‘The political economy of the post-Apartheid economy: from contestation to developmental partnership’

Address by the Minister of Home Affairs, Mr. Malusi Gigaba MP, on the occasion of the ALICE AMSDEN Memorial Lecture in Johannesburg on September 2016

I wish to thank you for the opportunity to deliver this Alice Amsden Memorial Lecture.

I had the privilege to meet Alice Amsden just once during her visit to South Africa a few years ago, when we requested her to address the top management of the Department of Public Enterprises as well as some of our State-Owned Companies.

She made a deep impression in all of us and left us enthused about the direction we were taking with regard to the vision of the Department and the SOCs in our portfolio.

Without a doubt, Alice was a visionary who courageously challenged the neo-liberal Washington Consensus Economics.

She belonged among that group of economists and social scientists that believed that the current paradigm propounded for growth and development is inadequate.

She did this not by proposing a competing dogma, but by actually studying how successful economies had achieved their success in practice.

She then produced a body of knowledge that demonstrated the critical role of the state in channelling investment into sectors with strong long-term positive externalities.

In other words, she taught us that any development trajectory is intrinsically linked to a broader, highly contested, political economy.

She replaced an ideological dogma that effectively served as a smoke-screen for the interests of advanced economies, with a complex framework to understand how emerging countries learn, or fail to learn, how to industrialize.

The underlying theme of her work was to give emerging economies the space to introduce the most appropriate policies for their situations, rather than those imposed by the USA.

This evening I wish to talk about the importance of the state and business relationship in the formulation and implementation of industrial policy.

Industrial policy has the primary objective of increasing the productive capabilities of an economy to produce and service products of increasing complexity and value so as to ultimately improve the welfare of all citizens.

While manufacturing is core to advancing the industrialisation agenda, primary industries such as mining and agriculture have become increasingly technologically complex and industrial in nature and so should not be neglected.

The commercial enterprise in the capitalist economy is the core institutional vehicle that mobilises and invests capital in required plant, skills and technology.

As Marx illustrated, in the age of monopoly capitalism, large businesses driven by massive economies of scale and scope, have the capacity and capabilities to manage extremely complex processes of investment and continuous operational improvement and innovation.

The challenge for the developmental state is to provide incentives and sanctions that will channel these investments towards productive activities that may not be the most profitable in the short term, but will result in a highly productive and stable economy and society in the medium term.

This process Alice Amsden called “getting the prices wrong”.

This is an inherently difficult process both politically and technically.

Politically, in that there will always be social forces that are profiting from the status quo and have no interest in long-term development and will resist any attempts at change.

Technically, it is difficult because it is almost impossible to define and coordinate the implementation of the right combination of incentives and sanctions to drive long-term development, particularly in a highly volatile and disenabling global context.

Industrial policy succeeds when there is rapid adjustment as a result of a process of continuous learning by doing.

In this sense, it requires a leap of faith and is ultimately a product of political vision and will where there are always competing uses of state resources, which need careful management and mediation by the ruling elites or political parties.

Success in achieving sustained alignment between the state’s developmental agenda and the process of capital accumulation is so critical that Kohli uses it as the single most important feature to separate successful from unsuccessful developmental states.

This leads to the call that the fundamental problem is that business is not patriotic.

If only things were so simple.

Thinkers such as Fanon and Rodney have pointed out the anti-developmental impact, of the post-colonial comprador business class.

This decidedly unpatriotic class colludes with the interests of monopoly capital to advance its narrow economic interest.

It is content to undermine the national developmental project for the sake of profit and comfort, concerning itself with luxury consumption and the spiriting of capital abroad, rather than productive investment, increasing employment at fair wages, and capability building.

Asian developmental states have been more successful in creating a patriotic business class, in part through a combination of a complex and dynamic set of incentives and sanctions that saw companies focus their efforts on achieving capability building and export targets.

Those that failed lost their businesses whereas those that succeeded grew into industrial giants that could take Korea onto the global economic stage.

In other words, patriotic businesses are a consequence of effective industrial policy and a genuinely developmental state, rather than a consequence of luck or national character.

In South Africa, in the late nineties and 2000's, we engaged in puerile debates about the patriotism of the emerging black bourgeois class, calling them patriotic merely because they were black and admonishing them when they disappointed us through their comprador practices.

