despite shifts in the formation of

¹³⁶ Personal Interview, former Director of Labour, Ministry of Finance, December 17th, 2013. This position was also corroborated through my informal discussion with Thomas Koelble, Professor of Business at the University of Cape Town.
domestic coalitions. Below I argue that the legacy of the ideologies informing the liberation movement generated stiff resistance by top ANC officials to early Fund influence, and that the adoption of market orthodox policies was more a function of the constraints imposed by the capital markets and the business community, rather than IFI intervention. The next section will proceed to flesh out this argument through an examination of the Fund’s evolving role and tactics in the country in the twenty years following the transition.

The IMF: Evolution and Involvement in South Africa

The 1980s, when international banks decided to stop rolling over the debts of a number of emerging market economies, marked a significant turning point in the evolution of the Fund’s role in managing financial and economic crises (see Boughton 2000: 284). Throughout the 1970s, major banks had recycled OPEC surpluses into sovereign debt in certain developing countries where there was a higher risk-adjusted rate of return. The debt crisis, triggered by higher spreads, raised the possibility of a devaluation or default, and hence led to IMF involvement in large Latin American debtors.

It is noteworthy that several years after the Fund’s intervention private banks in South Africa also defaulted on their external debts. However, in the case of South Africa the Fund could not facilitate a concerted lending project because international sanctions and public opinion precluded additional public funding, thus closing off one avenue of IMF involvement and the potential for future intervention. Nonetheless, as noted in further detail below, the Fund also began to evolve with regard to its policy of financial surveillance of member countries, and this development is relevant for post-apartheid policymaking in South Africa.
Although the Fund has practiced some form of surveillance as specified in its Articles of Agreement since 1978, the concept has evolved since that period to include a number of areas which historically have not fallen under the purview of the IMF. In the 1990s the Fund expanded its activities from policy advice on matters related to macro-stabilization programs to include structural issues, such as labor and product markets, and also began to devote attention to activities aimed at identifying the necessary economic conditions that tended to be present in the period preceding a financial crisis (Boughton 2012: 108). This expansive role was crucial in enabling the Fund to convince domestic government authorities to adopt certain policies regardless of whether or not the country was suffering from a balance of payments crisis and actually needed to draw on IMF resources.

As Boughton notes (2012: 110), the primary purpose of financial surveillance since its inception has been to enhance the Fund’s influence over the policies of member countries. However, in the 1980s the Article IV consultations with member countries, which serve as one of the central mechanisms through which the Fund has sought to exercise influence over domestic policymaking, were generally not effective at identifying policy inconsistencies with IMF

137 James M. Boughton is a former historian of the IMF and also served as the Assistant Director in the Strategy, Policy and Review Department from 1992-2012. His publications on the role of the IMF in emerging market economies, as well as the evolution of the Fund’s outlook in response to global conditions, are an invaluable primary resource on IMF intervention in the developing and developed world, especially his monograph entitled *Tearing Down Walls: The International Monetary Fund 1990-1999*. I draw on this resource heavily in the following pages, especially when discussing the Fund’s interaction with South African government officials in the early years of the transition.

138 Article IV surveillance refers to the annual consultations that take place between Fund staff members who specialize in a particular country/region and the relevant domestic authorities from the member country. Representatives from the country in question can often include not just government officials from the Finance Ministry and Central Bank, but also labor leaders, members from the business community, and other civil society groups, though it is unclear how much input these latter representatives are able to actually contribute to the process. The Fund staff present their findings to the Executive Board and then draft an official report, and the Fund’s views are then “transmitted to the country’s government,” so that “the views of the global community and the lessons of international experience are brought to bear on national policies” (IMF Website).
prescriptions because Article IV was initially drafted in a manner that rendered its main import quite vague, as it simply alluded to “exchange rate stability” (Ibid.).

The above noted evolution in the Fund’s approach to macroeconomic policy and financial surveillance coincided with South Africa’s transition from apartheid to liberal democracy. This development was significant because it clearly influenced the IMF’s involvement in the sphere of policy dialogue, or ‘soft sell,’ with post-apartheid policymakers. Nonetheless, as will also become evident, it is clear that despite the shifts in the Fund’s internal protocols and the evolution in IMF surveillance tactics, conditional lending has remained a crucial component of the Fund’s overall strategy of policy influence in emerging market economies. At the time of the democratic transition, South Africa was suffering from a lack of capital inflows, high private sector debt, and low foreign exchange reserves. The Treasury and the Reserve Bank were interested in tapping external sources of finance; however, such sources were limited since creditor nations were unwilling to lend to the Transitional Executive Council (TEC) until after international sanctions were lifted and the transition was complete (Boughton 2012: 692). In the immediate aftermath of the formal shift to democracy, the IMF was perfectly positioned to exploit South Africa’s recessionary economy and issue a conditional loan which, as previously noted, was in fact agreed to and disbursed in 1994 as a means of coping with temporary shocks such as the declining gold price and an agricultural drought.

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139 As Boughton points out, although current account and currency convertibility was uncontroversial within the Fund and for domestic policymakers in most emerging market economies, the issue of capital account liberalization was far less straightforward, and in fact among all the economic policies included within the Washington Consensus capital account regulations were excluded from this school of thought, and the Fund was willing to adopt far more flexibility in its official policy on trans-border capital flows (Boughton 2012: 131). This indicates that there was, and remains, a significant degree of policy space for developing countries seeking to regulate international capital movements, at least in theory.
However, it is noteworthy that even at this crucial stage of the transition, and despite the precarious position of the South African economy, Fund officials encountered a fair amount of resistance from the domestic authorities on the issue of conditionality, loans, and general policy formulation. For example, as noted above, the policy advice offered by the Fund during this early stage of the democratic shift followed the standard prescriptions of fiscal austerity and monetarism, with the Executive Board concluding that “fiscal policy was constrained by the already large deficit, while monetary policy was constrained by the weakening exchange rate and the need to overcome investor’s doubts about macroeconomic stability” (Boughton 2012: 695). Boughton recounts that when the GNU was formed after the 1994 elections, Fund Director Michael Camdessus sent the Deputy Managing Director, Alassane Ouattara, to Cape Town to meet with Mandela and discuss the possibility of further IMF assistance. During the visit, Ouattara discovered that the core leadership of the ANC was still highly critical of Fund practices, and a second visit by First Deputy Managing Director Stanley Fischer also failed to secure an agreement for future IMF lending (Ibid.).

An especially telling episode which illustrated the tension between the Fund and the new democratic government occurred in 1996 in the midst of the currency crisis. When investors began to attack the rand amid rumors of Mandela’s health and redistributive policies, Camdessus flew to Johannesburg and met with Mandela and Finance Minister Trevor Manuel. As the financial crisis deepened official foreign exchange reserves declined to less than a few weeks’ worth of imports, and Camdessus informed the domestic authorities that the Fund was ready to offer a multi billion-

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140 There were, nonetheless, some dissenting voices on the Executive Board. For example, Douglas E. Smee, the Canadian representative, argued that monetary policy should be relaxed in order to allow the currency to depreciate and stimulate exports, while one of the American representatives, Karen Lissakers concurred that interest rates should be kept low to facilitate borrowing. These Fund officials took the position that fiscal constraint would not adequately address South Africa’s legacy of social inequality (Boughton 2012: 695).
dollar arrangement provided that the government was willing to continue with, and accelerate, the economic policies outlined in the GEAR document:

…the IMF staff began preparing a proposal for an adjustment program that could be supported by a stand-by arrangement if the authorities decided to request one. The African Department was satisfied that the GEAR strategy could serve as the basis for a Fund-supported program, but they wanted to push the authorities toward further monetary tightening and deeper structural reforms as a condition for the Fund’s support. Fischer, who had told Manuel that the GEAR was an “excellent” plan and who understood well the political constraints Manuel was facing, squashed that idea and insisted the Fund should offer to support the government’s own program, beefing it up only by making it more specific (Boughton 2012: 697).

Mandela and Camdessus reached a tentative agreement on the terms for an IMF loan in October of 1996, which provided for a multibillion dollar arrangement conditional upon a pledge by the GNU to persist with the liberalization reforms outlined in the GEAR document. However, later that same day the proposal was vetoed by Mandela’s party, the ANC, and although negotiations between Fund officials and the senior domestic political authorities persisted for several months, no agreement was ever reached and no additional IMF funds would be disbursed following the initial 1993 loan (Boughton 2012: 697).

This decision by the ANC to jettison official IMF assistance at this early stage of the democratic transition is significant for a number of reasons. First, it is noteworthy that during the negotiations between Camdessus, Mandela and Trevor Manuel, the Fund made it clear that in exchange for the loans the Executive Board simply expected the South African authorities to continue in the implementation of the policies already outlined in the official ANC documents. Yet, despite the absence of official conditionality, senior party officials chose to reject the offer in order to avoid even the perception that external actors were guiding or shaping the domestic policy
agenda. Thus, it is apparent that even though there was a substantial degree of interaction between
the IFIs and the ANC prior to the transition, the senior party officials were unwilling to trade even
a modicum of policy independence in exchange for an official loan, which calls into question the
overall effectiveness of policy dialogue as a method of influencing policy in the South African
context.\footnote{\textsuperscript{141}}

Interviews with two former ANC officials during the period of the transition lend
corroborating to the above point as well. Alec Erwin, former Minister of the DTI, Public
Enterprises, and a member of the SACP, stated the following in response to a question regarding
the degree of influence exercised by the IFIs: “The real decisive factor was when Trevor [Manuel]
and I went to London to raise capital and discovered the strength of the global capital markets. We
realized then that we could not continue along the old course.”\footnote{\textsuperscript{142}} Erwin also stated that during this
period the ANC was quite sensitive to the notion that the IFIs were, in some quarters, believed to
function as agents of Western economic power, and that senior party officials had decided during
this period that the Fund’s “cure was worse than the disease.”\footnote{\textsuperscript{143}}

Alan Hirsch, who, as noted, was a senior official in the DTI in 1995, before moving on to
advise the Presidency, also downplayed the possibility that the Fund might have played a
significant role in facilitating a change in policy during this period. Specifically, it was asserted by
Hirsch that the decision to liberalize the capital account could be attributed to the pressures
emanating from the business community, and not the IFIs. Indeed, as noted in the previous chapter,
Hirsch suggests that the ideological offensive launched by big business played a crucial role in

\footnote{\textsuperscript{141} Several officials I spoke with in the Reserve Bank suggested that the GEAR was adopted in order to attract
foreign capital without having to rely on the IFIs, since it was perceived that the multilateral organizations would
deprive domestic policymakers of autonomy.}

\footnote{\textsuperscript{142} Personal Interview, Alec Erwin, Cape Town, January 9\textsuperscript{th}, 2017.}

\footnote{\textsuperscript{143} Ibid.}
convincing top officials within the ANC to abandon heterodox policies well before the transition, and further stated that the IFIs were not particularly invested in attempting to alter policies pertaining to the capital account during this period of time.\textsuperscript{144}

One point that buttresses the above assertion has to do with the timing of capital account and trade liberalization and the history of IFI involvement in South Africa. The Fund had previously sent its advisors to Pretoria in the late 1980s, during the period when the National Party had begun to experiment with certain neoliberal policies as a response to economic stagnation. Bond argues (2001: 68) that the Fund advised the government to adopt specific aspects of market orthodoxy such as high interest rates, a value-added tax (VAT), and privatization.\textsuperscript{145} However, despite these changes, capital controls and tariffs remained in place. As discussed in previous chapters, the ANC opened the capital account for non-residents and liberalized trade to facilitate private capital inflows and to permit the conglomerate corporations to expand beyond South Africa’s borders.

Thus, by refusing conditional aid at the early stage of the democratic shift, the ANC deprived the Fund of significant leverage that it could have exercised over the Treasury and the Reserve Bank at a later date. In fact, given the absence of official sovereign external debt in South Africa, owing largely to this initial decision by the South African authorities to eschew Fund financing, any influence over the Treasury and Reserve Bank by the IMF would have to be exercised solely through the shaping of dominant ideas via technical advice and other forms of consultation. Although unusual, this would certainly be compatible with the Fund’s previously

\textsuperscript{144} Personal Interview, Alan Hirsch, Cape Town, January 10\textsuperscript{th}, 2017.

\textsuperscript{145} It must be noted, however, that it has been argued that the National Party may have been motivated to experiment with certain aspects of market orthodoxy, such as privatization, not as a result of economic circumstances, but rather due to political considerations, namely to deprive a new black majority supported government of control over state resources (see Hentz 2000).
discussed evolution from a mere lender of last resort to an organization devoted to consensus building and long-term crisis management through enhanced forms of financial surveillance. Additionally, as was mentioned in Chapter 2, senior officials then working in the Reserve Bank and the Treasury noted during interviews that early implementation of market orthodoxy in South Africa was motivated by the desire to attract foreign capital inflows in order to avoid having to turn to the Fund and multilateral organizations.146

A key question, then, is whether financial surveillance and technical policy advice from the IMF have played a significant role in shaping the reproduction and persistence of market orthodox policies in South Africa since the transition. In addition, was the influence of the IFIs in the realm of policy formulation sufficient to ensure that competing, more heterodox policies would not emerge as dominant throughout this entire period? A good place to start answering these questions is by reviewing the Fund’s Article IV staff reports of South Africa’s economic performance during crucial years. As noted, the Article IV consultations take place annually between the IMF’s South African Bureau and key representatives within the country’s government departments as well as certain civil society representatives. A review of these documents will also enable us to gauge, to a certain degree, the extent to which the Fund’s recommendations have been followed, over time, by South Africa’s domestic political authorities, and whether there has been additional tension between government policymakers and the Fund staff. It will be argued that although there is little evidence that the IFIs played a decisive role in affecting economic policy during the transition, in recent years ongoing dialogue between the Fund and officials within the Treasury and Reserve Bank, as well as certain activities by the World Bank and IFI reports, have

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146 This point was specifically made by two former senior officials in the Treasury during interviews conducted in Pretoria in 2013.
nonetheless served to reinforce the economic worldview prevalent within the Central Bank and Finance Ministry.

The IMF’s 2014 Article IV report on South Africa provides some further insight into the dealings between the Fund staff and the domestic authorities. The report notes the importance of the ANC’s infrastructure expansion program, as outlined in the New Development Plan (NDP), and again draws attention to the structural challenges constraining economic growth, such as bottlenecks in the energy sector, the 25% unemployment rate and declining productivity gains leading to lower potential growth.\textsuperscript{147} However, the Fund’s staff report also notes that the government is operating within a constrained fiscal space because of the rising public sector debt, and recommends that the total debt/GDP ratio be reduced to below 50\% by 2020 and further advises that over the long-run a “tight fiscal stance” should be implemented in order to bring total public debt below 40\% of GDP.\textsuperscript{148} Moreover, the 2014 report lists the Fund’s proposed policy responses, within its Risk Assessment Matrix (RMA), to potential events that could further jeopardize growth. Noteworthy here is the Fund’s proposed response in dealing with financial market volatility and potential capital flow reversals: “Provide FX liquidity if dollar shortages appear; Increase policy rate to ensure adequate fiscal and external financing.” In addition, it is stated that authorities “may also need to tighten fiscal policy further if financing becomes problematic.”\textsuperscript{149} Again, the implementation of even a limited form of capital account regulation is not suggested as a potential option.

\textsuperscript{147} IMF Article IV Staff Report, 2014, South Africa pp. 5-6.
\textsuperscript{148} Ibid. pp. 17-18.
\textsuperscript{149} Ibid. p. 11. The Fund’s “Risk Assessment Matrix,” (RAM), is a tool employed to show “events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff).” The Fund’s recommendations under such a scenario thus represent potential responses available to policymakers in the event that such events interfere with the predicted economic trajectory.
Overall, the 2014 Article IV report suffers from the same internal contradictions as the ANC’s New Development Plan (NDP). On the one hand, the Fund recognizes that South Africa’s stagnating growth is attributable to structural factors such as low skill development, sluggish public sector investment in crucial infrastructure, and the persistence of unemployment and poverty. However, the Fund’s primary recommendation to South African authorities as a solution to the problem, namely increased infrastructural development and increased investments in education, is largely incompatible with the IMF’s prescriptions pertaining to monetary and fiscal policy. For example, the recommendation of a targeted inflation monetary policy would increase the cost of capital and thus potentially thwart increases in private sector investment, which the Fund acknowledges is necessary to lower the unemployment rate. In addition, the call for debt stabilization and the reduction of government expenditure to below 40% of GDP over the long-run is incompatible with the goal of increasing public investment in infrastructure and education, and the policy recommendation of bolstering foreign exchange reserves, as opposed to regulating the capital account, would clash with the aim of increasing capital spending. The most interesting piece of information to be gleaned from the 2014 Article IV report, however, is that the Fund staff and the South African authorities are generally in agreement on the broad macroeconomic issues, though the report does mention that policymakers voiced some minor disagreement on certain issues, such as the strategy for debt sustainability. Yet on issues such as monetary policy and fiscal sustainability the report illustrates that there is a shared economic worldview among the domestic authorities and the Fund officials.

Additionally, it is important to note that the Fund might be able to influence the volume and terms of private capital inflows into South Africa by sending a signal to private investors.

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150 As noted in previous chapters, this trade-off is due to the opportunity cost inherent in holding reserves.
through its reports and statements. As the president of the South African Chamber of Commerce and Industry (SACCI) stated, “We do not borrow from the IMF, but the Fund can make a lot of noise about certain policies which sends a signal to investors.”¹⁵¹ In this sense, Fund officials are able to play an indirect role in shaping economic policymaking in post-apartheid South Africa by influencing the global capital markets and creditors, a point that has been highlighted in general by certain authors (Vreeland 2003: 53; Edwards 2006; Stone 2002: 4).

Furthermore, although the South African domestic authorities have not received technical advice (TA) on the subject of capital account liberalization, such official consultation has been sought from the Fund by the Treasury with regard to fiscal policy. Indeed, the 2014 Article IV report notes that the IMF South African team, led by the mission chief, has been coordinating their efforts with the World Bank country leader since September of 2014 in the areas of macro-structural issues as well as fiscal and debt sustainability. Add to this the fact that there is also a shared worldview among World Bank and Fund staff and officials in the Treasury and Reserve Bank, which is partially attributable to the shared ideology permeating the institutions. As Patrick Bond put it: “In reality, Pretoria and Washington have constructed a revolving door, as witnessed not only by Manuel’s job as chairperson of the Bretton Woods institutions during 2000, but that of the other bureaucrats who move seamlessly between the World Bank, the Department of Finance, and the Johannesburg Banks” (2001: 143).

In fact, the Bank has been active in consultations with the Reserve Bank to improve their management of foreign currency reserves and in aiding the Treasury in the preparation of the debt management strategy.¹⁵² Moreover, the IMF’s Fiscal Affairs Department has been providing

¹⁵¹ Personal Interview, Alan Mukoki, CEO, SACCI, Johannesburg, December 7th, 2017.
¹⁵² Ibid, Staff Report Informational Annex, p.6.
technical advice (TA) to the Treasury since 2010, and in 2013 the FAD and the Treasury’s Fiscal Policy Unit (FPU) conducted a joint workshop on the subject of fiscal risks. In 2014, several FAD missions were sent to Pretoria for the purpose of providing technical advice on the subject of expenditure reviews and the Value Added Tax (VAT) gaps.\textsuperscript{153} In addition, the World Bank has been quite active in providing long-term loans, in the amount of 3.75 billion, in order to increase electricity generation capacity through the Eskom Investment Support Project, and has also provided advice on the issues of land reform and the township economy. It is also quite significant that the Bank has been engaged in dialogue with the Department of Basic Education regarding the possibility of promoting private sector educational programs, specifically in the area of vocational training, in order to enhance labor productivity.\textsuperscript{154} The World Bank’s International Finance Corporation is involved in many of the long-term loan projects.

The Bank’s involvement in long-term infrastructural projects and macro-structural issues has better positioned the organization to influence the direction of policymaking by leveraging its control over crucial resources. Thus, technical advice on specific developmental priorities, such as education and land reform, as well as ongoing dialogue between the domestic authorities and Bank officials, likely carries greater force when buttressed by large international loans and hence has a greater probability of influencing long-term development strategies while placing constraints on viable alternatives. Additionally, as noted previously, Bank officials have access to a far larger number of government departments and key policymakers, while the Fund, with the exception of the Article IV meetings which include civil society representatives, generally focuses its energy

\textsuperscript{153} Ibid. p.5.
\textsuperscript{154} Ibid. p. 6-7.
on key officials within the Reserve Bank and the Ministry of Finance, thereby limiting the range of its potential influence over domestic policymaking.

The Bank’s privileged access to elite decision-makers, in conjunction with the deployment of loans to reinforce targeted dialogue, has thus served as one important component in the continuity of market orthodoxy in South Africa over time. My interview with the former Director of Labour at the Treasury, and who is currently an analyst at the Financial Intelligence Centre, stated that the Bank’s funding of certain projects has served to buttress a particular economic discourse. Citing a study conducted on the problem of capital flight in South Africa which received substantial funding from the Bank, this official pointed out that such financing “constrained and limited what could be stated in the study.”

The Fund, however, has had to rely solely on targeted dialogue as a means of steering macroeconomic policymaking in a certain direction. As noted, this type of strategy is dependent on the construction and maintenance of viable policy-networks among the domestic authorities and various Fund officials. While this type of ongoing dialogue has helped buttress a dominant economic program that has been in place since the transition, it would be a mistake, however, to view such interactions as the decisive factor driving the reproduction of market orthodoxy in South Africa. For example, an interview with a senior economist in the Fund’s South Africa Bureau, who was a member of the 2014 Article IV staff mission, confirmed that TA has a number of limitations when it comes to influencing policy formulation, especially in the context of an independent bureaucracy in a country with a low external debt. This senior official thus reiterated that in the absence of conditionality formal dialogue between the Fund and the domestic authorities is limited.

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155 Personal Interview, National Treasury, December 17, 2013.
to those specific areas in which advice is specifically requested, and the element of coercion does not enter the dynamic in any manner.\footnote{156 Personal Interview, Senior Economist, IMF South Africa Bureau, December 9th, 2014.}

The IMF has also been active in sponsoring informal workshops and informational sessions in which participants, including Fund officials and specific policymakers from the Treasury and the Reserve Bank, are able to exchange ideas on relevant economic issues. These types of workshops are similar to the brainstorming scenarios that were sponsored by the corporate elite in South Africa, as discussed in the previous chapter, during the period leading up to the democratic transition, the purpose of which was to mold economic agency through consent. The head of the Fund’s South Africa Bureau who lead the 2014 Article IV staff mission stated that the IMF continues to sponsor such informational seminars in Washington for the domestic authorities in the Treasury and Reserve Bank.\footnote{157 Personal Interview, IMF Mission Chief for South Africa, December 12, 2014.} This point was corroborated by a former Fund official in the IMF’s Fiscal Affairs Department who had also served as a member of the South Africa desk. He stated that in order to avoid the “potential stigma” associated with official technical advice (TA), dialogue with the South African domestic authorities had increasingly taken “the form of joint workshops and seminars” during which general information was disseminated but specific policy recommendations were avoided.\footnote{158 Personal Interview, IMF Official, Fiscal Affairs Department, January 8th, 2014.}

The Fund officials who I interviewed, as well as numerous authorities from the National Treasury and the Reserve Bank, were all adamant that dialogue between the IMF and government officials was not undertaken with the aim of attempting to decisively alter one set of policies that the domestic authorities had decided upon, nor, it was pointed out, are there any examples in the post-apartheid period of key domestic policy-makers decisively altering a selected development
trajectory because of pressure exerted by the Fund.\textsuperscript{159} Such statements from senior South African authorities and IFI officials must, of course, be treated very cautiously. Neither the Fund nor the domestic policymakers would want to give the impression that dialogue and informational sessions and workshops were being employed to decrease state autonomy and constrain the policy space available to the authorities.

The question, therefore, is whether the above mentioned strategy has been a successful and decisive factor in the reproduction of market orthodoxy in South Africa from 1994-2014. Our answer is that generally such tactics have not been a crucial variable responsible for the persistence of the specific cluster of neoliberal reforms such as monetarism, trade and capital account liberalization. Although the activities of the IFIs in South Africa outlined above, especially the Bank’s disbursement of loans for macro-structural projects, have helped buttress the policies emanating from specific government departments, the type of intervention exercised primarily through surveillance, dialogue and information seminars has served as neither a necessary or sufficient condition in the reproduction of neoliberal orthodoxy. In the remaining section of this chapter I will document this argument through an examination of the limitations in the Fund’s strategy arising from the absence of conditionality, as well as through a brief analysis of South Africa’s state structure and the relative strength of certain bureaucratic segments in the post-apartheid period.

\textsuperscript{159} The one exception, however, was in 1993 when an agricultural drought compelled the Transitional Committee to accept the $850 million dollar IMF loan which, as noted, came with a number of attached conditions that bore the mark of austerity. However, as documented by Boughton, the ANC rebuffed all further attempts by the Fund to disperse loans to the authorities that could later be used as the basis for conditionality.
The IFI’s Influence in Post-Apartheid South Africa: Success or Failure?

In assessing the impact of the IMF’s influence in shaping policy in post-apartheid South Africa, heavy emphasis must be placed on the absence of any official loans after 1994. As previously noted, Boughton’s account of the Fund’s initial attempt to gain leverage over the early stages of the policy-making process during the period immediately preceding the democratic transition was met with skepticism and a good deal of hostility from the senior party leaders within the ANC, many of whom had bitter memories of the Fund’s involvement with the apartheid regime and were generally loath to provide a footing for multilateral organizations that were complicit with neocolonialism.

This early dynamic between the ANC and Fund officials, as well as the absence of official loans, has had important implications for the present relationship between the IMF and the National Treasury and Reserve Bank. In other national contexts, such as India, external donors, especially the World Bank relied on hard loans at times to reward the efforts of the pro-market reformers in the 1980s, a tactic which served to strengthen their position over the internal policymakers committed to the regime of statist controls. Additionally, although the Bank eventually shifted to the employment of ‘soft sell’ in India as the predominant tactic in the 1980s, both strategies were used throughout the 1960s, and in fact the consolidation of soft sell was dependent on the provision of a major IMF loan in 1981 which paved the way for a series of important negotiations between Fund officials and the domestic authorities by helping to create a political climate of “greater mutual cooperation and trust” (Sengupta 2004: 246). More importantly, however, the paradigmatic shift to neoliberal orthodoxy in India in 1991 took place against the backdrop of a severe balance of payments crisis which necessitated additional IMF
loans which could serve as the catalyst for the transition. A combination of ‘hard sell’ and ‘soft sell’ was also employed by the Bank in several Latin American countries as well (Teichman 2001), which is in stark contrast to the situation in South Africa where, as noted, the ANC leadership was recalcitrant on the issue of loans from the multilaterals, despite the outbreak of periodic financial crises. Indeed, in recent years the flow of funds has moved in the opposite direction, with President Jacob Zuma pledging a $2-billion-dollar loan to the IMF in June 2012.\footnote{160}

The World Bank, unlike the Fund, has been active in the disbursement of loans for large economic and macro-structural projects, as stated above. The first Bank loan to post-apartheid South Africa was issued in 1997 in the amount of $47 million, to be repaid over fifteen years with a three-year grace period. The primary objective of the loan was to enhance the international competitiveness of the small-medium enterprise sector through productivity increases, and to “support sustainable economic growth and help create jobs by increasing the ability of firms in South Africa to assess export markets and quickly respond to consumer and market demands.” Additionally, at the time the World Bank Director in the Africa Region, Pamela Cox, stated that “the relationship between the Bank and South Africa has been marked by an extensive and close partnership on the non-lending side over the last few years” (emphasis mine).\footnote{161} In addition, the Bank, as stated previously, recently granted Eskom a $3.75 billion dollar loan for the purpose of increasing the country’s energy supply, partially through the construction of a coal based power

\footnote{160 The announcement of this loan, which was part of a general BRIC country commitment of $72 billion, was met with a good deal of controversy in South Africa. Deputy President Kgalema Motlanthe defended the loan in parliament, stating that it was in the “national interest to strengthen IMF resources,” and Jacob Zuma argued that the loan would help “avoid further global instability.” Although the loan received support from numerous ANC and DA politicians, it was strongly opposed by the trade unions. See The Africa Report, “IMF loan in South Africa’s ‘National Interest.’” http://www.theafricareport.com/Southern-Africa/imf-loan-in-south-africas-qnational-interestq.html}

Thus, it is entirely reasonable to ask whether the Bank’s practice of lending and policy dialogue is largely responsible for the persistence of market orthodoxy in post-apartheid South Africa, especially considering that, as was pointed out earlier, Bank staff tends to have access to a much wider range of policymakers and government departments.

There are several important points which should be taken into account when answering the above question. Firstly, it must be noted that the Bank does not engage in much dialogue with Treasury or Reserve Bank officials, thus placing certain policy issues that are the main subject of the present study, such as those pertaining to the capital account and inflation targeting, beyond their jurisdiction. In areas such as housing, land reform and infrastructural projects including education, health, and factor productivity, the Bank has far greater influence. Yet of crucial significance is the fact that the loans issued by the Bank were not part of a broader program of conditionality. In fact, the repayment schedule attached to the loans was not at all onerous, and in the absence of the type of constraints imposed by conditionality Bank officials have lacked a crucial ingredient in the South African context that historically has accompanied policy dialogue. In other words, dialogue alone may bolster certain policy models that have already emerged and are dominant, but it is unlikely that it will by itself be able to prevent the internal generation of alternative economic models within influential domestic policy circles assuming the right structural and political conditions exist. The question, therefore, is whether alternative models have

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162 It is interesting to note that this World Bank loan to South Africa was the subject of some controversy in a number of developed countries. For example, the United States abstained from the vote, along with the Netherlands, the U.K. and Italy, because of the implications the construction of such a plant held for environmental pollution and climate change. It should also be noted that the project was already underway and was being financed by private investors before the 2008 financial crisis created a shortfall of such funds. See Lisa Friedman, “South Africa Wins $3.75 Billion Coal Loan,” The New York Times, April 9, 2010.
been seriously considered by the domestic authorities and if their failure to emerge as dominant can be attributed to IFI intervention.

The above question leads us to a second point of crucial importance when evaluating IFI influence over domestic policymaking in South Africa. In other national contexts where the tactic of ‘soft sell’ was employed, most notably India, there was a long tradition of a statist and protectionist regime that resisted the encroachment of market orthodoxy for several decades prior to any decisive economic transition. The paradigm shift materialized in India in 1991 only after the balance of payments crisis, and was preceded by a long period of policy dialogue during which time the market radicals were groomed by World Bank technocrats and supplied with the data and information necessary to emerge victorious over their opponents who favored the statist regime of selected controls. In other words, the state was fragmented and fractured along ideological lines, and the serious challenge that state interventionism faced from the new market radicals created an environment whereby certain external actors could insert themselves into the domestic policy arena in order to facilitate the victory of one cluster of core bureaucratic policymakers over another (see Sengupta 2004: Chapter 2). In post-apartheid South Africa, however, the domestic authorities who supported some form of aggressive state interventionism and economic controls after the GEAR document was unveiled in 1996 were minimal and possibly non-existent. This is especially true with regards to the composition of the Finance Ministry and the Reserve Bank.