Yet, what we missed was the point that the black capitalist class would behave precisely the same way as, if not worse than, their white counter-parts given how they were emerging, their accumulation methods, and the fact many were merely being co-opted onto the table of privilege of white business on the latter's terms and all they were to fulfil was provide political connections and ensure superficial compliance.

In part, this emanated, amongst others, from the absence of an industrial strategy for the greater part of the first decade of freedom and the nature of the 1994 political settlement that had given rise to this moment.

A political settlement is an agreement amongst potentially conflicting social groups and elites around how power will be organised, exercised and maintained in a given society.

Intrinsic to a political settlement is how the benefits of the economy will be shared, though this may not always be the case, or may at times fail to materialise.

It was exactly for this reason that in one of his political lectures to new MK recruits in Angola, Prof. Jack Simons drew the conclusion that "independence from colonial rule is not enough to bring about a revolutionary change which will transfer power to the great mass of people."

He argued that whilst African independence has meant the transfer of power from one class to another, this had not meant that the new African governments had carried out a social revolution, but instead when they achieved independence, the tendency in many African countries had been to maintain the old economic as well as political system.

As a result, he said that there had been continuity but not revolution.

In our case, the Apartheid political settlement was based on a coalition between the mining industry, state-owned corporations and development finance institutions to develop the South African economy as a whole, transfer rents into agriculture in particular, implement a system of Afrikaner (and white) empowerment and sustain a political and ideological system of racial domination (and associated labour control).

Anglo-American together with three other conglomerates effectively drove and coordinated investments across the economy.

In the course of advancing their interests, white capital divided labour according to race and co-opted the white segment of labour into the white political and economic establishment, offering them incentives in the process in order to buy out their allegiance, knowing that they could not win them merely through blind racial patriotism.

Indeed, white labour bought into the settlement and vowed to defend the settlement with their own lives, whilst for black labour, marginalisation from the political and economic settlement as well as impoverishment became the order of the day.

Accordingly, in his famous 1978 article, "*The Historic Injustice*", Thabo Mbeki argued that:

> "We see therefore that the methods and practices of primitive accumulation which represented a transitional phase in the development of capital in Europe, assumed permanence in the South African economy and lifestyle of the Boers. They acquired a fixity characteristic of feudal society, legitimised by the use of force and sanctified by a supposedly Calvinistic Christianity."

However, it must be noted that this political settlement was not without serious contradictions as seeking cheap and unskilled black labour – "beasts of burden" – negated the need for a stable and growing semi-skilled to skilled non-racial labour force to drive a robust industrialisation project and a growing middle-class to increase the local market.

Furthermore, black labour, while cheap, proved difficult to control and even in the context of apartheid, could not be trained to bring the costs of skilled labour down.

The 1994 political settlement in South Africa constituted a complex negotiated compromise between a range of powerful but vulnerable social forces.

Neither the apartheid forces nor the national liberation movement with all their social support bases could have claimed an outright victory against one another, forcing them into negotiations.

The political settlement that was reached thus reflected mainly the global and domestic balance of power, with all realising that the country could not be allowed to burn to ashes through a mindless civil war.

The essence of the political settlement was that political rights would be extended to the black population whilst white property rights would be preserved, regardless of how unjustly that property was accumulated during the Apartheid era.

A core part of the settlement was that the state would play a role in using policies and other instruments to facilitate the redistribution of wealth towards the historically disadvantaged in a context where market institutions would ultimately still regulate economic investment.

The RDP had made a clear choice against the neo-liberal view that sought to separate growth and development, reconciliation and reconstruction, and stated its preference for growth and development, for redistribution in order to address the legacy of the injustices of the past.

The clear winner in the deal was the financial services sector as the coordination of the economy would move from the mining – SOC developmental coalition which was the case during apartheid's glory days to a liberalised financial services sector.

Future policy would be debated in forums involving government, business and labour.

The social constituencies that swept the ANC to victory did not have unabated sway over the formulation and determination of policy, they always had to negotiate and reach compromises with their class mortal enemies.

Clearly the settlement swept a lot under the carpet, reflecting the balance of power at the time.

The political economy of South Africa was and is extremely fragmented; and the structure of the South African economy remains to this day unchanged.

Even in its discussions on the "second phase of the transition", the ANC has not theorised enough what this should entail as the battle rages on between the different schools of thought within the "broad church" about whether the national democratic revolution has arrived at its destination or whether the structure of the apartheid-colonial economy needs to be fundamentally turned on its head.

White monopoly capital remains to this day the single most significant anti-transformation sector in South Africa, with significant influence in the vital sections of the government.

The responsibility for mediating between competing social forces and interest groups to sustain political stability in the context of the settlement would fall on the ruling party who would have to deploy state resources and its political capital towards this end.

What compounds this mediation is, as I have said above, the lack of an organising philosophy or consensus among the different schools of political-economic thought within the ruling party.

With hind-sight, this was probably an impossible task.

The post-apartheid government inherited large private sector conglomerates as well as large State Owned Enterprises, which are an important site of ideological contestation.

On the one hand, from a market fundamentalist perspective, the state had no place to be directly involved in the economy and SOEs were supposed to be privatised, which could also advance the process of black capitalist class formation.

On the other hand, from a progressive developmentalist point of view, SOEs could be important instruments to support a growing economy, provide services and access to historically neglected communities, develop a cadre of black managers and support the development and transformation of upstream suppliers and downstream customers.

Accordingly, at their most strategic, SOEs can be critical instruments to drive an inclusive and growing economy.

In the private sector, black professionals continue to complain that they are marginalised in senior and top management in the private sectors.

They are viewed as unqualified unless proven otherwise, where their white counterparts are assumed to be competent.

Senior black professionals must have rafts of degrees and decades of experience to be taken seriously and earn the same income as their white counterparts.

SOEs have played a critical role in the advancement of black professionals, managers and skilled workers, as environments where the revolutionary assumption is simply that black people are capable of excellence if given the same leadership and growth opportunities as white people.

The same holds true for procurement.

The South African economy is monopolistic or oligopolistic in character, making it very difficult for emerging small and medium sized businesses to integrate into the value chains of large companies as suppliers.

Again, the experience of BBBEE has shown that companies will only buy services from black and women-owned enterprises when forced to by regulation or their customers.

SOEs like Eskom, Transnet and SAA, are multi-billion rand companies by revenue, with enormous value chains.

We have increasingly begun to use these strategically, incorporating localization and preferential procurement into their operation philosophy and investment plans.

Thus, for example, at Transnet we established a trend of appointing black accounting firms as external auditors, a contract worth tens of millions of rands annually.

In addition to the revenue flowing to these companies, it helps advance their growth in making it more difficult for large private-sector companies to exclude them on the basis that they have not proven their ability to service large, complex enterprises.

This is an illustration of the developmental impact of SOEs, if leveraged strategically.

However, some of the major inhibiting factors in South African SOEs include, among others,

- Absence of an **organising philosophy** within the ruling party, which makes Chinese SOEs so successful as their political and development agenda is clearer whilst in our case we are confused between privatising them and leaving them as state-owned, and some have a broader and more strategic vision that others under different shareholder ministries do not have;

- There is no clarity as to the relationship, rather than the distinction, between the commercial / corporate interests *vis-à-vis* their developmental mandates; and

- Their governance philosophy varies, as others have activist shareholders that provide a more developmental strategic mandate while others are simply Board led, with the shareholders providing no strategic direction and hence could be said to be on "auto-pilot".

All this has fatal impact on their performance as there is no clarity as to which measure to assess their performance by, and others are gravely mis-governed and hence the Shareholder, which is broadly government and society, does not realise value in these institutions.

On the other side of the coin, it needs to be noted that those key SOEs, such as Sasol and Iscor, which were privatised during the latter years of Apartheid as well as those privatised in the first decade post-Apartheid, such as Telkom, immediately leveraged their market power to extract rents, under-invest and undermine the national development process.

Whilst this may have benefited their shareholders, both black and white, it clearly points to a system that is providing the wrong incentives and sanctions.

Turning to large private sector organisations, I wish to focus on the mining sector, which was the key driver of investment in Apartheid South Africa.