In these government departments a group of decision makers who supported the ideological stance

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163 It is notable that even under these circumstances, however, the market radicals had to wait until the 1991 balance of payments crisis provided the trigger for the neoliberal shift. The transition and the entrenchment of neoliberalism in India was therefore the culmination of a long process Bank intervention which utilized a combination of ‘soft sell’ and conditionality in the context of a fractured state. As shown below, the situation is quite different in post-apartheid South Africa.

164 I am not referring here to the COSATU and the SACP, which formed part of the tripartite alliance. The latter organizations continued to criticize the turn to market orthodoxy after the 1996 currency crisis. Such actors will be discussed in greater detail in Chapter 5.
of Trevor Manuel, who strongly advocated for fiscal restraint in his role as Finance Minister, came to dominate the policymaking space in the post-apartheid period.

Moreover, in South Africa the shift to market orthodoxy took place almost immediately after the democratic transition, with business and the global capital markets exerting decisive influence in this area, as discussed in the previous two chapters. The consolidation of a neoliberal program and the marginalization and exclusion of those elements of the bureaucracy and policymakers who were aggressively pushing for implementation of the Keynesian RDP program was also accomplished early during the transition. For example, Jay Naidoo, the former Secretary General of COSATU, was initially assigned to the RDP Ministry. This Ministry, however, was deprived of the necessary resources to function almost from the very beginning. As Narsiah has noted (2002: 5), “Naidoo was powerless to implement RDP policies and faced resistance from government ministers who fiercely guarded scarce resources.” In addition, “Naidoo faced resistance from the then deputy-president, Thabo Mbeki, who personalized attacks against him…the prelude to the closure of the RDP office came with the National Growth and Development Strategy in February 1996” (Narsiah 2002: 5).165

Overall, South Africa’s early experience with the Fund highlights the importance the ANC appeared to place on maintaining a public image compatible with the goals of the liberation movement. This was demonstrated by the fierce resistance key politicians exercised against Fund attempts to intervene in and direct the policy process during the early phases of the democratic transition. James Vreeland has argued (2003: 13) that when politicians within the executive want

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165 Additionally, Narsiah (2012) has argued that despite the demise of segregation in 1994, much of the architecture of the apartheid state, in the form of a knowledge base which included specific former bureaucrats, advisors and academics, remained intact. The existence of this architecture thus helped to facilitate the transition to market orthodoxy.
to implement unpopular economic policies that could potentially generate popular protests, officials will have an incentive to bring in international organizations such as the Fund in order to deflect political responsibility for unpopular programs (see also Remmer 1986; Vaubel 1986: 43). In South Africa, however, we have seen that there was a perception among the ANC leadership that bringing in the Fund to implement market orthodoxy would have had serious repercussion in the context of the liberation struggle. Thus, ANC leaders implemented a ‘home-grown’ structural adjustment program to placate the large firms within the business sector and to access private capital through the global financial markets, thereby maintaining the perception of autonomy and safeguarding the political capital that had been accumulated throughout the liberation struggle. In this context, Baldev Nayar’s (2003: 25) comment on the Fund’s influence in India in 1991 is quite fitting in the case of post-apartheid South Africa: “If the IFIs were pressing for their policy preferences, they were pressing against an already open door.”

This chapter has examined the dynamics and trajectory of IFI involvement and influence in South Africa since apartheid to the present, and has concluded that the ability of the multilateral organizations to shape the policymaking process was quite limited during the democratic transition. The legacy and politics of the liberation movement necessitated that ANC leaders avoid public allegations of collusion with international organizations that could be charged with acting on behalf of Western capitalist interests, and as a result state officials chose to appeal to private capital flows by imposing a home-grown structural adjustment programme.

However, it has also been argued that while the multilateral organizations played a limited role in facilitating the initial shift to market orthodoxy in 1996, there is some indication that the IFIs have been responsible for the persistence of neoliberal policies in the country since that period. By engaging Treasury and Reserve Bank officials in policy dialogue, and through the revolving
door that has been established between the organizations since the transition, the IFIs have been able to bolster and reinforce the neoliberal trajectory that the ANC embarked on in 1994. The next chapter will examine the role of organized labor and grassroots social movements have played in South Africa’s economic and political trajectory in the twenty-years since apartheid.
Chapter 5
Domestic Pressures and the Neoliberal Trajectory: The Tripartite Alliance, Opposition Parties, and Zuma

Previous chapters unpacked the agency exercised by international investors, Treasury officials, the IFIs, and the South African corporate sector as elements responsible for the continuity of the neoliberal/financial accumulation model over a twenty-year period in post-apartheid South Africa. This chapter examines an issue of crucial importance; namely, the domestic resistance that has emerged and evolved against market orthodoxy since the democratic transition. To this end, the chapter will analyze the political dynamics of corporatism in the country, specifically the tripartite ruling alliance between the ANC, the South African Communist Party (SACP), and the Congress of South African Trade Unions (COSATU), as well as the pressures against orthodoxy emanating from the opposition parties and the ANC Youth League.

As noted in Chapter 1, an important question relating to South African politics is why, in the context of persistent poverty and social inequality, has the ANC been able to secure repeated electoral victories throughout the post-apartheid period? This chapter unpacks the social, political, and economic dynamics behind this outcome through an examination of the politics of the major trade union federation in the country. It was argued in Chapter 3 that the business sector has embraced an accumulation model based on financialization, and that the absence of investment in productive sectors has perpetuated South Africa’s unemployment problem. Despite this, large swaths of the South African working class and the rural population have continued to lend their support to the ANC. Three factors are responsible for this trend: the integration of much of the organized working class into a corporatist arrangement, the legacy of the liberation movement
which the ANC continues to capitalize on, and certain limited forms of redistribution to impoverished sections of the population.

It will be argued that COSATU, which represents the bulk of the labor unions in South Africa, and the SACP have continued to promote a strategy that favors incremental change from within the ruling alliance while refraining from directly and publicly challenging and confronting the ANC’s unpopular economic policies. However, discontent from within the umbrella organization has generated a great deal of internal unrest. COSATU’s leadership has thus far chosen to address this problem by expelling militant unions from the organization, such as the national union of metalworkers (NUMSA) in 2014, but this has created a new problem for the ruling alliance: radical opposition to market orthodoxy from outside conventional political channels has begun to grow in South Africa, despite the legacy of the liberation struggle and the disbursement of non-means tested social grants, as discussed in Chapter 2.

This poses a serious and viable grassroots challenge to the ANC’s implementation of the neoliberal growth model. This challenge emanates not only from specific labor unions, but also from new opposition political parties, such as the Economic Freedom Fighters (EFF), whose electoral victories, though marginal, have begun to slightly erode the ANC’s traditional political base. The political unrest generated by these new challenges has created new pressures on the ANC, and is partially responsible for the recent tension between President Zuma and the Treasury, which can in part be attributed to Zuma’s attempt to enhance his political survival through redistribution to the party’s electoral base.

The conflict between the Presidency and the Finance Ministry has also threatened the political settlement between the ANC and other societal actors, such as labor and business. As noted in the introduction, a central component of the political survival theory is the notion that
economic rents can stimulate industrialization or be employed to coopt certain classes. In other words, rents, as previously noted, can be utilized for productive or unproductive purposes. As will be documented below, allegations of ‘state capture’ and political corruption have prompted the Zuma administration to attempt to implement certain redistributive policies to increase its popular appeal that have undermined the country’s risk profile and threatened the economic coalition among the Treasury and mobile domestic and international capital holders. Additionally, it will be shown below that while the tripartite alliance between the ANC, SACP and COSATU has come under some strain over the last several years, the latter organizations have thus far chosen to remain within the political coalition and capitalize on the access to political office that their inclusion within the governing alliance affords their members. It will be argued that the persistent stability of this political settlement has helped underwrite the continuation of market orthodoxy throughout the post-apartheid period, despite the opposition that has recently emerged from outside the tripartite alliance against the current economic order.

However, the grassroots resistance that has crystallized against aspects of the market orthodox program adopted by the ANC has important implications, especially when framed within the theoretical model presented in Chapter 1. Recall that the analytical model focuses on political survival and anchors state economic policies within a set of incentives which sometimes align with the interests of specific societal actors or fractions of the dominant class. Thus, if recent spontaneous protests and labor unrest materialize into viable movements that significantly challenge current state policies, then the ANC could potentially be pressured into abandoning certain elements of neoliberal orthodoxy, such as the IT regime and a liberalized capital account. Indeed, as will be discussed in a later section in this chapter, the Zuma administration has
repeatedly attempted to override the fiscal austerity component of market orthodoxy in response to populist pressures, and as a result has faced stiff resistance from the Treasury.

The uprisings and protests also underscore an important component of Marxist theory; namely, worker resistance against accumulation at the point of production. As noted in Chapter 1, Marxian political frameworks often identify class struggle and conflict as a crucial factor responsible for socio-economic shifts and policy trajectories. By exerting pressure on state actors oppressed classes and groups can, even in the absence of a political revolution, wrest concessions from economic and political elites and even alter the direction of a specific accumulation regime. As will be shown below, grassroots resistance, urban protests, and mining wildcat strikes have succeeded in constraining and limiting South Africa’s neoliberal growth model over a twenty-year period. However, thus far Cosatu and the SACP have remained within the tripartite alliance and this, as mentioned above, has enabled the ANC to persist with certain aspects of neoliberal orthodoxy.

The chapter will be divided into three sections. The first part will examine the formation of the tripartite alliance, with an emphasis placed on COSATU and the SACP, and the policy implications of this corporatist arrangement. The constraints placed on certain aspects of market orthodoxy by the inclusion of the unions and the SACP in the ruling alliance will be explored, along with the strains that have recently emerged in the tripartite consensus and roots behind the expulsion of certain labor unions. This section will also examine the manner in which COSATU has colluded with the ANC on certain matters of economic policy, and will further analyze an event that generated a great deal of internal strife within the organization and led to nationwide protests and wildcat strikes: The Marikana mine massacre.
The second section will examine the rise of the Economic Freedom Fighters, a party founded by Julius Malema, the former President of the ANC Youth League, in order to flesh out the new political challenges this poses for the ANC. The third and final section will then examine the conflict and tension between Zuma and the Treasury in the context of these domestic challenges and pressures. It will be argued in conclusion that while the ANC continues to maintain an electoral advantage, the population’s patience with the neoliberal growth model does appear to be running out. The chapter draws on the secondary literature as well as from interviews and primary documents, especially press reports. I also draw on certain autobiographical accounts as well, such as Patrick Craven’s recent book, *The Battle for COSATU: An Insider’s View*.

**The Tripartite Alliance: Origins, Cracks, and Implications for Policymaking**

The tripartite alliance has its roots in the liberation movement and the struggle against apartheid. In the aftermath of the 1960 Sharpeville massacre, the apartheid state launched a repressive assault against both the ANC and the black trade unions, driving the former organization underground for decades and banning organization of the latter. However, with the increasing concentration of black workers at the point of production, an outgrowth of segregationist policies, the conditions were created for the re-emergence of militant black working class struggles, and in 1973 over one-hundred-thousand black workers in Durban broke the ‘industrial peace’ and engaged in massive strike actions to demand higher wages (Webster 2013: 212).
Following this massive strike, the apartheid state, under P.W. Botha, moved to neutralize the threat posed by a rising militant South African labor movement by legalizing black trade unions in order to coopt them through their integration and registration with the National Manpower Commission (Habib 1997: 58). This period witnessed the emergence of a pluralistic and competitive dynamic among the trade unions, as the latter sought to confront capital and the state through the employment of strikes, the industrial relations machinery, negotiations, and even the courts as methods of securing better working conditions and higher wages (Habib 1997: 58). By the mid-1980s, COSATU had become the dominant federation housing the black trade unions, a development that was largely due to the leadership’s decision to facilitate connections with a wide array of social groups as a strategy of mass mobilization against the apartheid state (Buhlungu 2010: 69-71).

The consolidation of COSATU signalled a transition away from pluralism to political unionism. This shift in union strategizing essentially “prioritized the question of national liberation” (Lambert and Webster, cited in Desai and Habib 1995: 29), and in 1985 the federation issued a joint statement with the ANC that committed the unions to participate in the democratic struggle against apartheid, a commitment that essentially marked the beginning of COSATU’s integration into the tripartite alliance. This decision, while a crucial component in the struggle against segregation, also laid the foundation for the consolidation of a corporatist arrangement following the democratic transition.

Negotiations with the apartheid government, and the formal transition to democracy, led to a substantive and official shift in labor’s strategy in dealing with capital and the state, encapsulated by a movement away from the “politics of resistance to the politics of reconstruction” (Desai and Habib 1995: 30). The democratic transition thus marked the advent of a power-sharing
alliance between the ANC, COSATU, and the SACP, as well as a corporatist arrangement that, at least theoretically, incorporated organized labor, capital, and the state into a governance network responsible for macroeconomic policymaking. Viewed from the standpoint of the ANC, the promotion of corporatism was based on a strategic calculation that recognized the party’s political and social vulnerability. As Habib (1997: 71) has argued, the ANC was confronted with a strong social movement with the potential for massive mobilization in the context of a political and economic transition that was grounded in market orthodoxy and would most likely be unable to address the historic material grievances of the vast majority of South Africans. In this sense, the ANC’s embrace of corporatism can be understood as a ‘response of state elites in times of crisis’ (Stepan, cited in Habib 1997: 72).

COSATU was also motivated to accept a corporatist arrangement for strategic purposes. However, it is important to note that there was some significant dissent and reservations among key leadership personnel regarding the virtues of the tripartite alliance and institutionalized bargaining at the time of the transition. For example, Jay Naidoo, the ex-COSATU General Secretary stated in 1994, “We could become trapped in bureaucracy and inaction. Our tradition of organization and struggle could be immobilised” (cited in Gall 1997: 204). Nonetheless, other senior trade union officials advocated for ‘qualified,’ or even unqualified, support for the tripartite alliance and institutionalized bargaining on the grounds that such a social contract would allow for a period of “transitional stability,” which would in turn provide the building blocks for a socialist transformation from within the state’s structures of power (Gall 1997: 208). Indeed, the union leadership framed their shift away from radical politics and protest as a strategy designed to access the institutions necessary to shape the socio-economic future of their rank and file, even though
the collapse of communism, and their adoption of a new discourse of social democracy, was a crucial factor driving their acceptance of corporatism (Habib 1997: 72).

During this period, organized labor managed to secure a number of important concessions from the state in the context of a corporatist arrangement. For example, the transition ushered in the 1995 Labor Relations Act, which institutionalized labor relations through the creation of workplace forums, and delegated issues pertaining to wages and working conditions to centralized bargaining councils (Barchiesi 1997: 200). This statute was supplemented by the Employment Equity Act (1998), which was designed to eliminate racial discrimination in employment practices, as well as the Basic Conditions of Employment Act (1997), which regulated minimum conditions of employment in order to ensure that unorganized and vulnerable workers were protected under the definition outlined by the International Labor Organization (Webster 2013: 215).

Most importantly, corporatism led to the creation of the National Economic Development and Labor Council (Nedlac), the forum where, as noted, capital, labor and the state are able to discuss and negotiate labor and macroeconomic issues prior to their introduction in Parliament. The forum set out the following functions in its founding document:

1). ‘The council shall seek to reach consensus and make agreements on matters pertaining to economic policy. This includes areas such as fiscal and monetary policy, socioeconomic programmes, trade and industrial policy and all aspects of labor policy, including training and human resource development.

2). The council shall consider all proposed labor legislation, as well as all significant changes to social and economic policy before it is implemented or introduced in parliament.
3). Nothing in the constitution of the Council should constrain the Council from considering any matter within its terms of reference.  

The creation of Nedlac was a clear example of the power of organized labor during this time and its ability to shape the terms of the transition. Nedlac grew out of the National Economic Forum (NEF), a body which was formed at the insistence of COSATU in 1992. Organized labor had become increasingly concerned with the influence of business on the ANC’s economic program, and in 1991 COSATU launched an organized campaign against the introduction of the value-added-tax (VAT), and demanded the formation of a formal entity to prevent unilateral economic decision-making by business or the government (Natrass 1994: 351). Although the latter was initially reluctant to consent to the creation of such a forum, the attitude of the Treasury changed once Derek Keys, who came from the business community, took over the post of Minister of Finance, and in fact it was Keys and Alec Erwin who played an instrumental role in facilitating Nedlac’s creation (Parsons: 2007: 7).

The campaign launched by labor to create such a forum clearly demonstrated COSATU’s organizational strength, as the federation was able to bring together a broad coalition of actors in protest against the regressive tax (Webster 2013: 213).  

The passage of the act that created the NEF, and then later Nedlac, was thus quite a significant and important milestone in the liberation movement and the fight against apartheid, as it signalled the real possibility that organized black labor would be able to play a substantive role in the formulation of macroeconomic policymaking.

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167 As a result of this campaign, COSATU managed to win an exemption from this tax for basic foods (Natras 1994: 351, n57).
in post-apartheid South Africa, and thus could potentially keep the focus on economic redistribution.

However, unfortunately for labor, Nedlac was sidestepped immediately after the transition on matters relating to macro policy formulation and legislation. This became clear when the Treasury unveiled the GEAR program in 1996. The ANC’s Finance Minister, Trevor Manuel, announced that proposals set out in the document would be non-negotiable, and thus would not be debated or discussed within Nedlac. This decision frustrated COSATU, especially since the entity had a specific forum, the Public Finance and Monetary Policy Chamber, that was designed to deal precisely with the type of policy issues laid out in the GEAR document, and it thus seems likely that government officials understood that COSATU would strongly oppose the market orthodox policies drawn up by the technocrats in the Treasury (Parsons 2007: 13). Moreover, the decision to drastically reduce import tariffs and duties was simply announced by the Department of Trade and Industry and was not negotiated in Nedlac’s relevant policy chamber ahead of time (Desai and Habib 1995: 34).

Overall, while the creation of Nedlac, and corporatism more generally, has increased the power of organized labor at the micro-level through bargaining forums and by institutionalizing the right to strike, it has not enabled Cosatu to exercise any kind of substantive influence over the direction of macroeconomic policymaking. Additionally, collective bargaining and corporatist arrangements have at times shaped a policy environment that privileges “insiders”—members of organized unions—over “outsiders;” namely, vulnerable and unorganized workers, as was evidenced by COSATU’s strenuous objection to labor broking (Bernstein 2014: 30). In essence, Nedlac, rather than being utilized as a forum to debate and craft macroeconomic measures related to trade, government expenditure and monetary policies, has in recent years become a chamber
where issues solely relating organized labor, such as a national minimum wage and flexible labor contracting, are discussed and negotiated.\textsuperscript{168}

Nedlac’s inadequacy as a site for substantive policy formulation has, at times, led the alliance partners to resort to grassroots mobilization and protest as a strategy to constrain market orthodoxy and private wealth accumulation. This was illustrated in 2001 during the massive uprisings against the ANC government’s proposal for the privatization of state assets. Privatization had initially formed one of the main cornerstones of the neoliberal trajectory in post-apartheid South Africa, and, as noted in previous chapters, it had begun prior to the transition under the National Party. In August of 2000 the ANC government released a report entitled ‘An Accelerated Agenda towards the Restructuring of State-Owned Enterprises,’ which outlined concrete plans for the rationalization of such companies (Webster and Sikwebu 2010: 194). COSATU tabled a position paper on privatization in July of 2001 in the Nedlac Chamber that vigorously criticized the stance taken by the National Treasury and the Department of Trade and Industry on the privatization of SOEs, stating, for example, that “the market will not meet the social and economic requirements of development, since private companies cannot capture the long-term benefits of developmental measures.”\textsuperscript{169}

Discussions over privatization reached a deadlock in Nedlac, however, which led COSATU to issue a statement declaring that negotiations on this issue had failed, and that the federation would be holding a national strike in August of 2001, and that plans for action at the sectoral level were also underway.\textsuperscript{170} The federation launched a two-day general strike at the end

\textsuperscript{168} The deliberation over a potential National Minimum Wage is the most recent example of this trend, where COSATU, representatives of the business community, and the state have been engaged in heated negotiations.
\textsuperscript{170} ‘South Africa: Action will follow deadlock at Nedlac on privatization issue,’ \textit{All-Africa}, 2 August, 2001.
of August that drew tens of thousands of workers in Johannesburg, specifically protesting the planned privatization of Eskom.\footnote{Weizmann Hamilton, ‘South Africa’s anti-privatization strike,’ Socialism Today, October 2001. http://www.socialismtoday.org/60/south_africa.html} Agitation against privatization continued into 2002 with several provincial protests. At the end of the campaign, COSATU declared that they had secured some minor victories, while President Thabo Mbeki labelled the trade union ‘ultra-leftist’ (Kariithi and Kareithi 2007: 477). The strikes succeeded in halting the government’s plans for the privatization of Eskom. Moreover, opposition by labor to the state’s plans for the restructuring of SOEs registered other successes as well; for example, transport trade unions managed to convince the government that its proposal to privatize Spoornet, a freight and passenger company, was ill-conceived by demonstrating that such plans would end up thwarting sustainable economic development (Webster and Sikwebu 2010: 194). In 2005, when the government announced that it planned to divest from Transnet, the state-owned freight logistics company, another strike erupted in March of 2006 that involved 50,000 Transnet workers who were supported by COSATU (Kariithi and Kareithi 2007: 478). Transnet has since remained a government entity. In fact, the union’s struggle against privatization did achieve minimal gains, as was mentioned in the introduction. SOEs comprise 44% of South Africa’s fixed capital stock (Rumney 2005: 406), and several of the companies that had undergone privatization were soon renationalized (Pitcher 2012).

Privatization was also vigorously opposed by the SACP, the third member of the tripartite alliance. The SACP played a crucial role in the struggle against apartheid, mobilizing thousands of members at the grassroots level to oppose segregation and in support of the ANC. The Communist Party’s integration into the tripartite alliance after the democratic transition has its roots in the specific strategy adopted by the Party leaders during the movement against segregation.
Since 1928, the Party has followed a two-stage guide to revolution, which prioritised national liberation over a socialist transition; as a result, the class struggle was subordinated to the issue of racial emancipation (Thomas 2007: 123). The SACP’s strategy for working class liberation was further elucidated in their 2014 position paper, ‘Going to the Root.’ In that discussion document, the Party called for a ‘second phase’ in the National Democratic Revolution (NDR), as opposed to a ‘second stage,’ since the latter would entail breaking away from the ANC-led alliance. The document also lauded the redistributive gains that had been made since the transition, specifically the social grants currently being delivered to 16 million South Africans, and argued that next phase of the NDR would have to involve structural transformation of the economy in addition to redistribution, but advocated that this should take place within the confines of the tripartite alliance.  

The necessity of remaining within the tripartite alliance was also stressed by Alex Mashilo, who is currently the National Spokesperson for the SACP. Mashilo stressed that a number of gains were made during the transition and throughout the ANC’s tenure in power that were the result of pressure exerted by the SACP, and that breaking away from the tripartite alliance would prevent the Party from being able to secure similar gains in the future. Specifically, Mashilo pointed to the victory won against the privatization drive, and suggested that the ANC’s reversal of their proposed restructuring of SOEs could be largely attributed to the pressure exerted on the party by the alliance partners, and that this victory would likely have not been possible if the SACP had not been operating from within the alliance. Moreover, the SACP is in a sense locked into the ruling coalition because of the ANC’s overwhelming support from the South African population. As Alec

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173 Personal Interview, Alex Mashilo, National Spokesperson, SACP, Johannesburg, December 28th, 2016.
Erwin, a former SACP minister put it, “The SACP never had the kind of political following that would have allowed it to form a separate political party outside of the tripartite alliance after the transition.” This point was also made by Mashilo, who stated that the SACP still lacks a mass-based following among the population, and was thus concerned with cultivating working class consciousness from within the political alliance.

COSATU faced similar issues in the aftermath of the transition and the adoption of GEAR by the ANC government. Firstly, it must be noted that the trade union officials who were elected to parliament in the immediate aftermath of the transition were able to secure victory because they ran primarily as ANC candidates, and not because of their affiliation with COSATU (Desai and Habib 1995: 34). Secondly, despite the fact that a large number of rank and file members of the trade unions profess to support some form of social movement activism to secure economic gains (Dibben et. al. 2012), it is also the case that the same rank and file are generally loyal to the ANC as the party of liberation, and hence COSATU and the SACP would have a difficult time attracting voters if either were to splinter off and create an independent worker’s party (Harcourt and Wood 2003: 85). As was noted in Chapter 2, this support for the ANC should not be underestimated. In fact, it has been argued that the collapse of many of the independent social movement organizations that sprung up during the privatization debates could be attributed to the fact that many of the grass roots activist who were part of such movements eventually disbanded and were

174 Personal Interview, Alec Erwin, Cape Town, January 10th, 2017.
175 Personal Interview, Alex Mashilo, December 28th, 2016.
176 This point was also made by Valerie Flanagan, the former National Bargaining Director of the Food and Allied Worker’s Union, an affiliate of the COSATU federation. Flanagan stated that a primary reason why the COSATU leadership remains committed to the tripartite alliance is that the membership of the federation continues to support the ANC in large numbers, and that breaking away from the tripartite alliance could be potentially counterproductive. Personal Interview, Cape Town, October 25th, 2013.
drawn back to the ANC, thus preventing the forging of an alternative collective identity (Runciman 2015: 968).177

Finally, there is the issue of “business unionism,” as the SACP put it when referring to COSATU vast pension fund investments. The investment arms of many of the unions under the COSATU federation control a total of R-20 billion, and many of these funds are invested in top South African companies rather than in public housing or infrastructure.178 As Schneider (2003: 43) has argued, this development has created certain “bizarre contradictions,” such as when the National Union of Mineworkers (NUM), the largest union belonging to COSATU, negotiated and imposed retrenchments on behalf of a mining house that was controlled by its own investment company. Indeed, it has been reported that trade unions have at times invested in “companies where they organize workers, making it difficult for union leaders to act impartially in their member’s best interests.”179 In this sense, organized labor has been integrated into the neoliberal growth model as investors, further dulling the opposition to such economic policies (see also Andreasson 2006: 310).

Thus, the corporatist arrangement established after the democratic transition has served to contain popular resistance against market orthodoxy over a twenty-year period. Nedlac has emerged as a site where union leaders negotiate issues involving wages and flexible labor market policies, but the various chambers are bypassed when it comes to macroeconomic issues such as trade, monetary, and fiscal policies. At times, COSATU has secured important victories, such as

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177 These single-issue organizations that emerged in the midst of the ANC’s privatization drive included, for example, the Anti-Privatization Forum (APF), the Landless People’s Movement (LPM), the Anti-Eviction Campaign (AEC), and the Concerned Citizen’s Forum (CCF). See Runciman (2015) for a more detailed explanation of why such organizations lost momentum in the aftermath of the anti-privatization protests.


179 Mail & Guardian, 10 July, 2017.
against privatization and service charges for certain utilities by bolstering negotiations in Nedlac with public protests and strikes, but overall union leaders have remained wedded to the ANC and hence to market orthodoxy broadly speaking. However, since 2014 a number of large unions have broken off from the federation, and several wildcat strikes have erupted throughout the country as well, creating a real possibility for radical change. Part of the impetus for this new trend was the worst atrocity committed by state forces since the Sharpeville killings, a massacre which occurred in 2012 at Marikana.

Marikana Massacre

The Marikana massacre took place on August 16, 2012. Rock drillers at a platinum mine operated by the multinational firm Lonmin went on strike demanding higher wages, the equivalent of what the firm paid its Australian workers, and began throwing rocks at the police, refusing to disperse, which prompted the police to open fire with automatic rifles, killing thirty-four miners, wounding seventy-eight, and then arresting 259 (Chetty 2016: 63). Several of the miners had been shot in the back, indicating that they were fleeing at the time, and in the aftermath of the killings it was revealed that the police had tortured several of the detainees at the station in order to extract confessions, and the National Prosecuting Authority initially decided to charge the strikers using an apartheid-era legal provision (Swart 2015: 347). Following the massacre several key government ministries, such as the Department of Trade and Industry and the Department of Minerals and Energy, moved to reassure potential international investors that the South African mining industry remained a secure destination for investments. Moreover, the government dispatched a heavy military presence along the Platinum Mining Belt in addition to declaring a
temporary state of emergency and suspending the constitutional right of miners to protest and strike (Satgar 2012: 34).

The Marikana massacre was an extremely significant event, and not simply because it involved the state-sanctioned use of force against civilians, the largest since the Sharpeville episode. More importantly, the strike was noteworthy because it was waged outside the authority of the National Union of Mineworkers, and thus was not officially recognized by COSATU. The strikers chose to reject the NUM and accused the union of siding with the platinum company; as a result, Barnard Mokwena, who at the time was the executive vice-president of Lonmin, circulated an internal memo stating that since the strike was taking place outside the authority of the COSATU federation, the company could opt to fire the workers and call in the police to deal with the situation.¹⁸⁰ One of the rebel leaders of the strike, Mgcineni Noki, had reportedly stated that the “NUM is a sellout,” and had registered with a recent breakaway union, the Association of Mineworkers and Construction Union (AMCU).¹⁸¹

In fact, the conflict between NUM and the AMCU contributed to the conditions that led to the massacre. Workers at the Lonmin mine generally felt betrayed by NUM, and accused the latter of “abandoning their grassroots concerns” by “focusing instead on politics” (Chetty 2016: 64). NUM officials had a close relationship with management at Lonmin, and during the strike the union encouraged workers to break the strike and return to the underground shafts (Chetty 2016: 64). Moreover, as noted in Chapter 3, during the commodities boom mining companies such as Lonmin chose to distribute their massive profits to shareholders instead of using them for wage

¹⁸¹ Ibid.
increases, and NUM, rather than negotiating or pushing for higher wages, adopted a complacent approach in its relationship with management officials at Lonmin (Chetty 2016: 65). This perception among workers, that they had effectively been abandoned by their union, was partially responsible for the militant stance that permeated the environment at Marikana. In fact, the rock drillers at Lonmin explicitly rejected representation by NUM on the grounds that the union was plagued with corruption and unaccountable to its members; violence was also employed against dissenting workers who reported for duty (Chinguno 2013: 641).

The strike at Lonmin was not, however, an isolated event. In January of 2012, for example, an unprotected strike broke out at the Impala Platinum, as workers downed their tools and demanded a pay increase. NUM had opposed this strike as well, and before a deal was brokered in March that included a salary raise of R9,000, management had dismissed over 18,000 of the striking miners, thereby terminating their union memberships, while another 11,000 had resigned from NUM by the end of March (Sinwell 2015: 594). Following the uprising at Impala, workers engaged in strikes in mines all along the Platinum Belt, and in most cases the rank and file set up independent worker committees to deal with local management outside of regular institutional channels, though eventually most of them also joined the AMCU after refusing to return to NUM (Sinwell 2015: 599; Chinguno 2013: 2013: 641).