The mining sector post 1994 is complicated by a number of factors:

- Minerals are a non-renewable resource and part of a national endowment that ideally should benefit future generations. Consequently, there is an inherent tension around the division of rents from mining between the state (acting as a trustee of the resource for future generations) and industry (that brings the capital, technology and skills to extract the resource).
- The system of migrant labour and associated "reserves" was a corner-stone of both Apartheid and the mining industry.
- The Apartheid state dramatically limited worker rights which was taken advantage of by the industry through a high level of recklessness relating to worker living conditions, health and safety.
- In the absence of stringent regulations, the industry left a legacy of serious environmental degradation, including acid mine drainage.
- Communities adjacent to mines were forced to experience the negative impacts of mining without recourse.

Post 1994, the industry never owned this legacy or took voluntary initiatives to not just transform the industry but to proactively address the legacy and demonstrate remorse for its historic behaviour.

Consequently, the policy department was left with a situation where they felt that they had to take the industry 'kicking and screaming" to address the specific complex negative legacies associated with the mining industry.

The result, over time, was the creation of a very uneasy partnership between the government pursuing transformation and the industry seeking to preserve the status quo, and ultimately the attempt to legislative instruments – licensing regime, legislation and mining charter – to enforce compliance and transformation in the sector.

Hence, a culture of top-down, command and control, regulation came into being, in the absence of the Regulator and the industry reaching a true alignment on developmental and transformation objectives and how these should be achieved.

The consequence was that large parts of industry have been in compliance mode, while areas of common interest have been neglected as the focus of engagement is around areas of conflict.

This also creates an environment where mines look to politically-connected empowerment partners for protection from the state, rather than for empowerment partners who can become captains of industry.

The consequence of the above dynamics is that many large companies, which can be the corner-stone of our industrial policy, are completely out of kilter with the national interest.

This is aggravated by a trust impasse between stakeholders.

This, I think, reflects the growing political fragmentation as the gaps in the 1994 political settlement become apparent and points to the need for a revisiting of critical elements of the political settlement to create a greater alignment between large business and of the state.

However, while necessary, this will be an extremely complex process and our industrialisation project cannot wait.

Ultimately, white-owned South African big companies must regard it to be in their commercial interests to transform, to support industrialisation and have a genuine relationship with government – it makes business sense!

Parochialism and a political agenda – with-holding investment in the hope this government will collapse – on the part of some business is destructive and, in the long run, will not pay off.

Given the complexity of our political economy, we need to develop our own model of industrial strategy.

It is critical that we now start building bottom-up developmental coalitions and associated programmes with those large companies that have recognised the need for a new model of engagement that goes beyond compliance, but seeks to link corporate objectives to national development.

Companies have to come to see the development of South Africa as in their enlightened self-interest.

A single dominant company that is developmental in its practices can change the outlook for an entire sector.

There are an infinite number of logical sounding sector strategies – we need to discover those strategies which will result in business investment.

We need to learn to provide the incentives that channel rents into productive investment.

We need to have the maturity to focus on achieving common objectives whilst constructively debating those areas where we disagree.

Trust needs to be built, not just through dialogue, but through joint actions.

Through the mining Phakisa process and the SOE Competitive Supplier Development Programmes we can see some rudimentary examples of the success of this approach.

Alice Amsden showed us that industrialisation is ultimately a process of learning by doing at the factory level and within government.

We need to have the confidence to roll up our sleeves and have tough, but constructive, engagements.

As Alice impressed on us, it is ultimately government's role to lead and we must have the courage to embrace this challenge.

All sectors of society, perhaps to varying degrees, have accepted government's long term vision to create the South Africa that we want, the National Development Plan.

The plan is merely a blueprint; the difficulty is in the doing.

It requires us as social partners and interest groups – the state, political parties, trade unions, workers, owners and managers of capital, civil society – to find areas of convergence.

It requires us to become greater than the sum of our parts.

It requires us to focus not only on our narrow needs and interests, but on the greater good.

With key actors working in productive alignment, a resource-poor country like South Korea – famously on par with Ghana economically in the 1950s – rapidly developed into one of the world's leading economies in a generation.

Widely shared prosperity in South Africa is and must be possible.

Achieving it will require us to forge a new, more just elite pact – the first of its kind in our nation's divisive history – a pact formed for development, inclusion and social justice.

We owe it to all South Africans, and to future generations, to come together in this way.

I thank you.