In the aftermath of the Marikana killings, it appeared that a new wave of protests and developments within COSATU could seriously threaten the tripartite alliance and potentially undermine the ANC’s hegemony. In 2014, following a national strike wave that erupted in the latter part of 2012, 70,000 platinum mineworkers went on strike outside of COSATU and its established industrial negotiating institutions (Gentle 2015: 667). The workers were demanding a minimum wage of R12,500 a month, a symbolic figure since it was the amount demanded by the
striking workers at Marikana, and initially faced stiff resistance from management, who, for the first three months of the strike, continued to sell platinum out of accumulated reserves (Gentle 2015: 667). After six months the workers emerged victorious with the full support of AMCU, a union which remained outside of the COSATU federation.

The wave of strikes that erupted before and after Marikana not only signified growing working class discontent with COSATU, but was also emblematic of increasing conflict within the federation and new strains within the tripartite alliance. Thus, following the massacre, in October 2012, the Zuma administration attempted to contain the fallout by convening an emergency social dialogue session at Nedlac between business, labor, and government officials. The participants then issued an official statement calling on unauthorized strikers to return to work and stating that ‘the wave of unprotected strikes…could undermine the legal framework of bargaining’ (cited in Gentle 2015: 669).

However, despite such pronouncements from organized labor and business, further cracks soon began appearing in the tripartite alliance. In 2014, the National Union of Metal Workers (NUMSA), one of the largest affiliates of COSATU, was expelled from the federation and hence the ruling alliance. Although NUMSA was excommunicated from the federation, the union essentially made the decision to withdraw from COSATU when it made the decision to withhold its support for the ANC in the 2014 election, and instead pledged to build a strong united movement against neoliberal policies while also establishing a political organization that could fight for socialism (Pillay 2012: 6).

Initially, NUMSA’s leader, Irvin Jim, had publicly called on COSATU to terminate its alliance with the ANC and instead join a socialist movement consisting of community organizations, churches, and NGOs with the end goal of forming a worker’s party that could
context future elections and challenge the ANC’s market orthodoxy.\textsuperscript{182} In fact, NUMSA did not want to leave COSATU; rather, the leadership simply vocally withdrew its support for the ANC ahead of the election on the grounds that it was no longer the party of workers. COSATU executives, however, voted 33-24 to instead expel NUMSA from the federation, along with the union’s 350,000 members, or 15% of COSATU’s membership. This expulsion marked a watershed moment in post-apartheid South Africa’s labor relations, with one senior union official describing it as a ‘struggle for the soul’ of the movement.\textsuperscript{183}

Patrick Craven, the former National Spokesperson for COSATU who later resigned from the federation, details the events that led to the expulsion in his 2015 autobiography, \textit{The Battle for COSATU: An Insider’s View}.\textsuperscript{184} Craven points out that NUMSA had convened a Special National Congress in December of 2013 to discuss a number of issues pertaining to the federation’s ongoing support for the ANC and COSATU’s proposal of specific economic policies. Craven noted that during his attendance he was struck by the active participation of NUMSA’s rank and file members (338,000), which, in union business he believed, set it apart from other unions belonging to the federation. During this special meeting, NUMSA further critiqued the ANC’s commitment to the neoliberal growth model, issuing a declaration which stated, in part, that ‘A militant, popular programme [the Freedom Charter] which challenged property relations in South Africa has been replaced by a neoliberal programme which entrenched existing property relations and attacks the working class and the poor in the interests of mining and finance capital’ (cited in Craven 2015: Chapter 14). Additionally, the declaration went on to detail the bankruptcy of the

\textsuperscript{182} \textit{The Economist}, ‘Workers of South Africa disunite! A split in the main union federation presages a realignment,’ 14 November, 2015.  

\textsuperscript{183} Ibid.

\textsuperscript{184} The following paragraphs are thus based on Craven’s account of events, specifically Chapters 14-16.
alliance partners, arguing that ‘the SACP leadership has become embedded in the State and is failing to act as the vanguard of the working class’ (Craven 2015: Chapter 14).

Craven further documents the response issued against NUMSA’s declaration by COSATU’s Central Executive Committee. According to the author, at a meeting held by the committee on February 10th, 2014, representatives of the federation in leadership positions denounced NUMSA and called for the union’s expulsion. Sidumo Dlamini, COSATU’s President, cited the federation’s charter and argued that NUMSA’s decision to terminate its support for the ANC and to recruit members from other unions was “diametrically opposed to that constitution,” while other unions, such as the National Union of Mineworkers (NUM), alleged that NUMSA was attempting to destroy the federation from within, and demanded that the union’s leadership provide specific reasons as to why they should not be expelled from the federation. According to Craven, the Central Executive Committee was signalling the beginning of a campaign designed to isolate NUMSA and neutralize its rebellion while reintegrating COSATU’s other union affiliates into the federal state structures of corporatism (Craven 2015: Chapter 15).

A second special meeting held by the Central Executive Committee on April 8th, 2014, and it was attended by members of the ANC Task Team, including ANC Deputy President Cyril Ramaphosa (who began his career with the National Union of Mineworkers), and Deputy Secretary-General Jessie Duarte. Ramaphosa began his address to the committee by emphasizing the importance of unity ahead of the general election, and requested that a ceasefire be put in place and that any decision to expel a union should be, at the very least, postponed. Craven highlighted the relevance of this request in his autobiography by pointing out that the May 7th general elections witnessed the exit of several senior COSATU officials as they were elected to Parliament in provincial and national assemblies. Among those elected were Senzeni Zokwana, the President of
NUM, Zet Luzipho, COSATU’s provincial secretary from the Natal region, Joe Mpisi, Deputy President of Nehawu, a COSATU affiliate, and several other officials. Craven revealed that many of the officials who left the federation for Parliamentary office had been some of the most vocal critics of NUMSA, and suggested that such officials were not criticizing the union based on ideological convictions, but rather were using the federation as a “stepping stone” to further their careers, and thus had a material interest in preserving the tripartite alliance and supporting the ANC’s electoral campaign (Craven 2015: Chapter 15). Access to state office and its accompanying material benefits can also partially explain why the SACP has chosen to remain in the tripartite alliance; in fact, under the Zuma Presidency SACP officials have become “entrenched at the heart of government,” securing a number of positions in the cabinet and in provincial executives (Southall 2014: 2).\footnote{It is also important to note that many trade union leaders in COSATU also belong to the SACP, which enables the latter organization to exercise a great deal of influence within the union movement as well as within the ANC (Southall 2014: 92).}

On November 7\textsuperscript{th}, 2014, NUMSA’s Secretary General, Irvin Jim, gave a three-hour presentation explaining why he believed the union should not be expelled from COSATU. Craven notes that the Central Executive Committee took a vote after spending very little time actually discussing or debating the presentation, and NUMSA then became the first union in the history of the federation to be expelled (Craven 2015: Chapter 18). The removal of COSATU’s largest union from the federation removed a key obstacle to the deepening of corporatism and COSATU’s ongoing political support for the ANC.

Since NUMSA’s expulsion from the federation, Irvin Jim has increased his populist pronouncements while taking the ANC to task for the party’s failure to adequately implement the Freedom Charter, the founding 1955 document that outlined the ANC’s plans for the South African
economy post-apartheid. At a press conference in Johannesburg, for example, Jim made the following statement to journalists:

In NUMSA, we have consistently maintained and repeated over the last 20 years that the inherited colonial triple crises of poverty, inequality, and unemployment and the colonial status of the African masses in post-1994 South Africa will continue to deepen unless we break new ground in destroying the inherited colonial and white dominated economy. Further, the ANC government’s neoliberal economic policies have failed to reverse the deindustrialization which has further worsened the already existing crisis of unemployment.\textsuperscript{186}

Jim has also repeatedly taken aim at the Treasury and Reserve Bank on several occasions, denouncing the “stranglehold of imperialism and white monopoly of South African capital over the National Treasury and the South African Reserve Bank,” and accusing all the Finance Ministers of post-apartheid South Africa of serving the interests of finance capital and global ratings agencies.\textsuperscript{187}

While the breakaway of COSATU’s largest union from the federation may signal the beginning of a new movement against market orthodoxy, there are still some formidable challenges that stand in the way of a counter-hegemonic project. First, the majority of the country’s unions are still integrated into the country’s corporatist framework through their membership in the federation, which, as noted above, supports the ANC. Secondly, as was discussed in Chapter 2, a large segment of the rural population and those in the townships continue to support the ANC as a result of the political capital built up during the liberation movement and due to the distribution


of the non-means tested social grants to the impoverished and unemployed. Indeed, this portion of the South African population has little use for conventional working class politics in the present socio-economic context. As Alex Mashilo put it, “That is why Irvin Jim’s project is not going to work.”

However, since Marikana and NUMSA’s expulsion from the federation, several political developments have begun to erode the ANC’s support in traditional strongholds. Such developments led to the creation of a new radical political party, the Economic Freedom Fighters (EFF), which has taken up the cause of the now abandoned Freedom Charter. The next section will examine the political significance and implications of this new party, as well the events leading up to its formation.

**New Political Resistance to the Neoliberal Growth Model**

The rise of the Economic Freedom Fighters (EFF) as a viable radical political party has its roots in the politics of the ANC Youth League (ANCYL) and the latter’s embattled former leader, Julius Malema. The ANCYL was founded in 1948 as the youth wing of the ANC as part of a strategy to mobilize the masses against apartheid. The ANCYL was to function as an autonomous, but not fully independent, organization, a status that has at times allowed the ANC to deploy the Youth League to take unpopular ideological positions on certain issues; however, this same autonomy had enabled the organization to openly defy its parent body on vital and controversial socio-economic policy issues (Posel 2013: 64). Under Julius Malema’s leadership the Youth League not only became a decisive force within ANC politics, but he was able to channel the discontent and anger of the mostly male youth from the townships against the socio-economic status quo, often

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188 Personal Interview, Alex Mashilo, National Spokesperson, SACP, Johannesburg, December 28th, 2016.
employing fiery and populist rhetoric involving invocations for ‘revolution’ and ‘militancy’ (Posel 2013: 65).

A deep rift between the Youth League and the ANC emerged, however, over the issue of unemployment and the potential nationalization of the mining industry. In a 2010 discussion document, the ANCYL made the case for the nationalization of the entire mining sector as a means of fulfilling the Freedom Charter’s promise to transfer the mineral wealth of the nation to its rightful owners. The document outlined the following benefits that would accrue from the nationalization of the mines:

a). Nationalization to increase the State’s fiscal capacity; b). Nationalization as a basis for industrialization; c). Nationalization as a means to safeguard sovereignty; d). nationalization as a basis to transform the accumulation path in the South African economy; and e). nationalization to transform South Africa’s unequal spatial development patterns.\(^{189}\)

The Youth League demanded that nationalization be placed on the agenda at the ANC’s national general council, prompting President Zuma to declare that the party would research the possibility of a state mining company before the national policy conference in 2012.\(^{190}\) However, Susan Shabangu, the Minister of the Department of Mineral Resources, dismissed the prospect of nationalization at a conference in Cape Town, stating that in her lifetime “there would be no nationalization,” while the chief executive of the Chamber of Mines warned that “nationalization has impoverished countries.”\(^{191}\)

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\(^{190}\) Robb M. Stewart, \textit{The Wall Street Journal}, ‘South Africa to study state role in mines,’ 24\textsuperscript{th} September, 2010.

\(^{191}\) Ibid.
The issue provoked a great deal of discussion and agitation among ANC officials and the ANCYL, and in fact the momentum it gained led COSATU to eventually throw its support behind the Youth League’s call for nationalization, and increasing alarm within the business community over such a prospect generated a decline in foreign direct investment flows in 2010 to just a quarter of what it was in the previous year.\(^{192}\) Malema increased his populist pronouncements by demanding that the banks be nationalized alongside the mines.\(^{193}\) COSATU’s support for the program eventually waned, however, and the position adopted by the federation at this point was that the government should pursue strategic nationalization in conjunction with broader progressive policies. Moreover, there was a general sentiment among certain union officials that the ANCYL was engaging in irresponsible “populist demagoguery,” and that the league’s drive for nationalization was at least partially being dictated by Malema’s alliance with certain beneficiaries of the BEE program who had suffered significant financial losses in the aftermath of the 2007/8 global crisis, and were thus in need of a state bailout. COSATU established a commission to discuss the prospect of strategic nationalization, but the policy conclusions reached by the committee were supressed by the ANC.\(^{194}\)

Nonetheless, the debate on nationalization continued until 2012, accompanied by significant protests led by Malema in Johannesburg, at which point the ANC officially vetoed the proposed policy at the leadership conference in December of 2012—a conference which Malema had been barred from attending—a move which signalled a defeat for left wing factions within the party and the ANCYL and a victory for the pro-business faction supporting Zuma.\(^{195}\) The

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\(^{193}\) Ibid.

\(^{194}\) The information in the second part of this paragraph is based on a personal interview conducted with Neil Coleman, former advisor to the Minister of Economic Development (EDD), and current Strategies Coordinator at COSATU, June 22, 2017.

leadership conference also witnessed Zuma’s re-election as head of the ANC with 2,983 votes to 991, despite allegations of corruption and protest sparked by Marikana, which did not sway his populist base within the rank and file of the party. In order to appease popular forces senior party officials also announced that the ANC would consider levying a new tax on the mining industry and the possible formation of a strategic state-owned mining company, though they did not provide detailed commentary on such matters or concrete policy proposals.

Although Malema and the ANCL had helped select Zuma at the 2007 leadership conference he was expelled from the League in March of 2012 for “sowing divisions and bringing the party into disrepute.” The expulsion was ahead of the leadership conference where Malema was expected to mount a challenge against Zuma, and in fact he had previously stated that Zuma was similar to his predecessor Mbeki for refusing to deviate from the current growth path. The ANC’s excommunication of Malema thus neutralized an internal threat that could have potentially derailed Zuma’s re-election bid at the 2012 conference.

It was in this context that Malema chose to form a new political party with an electoral platform that incorporated the ANCYL’s previous demands for radical redistribution through nationalization. Having failed to transform socioeconomic policy from within the party, Malema sought to challenge the ANC’s hegemony from outside. The EFF’s Founding Manifesto lays out the party’s plan for a future South Africa while also sharply critiquing the ANC’s legacy:


197 Ibid.


199 Ibid.
The 20 years of political freedom have not borne much significance to the people of South Africa. This is despite the fact that 20 years should, among other things, entail the intensification of South Africa’s political will and its determination to unite the people of South Africa, building sustainable livelihoods for them through the social and economic emancipation of the black majority. The political power that was transferred to the black majority through inclusive elections in 1994 was never transformed into economic freedom, as the majority of Africans remain on the margins of society as unemployed or underemployed…Essentially, the post-1994 government, which has been given an overwhelming mandate to turn political power into total economic emancipation, has in effect rendered the majority of the people a powerless majority by stripping away all revolutionary content from the political power it holds.\textsuperscript{200}

The EFF’s appeal was initially limited to the platinum mining belt and Malema’s home province of Limpopo. Malema was involved with the striking miners in this region both before and after the Marikana massacre; in fact, Malema and his communications officer were the first political and public figures to arrive at the scene after the killings, were embraced by the families of the killed miners as their only political representatives, and soon began to employ the memory of the massacre as a means of highlighting everything corrupt and morally degenerate about the ANC (Robinson 2014: 74).

The party managed to secure 6.4% of the national vote in the 2014 elections, with 25 MPs at the national level and 30 elected to provincial legislatures, a rather impressive feat for a party that was formed not too long before the election and had very limited financial resources (Southall 2014: 90). This modest success could be attributed to several factors, which highlight the limited, though gradually increasing, discontent with the ANC among the population and former party officials. First, in the provincial elections, the EFF exclusively ran former ANC party officials as their candidates, including Dali Mpofu, who had a long association with the ANC and had served

on the Farlam Commission investigating Marikana on behalf of the miners (Robinson 2014: 76-77).

Secondly, unlike previous ‘radical’ parties, the EFF was able to incorporate other left-wing movements into its support structure and avoid competition while also buttressing its own image. The Socialist Party of Azania as well as the Black Consciousness Party officially joined the EFF and ran candidates during the election (Robinson 2014: 76). Moreover, the National Congress of Trade Unions, a union federation separate from COSATU, officially endorsed the EFF a month before the election (Robinson 2014: 76), thereby bolstering the party’s credentials as a viable left-wing alternative to the ANC. It is also important to note that, contrary to claims made by certain ANC officials and pundits that the EFF’s support base was made up entirely of marginalized, unemployed youth, preselection surveys found that the party’s supporters consisted largely of males between the ages of 25-49, and that the majority of such supporters held a post-secondary education (Robinson 2014: 83).

The ANC has also consistently lost electoral ground to the Democratic Alliance (DA) party. The DA was essentially formed as a party for racial minorities and white capitalists in a democratic South Africa; however, it was not until the National Party disbanded and the latter’s support base embraced the DA that the party was able to secure the majority of white and non-black votes in multiple elections (Southall 2014: 84). In recent years the DA has also sought to recruit black members into its ranks, and won the provincial election in the Western Cape. The party also espouses a very different ideology from the ANC, arguing that the latter has fostered a culture of dependency through social grants and state intervention, and that the solution to the country’s poverty and unemployment problem is to deepen market structures and enable citizens to support themselves by promoting free enterprise (Southall 2014: 86-7). As a DA member of
parliament stated, “The ANC has made it their business to foster dependency on the state and they will always play that card—stating that their opponents won’t give you that.”201 This party official also predicted that the DA had a good chance of winning at the national level in the next several years, after the glow and legacy of the liberation movement wears down.202

The electoral challenge mounted against the ANC, in the context of the fallout from the Marikana massacre, in addition to the expulsion of NUMSA and the persistent levels of social inequality and high unemployment, has generated significant pressure against the Zuma administration to implement some type of policy change away from market orthodoxy. This political pressure, emanating from various civil society organizations, can be better understood by examining the coalition that crystalized around Zuma in the run-up to the 2007 leadership conference that resulted in Mbeki’s removal as President and Zuma’s succession to the role.

Zuma’s Ascension to Power and the Left-Wing Political Coalition

Zuma’s victory at the 2007 leadership conference can only be understood in the context of the opposition among the alliance members that had built up against Mbeki since the transition. Mbeki was one of the architects and supporters of the GEAR macroeconomic program which, as noted, had been formulated without consulting the alliance members and had been initially denounced by leading officials within COSATU and the SACP. Since 2002, there was a growing perception among the more left-leaning elements within COSATU that Mbeki was attempting to formulate a strategy designed to isolate the democratic elements within the ANC alliance and prevent them from informing the policymaking process. Particularly vocal in this area was the former Secretary

201 Personal Interview, Stevens M, Shadow Minister for Human Settlements, Cape Town, September 3oth, 2013.
202 Ibid.
General of COSATU, Zwelinzima Vavi, who authored a report detailing the history of the elite transition and the manner in which the isolation of democratic forces was outlined. Thus, the crystallization of support behind Zuma was thus the expression of COSATU’s opposition to Mbeki and the latter administration’s ongoing support for the neoliberal growth model.203

As deputy president under Mbeki, Zuma had the task of representing the ANC at meetings with COSATU and SACP delegates, and several leading officials within both organizations who had not been elected to government positions, and who were extremely critical of specific neoliberal policies, began to view Zuma as a potential ally of the left, and the latter did much to encourage this perception as well (Lodge 2009: 127). In 2005 the courts determined that Zuma had engaged in corrupt business practices by accepting a pension from a company, Thomson-CSF, in exchange for government contracts. In response to the finding, Mbeki removed Zuma from his post as deputy-president, a decision which angered both COSATU and the ANC youth league, who viewed the action as an attempt to marginalize a left-leaning member of the ANC cabinet (Lodge 2009: 128). A political coalition thus began forming among the ANC’s left allies and Zuma, which culminated in Mbeki’s removal as the leader of the ANC at the 2007 conference when delegates overwhelmingly cast their vote for Zuma.

The crystallization of a left-wing political coalition that formed behind Zuma consisting of COSATU, the SACP and the ANC youth league was partially a reflection of the internal machinery within the ANC. The party maintains a ban on internal factionalism, which makes it quite difficult for delegates to campaign in favour of a candidate prior to the leadership conference. As a result, only organizations such as COSATU, the SACP and the ANC youth league could serve as independent

203 The information in this paragraph was drawn from a personal interview with Neil Coleman, Strategies Coordinator of the Secretariat, COSATU, June 22nd, 2017.
caucuses where a challenge could be mounted against a party incumbent well in advance of the leadership conference (Lodge 2009: 132). Thus, these organizations, as well as COSATU’s secretary general at the time, Zwelinzima Vavi, who was a strong critic of GEAR and the neoliberal growth path, saw in Zuma a potential ally who could potentially challenge certain aspects of market orthodoxy.204

However, it is also the case that Zuma’s ascendance to Mbeki’s position followed a massive grassroots campaign against specific elements of the neoliberal trajectory as well as general civil society resistance against the ANC’s adherence to market orthodoxy. A 2006 survey of 2,500 inhabitants in a Soweto township, for example, found that there was a strong correlation between material deprivation and support for Zuma in the township, even among inhabitants who were not members or general supporters of the ANC (Ceruti 2008: 108). Moreover, as Ceruti (2008: 110) noted, Mbeki had generated massive discontent among the unemployed and impoverished citizens with his adherence to market measures; in fact, in 2005 there were over 881 incidents of unrest involving protests triggered by service and delivery charges as well as the high rates of poverty in the country, and some of the uprisings turned violent (Ceruti 2008: 110). This constellation of forces that came together to elect Zuma in 2007 compels us, as Roger Southall states, “to look beneath the surface of South African society, to ponder the shifting social forces within its political economy, and indeed, within the ANC” (Southall 2009: 331).

204 Vavi’s radical stance pitted him against other establishment figures within COSATU. Thus, it was not surprising that, amid allegations of sexual misconduct leveled against Vavi by an acquaintance, the Central Executive Committee moved to suspend Vavi from the federation, though this decision was eventually overturned in court (see Craven 2015: Chapter 11). A public feud had also broken out between Vavi and Mbeki over the role of the state in stimulating employment, with the former stating that the government should adopt a far more interventionist role. Mbeki responded by informing Vavi that COSATU was not the government or in charge of policymaking. This was followed by a massive strike on June 27th, which encouraged Vavi’s militancy (Ceruti 2008: 111).
However, despite the array of left-wing actors that rallied around Zuma prior to the 2007 leadership conference, his ascension to power has not led to a significant deviation from the neoliberal growth path adhered to by Mbeki. Firstly, the pact made between the alliance partners and Zuma generated a greater distribution of cabinet seats for the SACP and COSATU (Gentle 2015: 668); yet, given the corporatist structures previously discussed, this does not necessarily lead to a greater degree of autonomy over economic policymaking for these organizations. Secondly, while Zuma’s election in 2009 following the ANC’s victory was accompanied by a cabinet reshuffle, as well as the exit of several government officials, a number of state officials who held tenure under Mbeki were nonetheless retained for strategic purposes. For example, Trevor Manuel, another architect of the GEAR policies, was convinced by Kgalema Motlanthe, who had temporarily taken Mbeki’s place as president before the 2009 general elections, to remain in his post as Finance Minister in order to assuage the concerns of international investors and the business community (Lodge 2009: 139). Additionally, in an address to SACP officials during a policy meeting Zuma signalled a certain degree of continuity with Mbeki’s economic program by highlighting the necessity of creating viable work opportunities and combating crime (Lodge 2009: 140). Clearly, Mbeki’s defeat was not followed by a radical transformation within the ANC.

However, in recent years Zuma has faced increasing pressure from segments of the South African population to chart a new populist path away from market orthodoxy. First, with the expulsion of Malema from the ANCYL, the very left-wing coalition responsible for Zuma’s ascendancy to power at the 2007 leadership conference began to collapse (Southall 2014: 81). Additionally, his adherence to essentially the same neoliberal growth path has not helped to bolster his support among the trade unions. Moreover, since 2015 the Zuma administration has become embroiled in a corruption scandal involving allegations of “state capture.” This scandal revolves
around a charge that the administration was approached by members of the Gupta family, with ownership stakes in several industries, for the purpose of influencing certain ministerial appointments. A former ANC member of parliament, Vytjie Mentor, as well the former Deputy Finance Minister, Mcebisi Jonas, led the most serious charges against Zuma. Jonas publically charged that members of the Gupta Family approached him the day before Zuma terminated the appointment of former Finance Minister Nhlanhla Nene and offered him the position of the next Minister of Finance, an offer which Jonas outright rejected (Shai 2017: 63).

The issue of fiscal policy within the Treasury was examined in detail in Chapter 2, and thus will not be extensively discussed here. However, the scandal involving the Gupta’s and Zuma has placed the latter administration in direct conflict with the Finance Ministry over the direction of specific economic policies that have their roots in popular pressure, and therefore is relevant to the present analysis. This becomes clear when the factors responsible for Zuma’s dismissal of Finance Ministers Nene and later Gordhan are explored. At the heart of this conflict was a decision made by the Zuma administration to enter into an agreement with Russia to construct a number of nuclear power plants in South Africa.

The nuclear plants would have been supplied with uranium from a mine in the Northwest, Oakbay Resources and Energy, owned by the Gupta Family, which also has a subsidiary, Shiva Uranium, on which Zuma’s son held a chairmanship. The Russian deal would have provided the SOE Eskom with much needed electricity, while also further enriching the Gupta and Zuma Families, but it was blocked by Finance Ministers Nene and Gordhan as too expensive. Moreover, in 2016 the Public Protector issued a ‘State Capture Report’ which summarized the

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206 Ibid.
findings of his investigation regarding potential collusion between President Zuma’s office and the Gupta Family. Although the report did not definitively conclude that state capture had occurred, it did note that ability of the Gupta Family to predict specific events with accuracy, such as the removal of Minister Nene by Zuma, was cause for serious concern, and recommended that a judicial commission formally investigate.\textsuperscript{207} As of now there has not been a formal judicial investigation into the conduct of the Gupta Family, but the scandal has created tension between Zuma and other government departments, affected his popularity, and has led to public charges by labor officials that the state has been captured by a “predatory elite” bent on transforming South Africa into a kleptocracy.\textsuperscript{208}

The deterioration of the Russian nuclear deal was the central event that triggered the tension between the Presidency and the Treasury, culminating in a cabinet reshuffle which, as noted in Chapter 2, sparked a panic among investors and a deterioration of the rand before the decision was reversed. However, the reappointment of Pravin Gordhan to the post of Finance Minister, while calming the financial markets, did not put an end to the internal factional battles within the ANC or the conflict between Zuma and the Treasury. In the context of Marikana, electoral losses at the national level, the breakaway of NUMSA from COSATU and the gradual disintegration of the political alliance that propelled him to power, Zuma has attempted to buttress his populist image by resorting to state expenditure. This conflict only intensified after the 2016 local municipal elections which registered historic losses for the ANC, as the party’s aggregate electoral support plummeted below 60\% for the first time since the democratic transition.\textsuperscript{209} In the aftermath of this disappointment, Zuma came under increasing pressure to implement heterodox policies and

\textsuperscript{208}Neil Coleman, ‘Do we have to choose between a predatory elite and white monopoly capital?’ \textit{Daily Maverick}, 21 April, 2017.
\textsuperscript{209}\textit{Newsweek}, ‘South Africa left in limbo by landmark election results,’ August 9, 2016.
increase fiscal expenditure, but this type of policy stance conflicted with the Treasury’s commitment to cut the budget deficit and restore investor confidence in South Africa’s financial instruments.\textsuperscript{210}

It has been reported that the Treasury was resisting a call by Zuma to “reprioritize the budget,” with Minister Gordhan vowing to put a cap on spending and debt levels in order to avoid a credit rating downgrade. In this context of fresh political turmoil, it was reported that “ANC lawmakers loyal to Mr. Zuma have argued that technocratic policies advocated by Mr. Gordhan are dislocating the party from its base.”\textsuperscript{211} It was further reported that Zuma had instructed a special elite police division to investigate Minister Gordhan for allegedly setting up an “illicit investigative unit” when he was in charge of the South African Revenue Service.\textsuperscript{212} Alan Hirsch, the former head of economic policy with the office of the Presidency and a former senior official with the DTI, stated that Zuma’s removal of Nene, and his replacement by an unknown but loyal official, was based on Nene’s refusal to “allocate national resources carelessly,” and that “his successor was chosen because he [was] not expected to be so careful.” Moreover, it was suggested that the removal of Nene would “weaken the currency, raise the cost of borrowing,” and undermine the country’s fiscal credibility.\textsuperscript{213}

As was noted in Chapter 2, the reappointment of Gordhan to the post of Finance Minister was short lived, as he was subsequently removed again in another cabinet reshuffle by Zuma in March of 2017. Zuma announced that the reshuffle and the removal of Gordhan would usher in

\begin{itemize}
\item \textsuperscript{210} CNBC, ‘Rand slides amid fresh political uncertainty in South Africa,’ August 26, 2016.
\item \textsuperscript{211} The Wall Street Journal, ‘South Africa’s rand slides amid renewed cabinet tensions; disharmony over economic policy between President Jacob Zuma, finance minister Pravin Gordhan resumes,’ 24 August 2016.
\item \textsuperscript{212} Mail & Guardian, ‘ANC risks internal war as Pravin Gordhan is investigated by the Hawks,’ August 29, 2016.
\item \textsuperscript{213} Sunday Times, ‘The removal of South Africa’s finance minister is bad news for the country,’ December 10, 2015.
\end{itemize}
“radical socio-economic transformation,” a move that was praised by the ANC Youth League. However, the move was also criticized by leading officials within the ANC, including Mbeki, as well as trade unions and civil society groups, while the SACP warned against the possibility of “state looting.” The reshuffle was also condemned by Deputy President Cyril Ramaphosa, who called the firing “totally unacceptable,” a statement reflecting the general reaction of many top ANC officials, though Ramaphosa decided not to resign as a protest against the move.

Although a precise justification was not provided by Zuma for the firing, it was reported that the tension between the President and the Finance Minister had escalated because the two officials differed on the issue of state expenditure, and Zuma publicly stated after the reshuffle that he had directed his new cabinet to “work tirelessly” in order to “ensure that the promise of a better life for the poor and the working class becomes a reality.” It was further reported that the bond and foreign exchange markets were reacting negatively to the news of the firing, as Gordhan was viewed by investors as a source of stability, in light of his longstanding priorities of controlling inflation and imposing fiscal discipline, two goals which, as noted, clashed with Zuma’s populist thrust.

Zuma’s drive to increase government expenditure to prop up his popularity with the rural and working classes and to divert attention away from the scandals that have plagued his administration should not, however, be interpreted as the beginning of the emergence of a

215 Ibid.
217 Ibid.
https://www.ft.com/content/46eff1ba-15dd-11e7-b0c1-37e417ee6c76?mhq5j=e1
The article noted that the dismissal of Gordhan led to a 50 basis point jump in the ten-year bond yield and that the rand fell by nearly 8%. Bank shares also fell sharply.
developmental state in South Africa with a focus on more productive industrial activities. Rather, his recent endorsement of nationalization and rhetoric on eliminating economic inequality, as well as his cabinet reshuffle, must be understood as an attempt to maintain his position as head of the ANC in anticipation of the next leadership conference; in other words, as a strategy grounded in political survival. As noted, COSATU’s support for Zuma in 2007 was less about a specific individual and more about opposition to a neoliberal growth model and a rejection of Mbeki’s politics. However, in light of Zuma’s inability to alter certain elements of market orthodoxy due to resistance from the Treasury and investors, such as fiscal discipline and the IT regime, it is an open question as to whether the federation will even support the ANC in the 2019 national elections. In fact, the federation had made it clear that if Zuma did not alter segments of the neoliberal model he would forfeit the support he enjoyed from COSATU at the next conference. The Zuma administrations’ attempted shift to a certain brand of populism, based on enhanced redistribution, thus reflects this reality.²¹⁹

Yet, as has been argued throughout this chapter, there are also very clear benefits that COSATU, and the SACP, derive from the corporatist structures in post-apartheid South Africa and their ongoing participation in the tripartite alliance. As was previously noted, the federation and the SACP were awarded with cabinet positions for their support for Zuma, and in light of such benefits, it is unlikely that such organizations will completely withdraw their participation in the alliance with the ANC, especially considering their belief that the best strategy to enact economic reform is through a combination of protest and social dialogue with the ruling party.

²¹⁹ The information in this paragraph is based on a personal interview with Neil Coleman, June 22, 2017.
The 6th Central Committee Meeting held by COSATU on June 1st, 2017 in Pretoria, laid out the federations’ plan for organizing in the near future while also naming the candidate the unions would support to replace Zuma at the next ANC leadership conference. On the former issue, the meeting summarized the following as the federations’ basic plans for local organizing moving forward:

This will include the launching of COSATU locals based on clear programmes and tasks, we will focus our energies and resources to build capacity for local leadership, organizing the unorganized through heightening our recruitment campaign. We shall focus more on vulnerable sectors, recruiting and organizing young workers and supporting recruitment programmes for industrial unions; ensuring service to our members and also consolidating our listening campaign in workplaces. The 6th Central Committee reaffirms the need to strengthen COSATU affiliates including supporting those unions that are under attack or experiencing internal challenges.\textsuperscript{220}

Moreover, perhaps in an attempt to prevent another scenario such as the type that occurred between the federation and NUMSA, it was also declared at the meeting that COSATU would “decisively intervene in unions where there are challenges and not allow unions to use their autonomy to frustrate COSATU’s intervention processes.”\textsuperscript{221}

On the issue of the next leadership conference, the committee declared that the federation would throw their support behind Cyril Ramaphosa, the current Deputy President of the ANC and, as noted, the former labor leader turned mining millionaire. It was asserted by the Committee that Ramaphosa was the federation’s natural candidate, and that COSATU would accelerate its efforts to have Zuma step down as President and the latter would no longer be permitted to address COSATU meetings. The document also asserted the federations’ desire to continue the alliance

\textsuperscript{220} Final Declaration, ‘COSATU 6th Central Committee Meeting,’ June 1st, 2017, Pretoria (Unpublished Draft). I obtained a copy of this draft from Neil Coleman.

\textsuperscript{221} Ibid.
with the SACP, and vowed to collaborate with the organization to fight state capture and reform
the ideological position of the Treasury.  

There are additional factors that could complicate the 2019 elections. It was initially
reported that NUMSA had plans to form a Marxist-Leninist Worker’s Party that, with its nearly
340,000-member base, would mount a significant challenge to the ANC. The entry of NUMSA
into the national elections, in conjunction with the growing success of the EFF and the DA, could
have potentially deprived the ANC government of a majority for the first time since the democratic
transition, forcing the party to form a coalitional alliance in parliament. In 2016, however, Irvin
Jim declared that NUMSA would remain a labour union and thus would not transform itself into
a socialist party. Instead, he stated that “all our shop stewards and officials should maintain an
activist role” and that they would “work with Marxist forces everywhere, including those who are
traditional ANC allies.” This decision signifies the removal of a potential electoral challenge to
the ruling party.

In the absence of a powerful socialist movement that can channel its energy into a viable
political party, it is likely that the ANC will secure another majority victory in the 2019 national
elections. It is clear that, despite rhetoric, COSATU and the SACP are more interested in
employing the threat of protests and strikes to check the excesses of neoliberalism from within the
tripartite alliance as opposed to mobilizing South Africans to transform the existing accumulation
regime. Moreover, Cyril Ramaphosa, despite his credentials as a labor leader, is now firmly
integrated into the neoliberal regime and the circuits of MEC capital, and it is thus highly unlikely

222 Ibid. p. 6.
The article further stated that while Irvin Jim pledged that Numsa would not transform itself into a political party, he
did nonetheless urge officials to help form a separate Marxist socialist party for the future.
that his program would deviate too much from the policies implemented by Mbeki and Zuma. In other words, as the political tripartite alliance holds together, then it is likely that the economic coalition between the Treasury and mobile domestic and global capital holders will also persist into the future.

Nonetheless, the ANC has unveiled a new plan for industrialization, which has been briefly alluded to in previous chapters. The National Development Plan (NDP), formulated with the support of the Treasury, lays out the blueprint for future industrialization in the context of a developmental state aiming for diversified industrialization. The conclusion will briefly delve into this topic to unpack the potential of the NDP, why it was selected over other potential programs, and whether South Africa possesses the state capacity to embark on a comprehensive industrialization program.
Conclusions

I began this dissertation by asking two questions: why did the ANC abandon its redistributive platform in favour of a home-grown structural adjustment program in the aftermath of the democratic transition, and, perhaps more importantly, why has this specific form of market orthodoxy persisted over a twenty-year period and numerous administrations, despite its disappointing performance in delivering sustained economic growth and lowering the unemployment rate? The first question has been extensively studied by political economists, while the second interrelated question has received less attention.

In previous chapters I argued that the initial shift to market orthodoxy was facilitated by the conglomerate firms operating in South Africa, which had exhausted their investment in the country due to their oligopolistic structures and declining gold prices, and by international investors operating through the global capital markets. In line with the findings of some other researchers, it was argued that the oligopolistic South African companies had been searching for a new accumulation model since the 1980s, and the democratic shift provided them with the opportunity to expand their operations abroad after decades of capital controls had constrained the possibility for outward investment. Moreover, it was shown that the new accumulation model adopted by the conglomerates involved downsizing, regional integration, and a shift to financialization, which has prioritized short-term speculation, reliance on global commodity markets, and the distribution of profits to shareholders over long-term productive investment. In conjunction with certain liberalization measures, such the reduction and elimination of trade protection, has led to stagnation, high unemployment, and de-industrialization in post-apartheid South Africa.
This new accumulation regime was cemented through the informal negotiations between the business sector, namely representatives of the conglomerate firms, and leading officials within the ANC. As was discussed in Chapter 3, such negotiations ensured that redistributionist policies would be limited. Several liberalization measures, such as the removal of capital controls for non-residents in 1995, the ability to list shares on foreign exchanges, and deficit reduction all flowed from the lobbying efforts of the large firm and their business associations.

Regarding the second question, my research suggests that the persistence of market orthodoxy over a twenty-year period, and throughout successive ANC administrations, has been predicated on a set of both economic and political constraints and incentives. For instance, it was shown that South Africa’s integration into the global capital markets in 1995 has constrained the autonomy of domestic policymakers because the country is now largely dependent on foreign capital inflows to fund the current account. Thus, the adoption of heterodox policies, or even suspicion that such policies might be adopted, could raise the risk profile investors attach to assets and trigger capital flight, thereby causing depreciation of the currency (as was the case in 1996, 1998, and again in 2001). As was argued in Chapter 2, the inflation targeting (IT) regime was adopted in 2000 by the Reserve Bank in order to facilitate and encourage a steady inflow of foreign capital.

Additionally, it was argued that policymakers within the Ministry of Finance had resisted pressure from other departments, such as the DTI, to impose capital controls on portfolio inflows since the latter were required to fund the fiscal deficit and permit long-term borrowing at lower interest rates than might otherwise be permitted. As was discussed in Chapter 2, this is a crucial variable responsible for the persistence of market orthodoxy in South Africa. Access to international finance has enabled the ANC to implement a limited form of redistribution, primarily
through the disbursement of social grants, to the impoverished segments of the population in the rural areas and townships. While this redistribution is partially responsible for the ANC’s continued electoral success throughout the post-apartheid era, it has also kept South Africa tightly integrated into the circuits of global finance, and has thus perpetuated the financialized accumulation model discussed in Chapter 3. In essence, it was shown that the adoption of specific liberalization measures in the aftermath of the democratic transition strengthened the position of the mobile-capital owners, to borrow the phrase employed by Pepinsky, and the country’s indebtedness to global investors, had enabled the latter to in effect wield a veto over more heterodox economic policies. Dialogue between IMF and Bank technocrats and officials in the National Treasury and Reserve Bank has also reinforced the neoliberal regime. The above factors, in conjunction with the cooptation of the opposition of much of the labor movement resulting from the corporatist arrangement discussed in detail in Chapter 5, has rendered resistance to the overall neoliberal regime ineffective over a twenty-year period, despite the incremental and significant gains secured by Cosatu and the SACP during this time.

In this concluding chapter, I will briefly examine possible trajectories of economic development and industrialization in post-apartheid South Africa, as well as the possibility of such policies in the context of state capacity. I argue that a new industrial framework, similar to the type of prescriptions offered by the earlier development blueprints, such as the RDP and the Macro-Economic Research Group (MERG), discussed in detail below, is absolutely necessary for South Africa to alleviate its unemployment problem and to achieve industrial diversification. I also argue that the ANC’s New Development Plan (NDP), briefly discussed in previous chapters, is insufficient for this task. Finally, this conclusion suggests that while the ANC does possess the technical and bureaucratic expertise at the national level to implement a redistributive program
with industrial upgrading, the political capacity to carry out such a program is currently absent due to the entrenched interests of various societal actors.

I begin by reviewing the issue of technical state capacity, followed by a brief discussion of the previous heterodox projects that were briefly considered during the early years of the democratic transition before they were abandoned in favor of market orthodoxy. I suggest that the implementation of some of those policy prescriptions could reduce poverty and boost growth and productivity if adopted by the Treasury and other government departments. I then discuss whether South Africa possesses sufficient expertise and the political will at the national level to successfully implement such policies.

A crucial issue, that has not been extensively examined in this thesis, is state capacity, and whether the ANC and the post-apartheid bureaucracy possess the technical expertise to effectively implement developmental style economic policies to increase economic growth, lower unemployment, and generate industrial diversification. Although state capacity is often associated with the competent, Weberian bureaucracies in specific East Asian countries, I argue that the amount of technical expertise and knowledge required to implement the heterodox policies that would spur industrialization exists in post-apartheid South Africa at the national level. However, it must be noted that while technical capacity may be present, South African government departments remain constrained in their ability to adopt specific industrialization measures due to the absence of political capacity, the ability to effectively negotiate with the relevant political actors in the country or override their economic interests.

Firstly, as has been documented in this dissertation and in the secondary literature, the ANC and the South African bureaucracy is in fact quite capable of disciplining and controlling the business community in the pursuit of specific redistributionist goals. One clear example of this is
the Black Economic Empowerment (BEE) program. Although, as noted in Chapter 3, the latter policy was largely initiated by the business sector in order to subvert substantive redistribution, it is also clear that the ANC and the Department of Minerals and Resources have since repeatedly clashed with firms that have not fully complied with the BEE mandate and have continued to challenge the business community and hold such firms accountable for this lack of compliance. There is thus no reason to believe that the technocracy and the ANC would not also be able to overcome initial resistance to other heterodox policies designed to promote industrialization and redistribution.

In an article on the developmental state in Africa, Ayelazuno (2014) referred to the phenomena of ‘Growth without Development’ in relation to the neoliberal project in Sub-Saharan Africa. Focusing mainly on Ghana as a case study, Ayelazuno argued that the persistence of poverty in the country despite economic growth could be attributed to the absence of industrial diversification, specifically the establishment of a strong manufacturing base. The author further argued that Ghana possessed the technical-capacity to construct this type of comparative advantage through selective protective tariffs and capital, despite claims that the Ghanaian bureaucracy lacks the technocratic knowledge possessed by the East Asian states during their industrial take-off. In fact, Ayelazuno argues that despite the prevalence of public sector corruption, the Ghanaian state is as capable of embarking on a trajectory of industrialization as the South Korean and Malaysian states were at the time that those state-bureaucracies spearheaded industrialization (Ayelazuno 2014: 95).

I would argue that the post-apartheid South African state is in a similar position to initiate a comprehensive program of industrialization. Although state capacity is limited at the local levels, with appointments based often on patronage and with administrators lacking technical skills, this
problem could be remedied by halting the process of decentralization as it currently exists in the country, a process which could be accomplished by establishing national agencies, under the control of the central government, tasked with assisting local municipalities with service deliveries and by assuming more crucial responsibilities that cannot presently be handled at the local level (Koelble and Siddle 2014: 618). However, various national governmental departments are staffed by officials who possess the technical knowledge and expertise required to spearhead industrial diversification. Although South Africa does not currently possess the same classic Weberian bureaucratic structures present in the East Asian developmental states, there are nonetheless pockets of Weberian meritocracy in national government departments such as the Treasury, the Reserve Bank, and the South African Revenue Service (Karriem and Hoskins 2016: 338). While this could be viewed as an impediment, recall that the theoretical model applied throughout this study, the political survival framework, posits that in the context of the right incentive structure, ‘pockets of efficiency’ in specific departments could be adequate to at least spearhead a process of industrialization.

Moreover, South Africa is in the unique position to be able to draw on the knowledge of international and foreign experts who have formulated numerous blueprints laying out the steps and heterodox policies required to generate industrialization and lower the unemployment rate, as evidenced by the MERG documents discussed below. Additionally, both the DTI and the EDD have advocated for a heterodox economic program; however, as has been shown throughout this dissertation, the Treasury and the Reserve Bank have thus far successfully resisted such a program,

225 These authors further argue that the level of decentralization carried out in post-apartheid South Africa was far too ambitious given the country’s level of development, and that many of developmental problems and obstacles the state faces can be attributed to the fact that municipal and local levels of government are often overwhelmed and incapable of administering the tasks that presently fall within their domain.
and the ANC, despite some limited redistribution, has been unwilling to adopt a comprehensive developmental program.

As was discussed in Chapter 2, a crucial obstacle to an effective industrialization strategy, as well as the formation of a viable developmental state, is the absence of a central planning ministry to coordinate and enforce developmental goals across government departments (see also Karriem and Hoskins 2016). As was noted in Chapter 4, the Reconstruction and Development Program (RDP) ministry, which was initially tasked with coordinating economic policy, was deprived of crucial funds and eventually shut down amid attacks from the Treasury. Thus, in the absence of the establishment of a strong central government agency to coordinate economic policymaking, interdepartmental rivalry will likely continue to prevail, with the Treasury and Reserve Bank thwarting genuine heterodox developmental programs. The next section documents some of the early thwarted efforts at industrialization, followed by an examination of the most recent blueprint for industrial upgrading, the National Development Plan.

The Early Development Paradigms in Post-Apartheid South Africa

Previous chapters mentioned that the ANC came to power after campaigning on a platform based on Keynesian redistribution, which was encapsulated in the Reconstruction and Development Program (RDP). Prior to the RDP, a network of progressive academics and left-wing economists from Western nations had formed the Macro-Economic Research Group (MERG) to advise the ANC on matters of economic development policy. For a period of time, MERG even received funding from the Canadian government to redress the harms of apartheid, and the academics and economists working on the project included Ben Fine, Lawrence Harris, and a British Marxist John Sender (Freund 2013: 523). Moreover, much like the GEAR program that ushered in the shift to
market orthodoxy in 1996, MERG was attacked by some for largely being comprised of foreign specialists and academics, though this fact reflected the low level of technical economic expertise in South Africa at the time (Freund 2013: 524).

The MERG group produced numerous reports and econometric analyses to determine which progressive economic policies would boost growth and generate employment and a higher standard of living for the impoverished in post-apartheid South Africa. The economic analyses produced through such work placed a heavy emphasis on the determinants of private-sector investment, and the policies required to facilitate renewed investment. A central argument made by members of the group based on the analyses performed was that a sizable increase in public expenditure on infrastructure would deliver a “crowding in” effect and raise the rate of private investment without negatively effecting business confidence (Sender 1994: 540). MERG members also advocated for a national minimum wage and argued, based on data from the agricultural sector, that there was no evidence that a rise in wages, to a reasonable degree, would result in a loss in employment (Sender 1994: 541).

Although a few of the ideas pertaining to redistribution were carried forward in the RDP document, which, as noted, was itself later eclipsed by GEAR, the MERG group was short-lived and the majority of the policies formulated by its members were never implemented. The factors responsible for the general shift to market orthodoxy during the post-apartheid period have already been discussed in previous chapters; however, the demise of MERG can be attributed to two central issues. First, there was a rift between MERG and COSATU. The latter had been approached by the National Economic Forum, (NSF), which later became the National Economic and Development Labor Council, discussed in Chapter 5.
Secondly, much like the RDP document the MERG policy proposals were heavily criticized by business and more conservative economists. Nicoli Natrass, an economist at the University of Cape Town, (1994), criticized the reports and proposals put forward by MERG on several grounds. Natrass argued that some of the groups’ policies designed to improve labor and capital productivity, such as minimum wages, land reform, and the promotion of small businesses, would end up generating unemployment and capital flight (Natrass 1994: 221). The author suggested that an increase in the minimum wage would entice employers to shed labor as a response to rising costs, and that the group’s plans for reorganizing the economy by restructuring the conglomerates and through the use of tariffs would likely lead to capital flight.

In the context of the campaign launched by the business community, as discussed in Chapter 3, against the principle of redistribution, as well as the influence of international investors over policy and the corporatist arrangement struck with the unions, it is not surprising that the ANC largely abandoned some of the core principles outlined in the MERG reports. The dilemma faced by the ANC arises from the government’s attempt to grapple with developmental style strategies while simultaneously adhering to the features of market orthodoxy. Thus, despite the shift to market orthodoxy, the ANC has continued to champion the principles of redistribution and inclusive development through political discourse, for example by repeatedly referencing the developmental state in the National Development Plan (NDP) document.

The National Development Plan was formulated by experts in the National Treasury and academics from multiple different disciplines, and the program was officially launched in 2012. The committee in charge of drafting the document, the National Planning Commission, was chaired by the former Minister of Finance Trevor Manuel, who has already been discussed in previous chapters. The NDP was selected by the ANC over the New Growth Path (NGP), a
developmental program drafted by the Economic and Development Department (EDD) in collaboration with the Department of Trade and Industry (DTI) which drafted the Industrial Policy Action Plan to accompany the NGP (Pillay 2012: 15).

The program employs the type of language that is compatible with a developmental state, but the program does not outline a strong component of state intervention in the economy. The blueprint does call for the implementation of policies designed to increase skills training and expand education; however, the document does not aim to accomplish all of this through state intervention. In fact, much of the projected expansion of educational facilities is predicated on the assumption that that private investment will pick up the slack where the state is unable to do so, which is why the program is consistent with deficit reduction, a debt ceiling, the inflation targeting regime (IT) and other elements of market orthodoxy.226 In other words, the NDP reflects the ideology that has emanated from the Treasury and the Reserve Bank, as opposed to the DTI or EDD, over the last twenty year period. Moreover, the employment of capital controls is not even contemplated, thus suggesting that while the document speaks the language of a developmental state at times, the policies do not in any sense reflect the spirit of the MERG reports which were the first to champion developmental prescriptions for post-apartheid South Africa.

In a study on the effects of financial capitalism on emerging market economies, Thomas Koelble and Edward LiPuma raise certain significant issues pertaining to development that can partially explain post-apartheid South Africa’s difficulty in charting an independent course of development based on industrialization. The authors argue that the degree to which any nation can navigate the influence of the global financial markets under neoliberalism depends on three

criteria; namely, whether a country happens to be a hard petroleum producer and can generate large foreign exchange reserves based on natural endowments; second, the extent to which a country can maintain consistent dollar and euro current account surpluses, such as China and Taiwan; and third, the ratio of a country’s foreign debt to its GDP, which can breach 80% in developed nations before investors start to panic (2006: 626). Accordingly, those nations which do not fall into any of the above three categories, which do not consistently generate surpluses and have a high level of foreign indebtedness, will find it much more difficult, if not impossible, to chart an independent course of economic development without being in some manner circumscribed by global financial actors.

The current account surpluses maintained by China and several East Asian countries have been largely dependent on the abundance of labor as a factor of production and the ability of such states to employ domestic workers at low wages in labor intensive export industries with little resistance. Even countries such as Singapore and South Korea, which now possess diversified and comparatively advanced industrial structures, began their industrialization drives through the exploitation of their weakly organized labor forces. In fact, Amsden (1995) has argued that the late industrialization paradigm, which encompasses East Asia and other countries that vary geographically, can be characterized as one based on abundant labor supplies as well as low levels of political democracy and trade union development.

It should be noted that the existence of abundant labor supplies and weak unionization and worker strength is not, on its own, a sufficient condition for industrial diversification and economic development. For instance, the ruthless exploitation of workers by the garment industry in Bangladesh has not led to a policy of industrial upgrading or a significant movement up on the value added chain. Nonetheless, the ability to exploit low wage labor in the context of competitive
global export markets does give rise to certain economic advantages that can, if properly mobilized, lead to the emergence of an independent course of development by generating foreign exchange that the government can then use for developmental purposes.\textsuperscript{227} Clearly, this is not an option that the ANC could realistically pursue. The arrangement of corporatism in the context of the tripartite alliance renders such a strategy completely unfeasible; the political capacity to implement such a policy is lacking due to the strength of COSATU and the recent history of worker strikes in South Africa, as discussed in Chapter 5.\textsuperscript{228}

A second condition that determines the degree of economic freedom available to states in the context of neoliberalism and international financial flows is the level of liquidity in their domestic bond markets. For instance, in those domestic financial markets where the seller of a bond or security can always find a buyer, where national debt instruments are viewed as a ‘flight to safety,’ and where the state can guarantee future income streams by virtue of possessing a key reserve currency and the ability to tax large swaths of the population, then the financial constraints usually imposed by market orthodoxy and austerity do not operate with as much force as normal.\textsuperscript{229} As noted, in such circumstances, the public debt stock can surpass 80\% of GDP without provoking financial panic or a rebellion by bond holders. A strong currency supported by competitive exports and a diverse domestic industrial base could also permit higher levels of borrowing on international capital markets.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{227} As was noted in Chapter 2, Rodrick has argued that holding foreign exchange reserves in order to placate international investors poses a significant opportunity cost, as such reserves could alternatively have been employed to generate demand through development projects.
\item \textsuperscript{228} This point was made by a Senior Official in the Finance Ministry, who stated that employing low-wage labor in this fashion in South Africa was not a feasible option because of the racial connotations involved due to the legacy of apartheid, and because of the politics of corporatism. Personal Interview, December 18\textsuperscript{th}, 2013.
\item \textsuperscript{229} Even in these contexts, however, governments face certain constraints. For example, the Clinton administration reportedly abandoned some of their proposed social expenditure programs because of the opposition they faced from Wall Street (Brenner 1999).
\end{itemize}
\end{footnotesize}
Financial credibility in the global capital markets can, in fact, be acquired over the long-term through a cohesive policy based on a strengthening of the currency through trade restrictions and the nurturing of strategic domestic industries, but state managers can do little in the short-term to affect this global perception. The imposition of capital controls, as has been noted throughout this dissertation, is a policy decision directly linked to the political agency exercised by officials within the Finance Ministry who, depending on historical circumstances, form alliances with broader social classes who influence their decision on this matter.

As was discussed in Chapter 2, post-apartheid South Africa is dependent on foreign portfolio capital to fund both the current account as well as the fiscal deficit. This dependence on international capital flows is one of the central factors that explains the persistence, as opposed to the initial implementation, of specific features of market orthodoxy in the country. In order to continue distributing social grants and services to a section of the population, the ANC has maintained an open capital account for non-residents to ensure a steady inflow of capital. This has enabled the party to forego industrialization and yet cement its political support through the distribution of non-means tested cash transfers. Thus, in the context of a ‘debt state,’ to borrow Wolfgang Streeck’s term, the ruling alliance in South Africa currently lacks the political capacity to challenge the interests of global bond holders by imposing capital controls as part of a comprehensive program of industrial upgrading.

The political implications of persistent market orthodoxy, in the context of a high unemployment rate, have become clear over the last several years in South Africa. Although it is impossible to predict how much longer the ANC’s hold on electoral hold on power will continue, social unrest has begun to emerge in the form of increasing protests over services and labor conditions, the formation of radical political parties, and the breakaway of key unions from the
largest labor federation in the country. Although the legacy of the liberation movement and the
disbursement of social grants in the rural areas have shored up support for the party over a twenty-
year period, the persistence of social inequality, linked to structural factors such as the
financialization of the economy, has generated social and political unrest that will likely be
difficult to reverse in the absence of certain radical changes in economic policies.

Furthermore, despite the fact that COSATU and the SACP have remained within the
tripartite alliance, it is not at all clear whether the rank and file will continue to support the ANC
over the next few years or will turn to another political party. Although a thorough account of
worker class struggles at the shop-room level, and the latter’s impact on the politics of ANC rule,
is beyond the scope of this thesis, such an analysis would make a fruitful inquiry for future
research. One point that is clear, however, is that in the absence of a comprehensive heterodox
economic program that promotes industrialization and lowers unemployment, the ANC’s hold on
political power will continue to be challenged by an increasing number of opposition parties.
**APPENDIX**

**A Primer on Bonds and Yields**

A bond is a fixed income asset. When governments or private firms need to raise funds in order to finance their operations, one way of doing so is to borrow on the capital markets. A bond is therefore a form of debt; it represents a liability to the borrower and an asset to the lender. In exchange for providing cash to the borrower, the lender receives a fixed revenue stream, referred to as the ‘coupon interest rate,’ on an annual or semi-annual basis, along with the principal once the bond reaches maturity. For example, if the borrower needs $1000, then the lender would supply this capital on the date of issuance, and if he/she receives $50 a year in interest until maturity, then the coupon rate is 5%.

It is important to note that while the bond’s coupon rate is a fixed dollar amount (e.g. $50 annually), the yield fluctuates based on the bond’s price on the secondary markets. For instance, if the price of the asset rises to $1500, the investor continues to receive $50 annually, as agreed upon when the bond was initially issued, but the yield has now declined to 3.3% (50/1500). As a result, bond prices and interest rates are inversely correlated.

It is this inverse relationship between bond prices and interest rates that explains some aspects of South Africa’s neoliberal policies. When a country’s monetary authorities want to affect the

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230 Private firms can also issue shares (equity) in order to raise funds. There are multiple reasons why a firm might issue debt as opposed to ownership shares, but this is not relevant to the present study.

231 Robert E. Hall and John B. Taylor, *Macro-Economics: Theory, Performance, and Policy* (New York: W.W Norton & Company Inc., 1986), 299. Bonds and interest rates are inversely correlated because when the latter falls, the fixed coupon payments on earlier issued bonds are now above the prevailing market yields, and so investors must pay a higher price for the older assets.
prevailing short-term interest rates, one common method they employ involves altering the economy’s monetary base. If the Central Bank believes that interest rates are too high, it can instruct its bond traders to purchase additional bonds on the market, which injects more liquidity into the financial system, raises bond prices, and lower the short-term rate.\textsuperscript{232} This process is also termed ‘targeting the repo (repurchase) rate,’ and it is how the South African Reserve Bank (SARB) carries out its inflation targeting (IT) regime.

The Central Bank cannot, however, directly influence long-term interest rates. The benchmark for this rate is the long-term bond yield, and it is determined solely by the existing demand for, and supply of, total loanable funds. In a closed economy, GNP equals consumption and investment, and investment equals savings.\textsuperscript{233} However, in an open economy, this equality no longer holds, and the government and the private sector can borrow an amount of capital that exceeds the domestic savings rate and the level of taxation. In post-apartheid South Africa, the long-term bond yield has displayed a downward trend because the supply of capital (loanable funds) has matched and exceeded domestic demand. Yet this downward trend has come at a price. Global investors have demanded a low level of inflation, which is why South African authorities have continued to maintain short-term interest rates within a 3-6\% band, and there is also a low tolerance among global investors for high debt/GDP ratio. Both the regression results and Figure 7 support this conclusion. Thus, on the domestic side, global market integration can serve as an alternative to progressive taxation, and state authorities can borrow on the international capital markets at lower yield than what would be possible with a closed capital account.

\textsuperscript{232} Ibid., 308
\textsuperscript{233} Ibid, 35. This equality exists purely as the result of the accounting procedure employed.
Regression Model Details

The time-series regression model is written as follows:

\( Y_1 = \beta_0 + \beta_{1x1} + \beta_{2x2} + \beta_{3x3} + \beta_{4x4} + \epsilon \)

This can also be written as the following to capture the macro variables employed:

\( \text{Long-Term Rate} = \text{Constant} + \text{CURRENT + GCE + EXTERNAL + USFR + error} \)

The data for both the dependent and independent variables are expressed annually and, with the exception of the US interbank rate, the latter are denominated as the ratio to South Africa’s GDP.\(^{234}\)

The model differs from the regression analyses conducted by Mosley for OECD democracies in the number of macro-factors and the control variable selected, which in her model is the ten year US bond yield in contrast to the interbank rate I have employed. Since the latter is a more valid measure of portfolio capital flows into emerging markets than the US long-term rate, it is better suited for our purposes.

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\(^{234}\) Note that the variables are not standardized. The adjusted \( R^2 \) for the model is 0.659. Again, since this is a time-series regression the data is non-stationary, which can lead to spurious regressions. However, I have confirmed that the variables co-integrate, so that the deviation in the linear relationship between the variables is stationary, rendering the OLS method an appropriate econometric technique to test for causality. See Nielsen (2005) for a formal explanation.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficients</th>
<th>Standard Error</th>
<th>T-Stat</th>
<th>P-Value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.3106991</td>
<td>12.0688603</td>
<td>-0.0257439</td>
<td>0.97985262</td>
<td>-26.383887</td>
<td>25.7624884</td>
</tr>
<tr>
<td>Current Account</td>
<td>0.66395109</td>
<td>0.20478016</td>
<td>3.24226278</td>
<td>0.00642318</td>
<td>0.22155045</td>
<td>1.10635173</td>
</tr>
<tr>
<td>Foreign Debt</td>
<td>0.12615912</td>
<td>0.1218135</td>
<td>1.03567438</td>
<td>0.31923608</td>
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<td>0.38932119</td>
</tr>
<tr>
<td>GCE</td>
<td>0.32158958</td>
<td>0.62462977</td>
<td>0.51484832</td>
<td>0.61530045</td>
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<tr>
<td>U.S Federal Funds Rate</td>
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<td>0.29642825</td>
<td>3.34890429</td>
<td>0.00523172</td>
<td>0.35231553</td>
<td>1.63310412</td>
</tr>
</tbody>
</table>

Table 5: Multiple Regression Model for South Africa’s Long-term Bond Yield
Source: Federal Reserve Bank of St. Louis for the US Federal Funds Rate, South African Reserve Bank for all other variables.

![Ten Year Bond Yield Trajectory](image)

**Figure 7: Counterfactual Bond Yield Scenario**
Source: South African Reserve Bank; Multiple Regression Model for Counterfactual Calculations
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