

The copyright of this thesis vests in the author. No quotation from it or information derived from it is to be published without full acknowledgement of the source. The thesis is to be used for private study or non-commercial research purposes only.

Published by the University of Cape Town (UCT) in terms of the non-exclusive license granted to UCT by the author.

**GLOBALIZATION AND THE POLITICAL ECONOMY OF POST-  
APARTHEID SOUTH AFRICA: THE POSSIBILITIES AND CONSTRAINTS  
FOR AN AFRICAN STATE**

**Masters Thesis**

**Presented To The Department of Political Studies,  
University of Cape Town**

**As Partial Fulfillment of Master in Social Science Degree**

**By**

**Gary James Smith  
February, 2003**

**Declaration:**

**This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.**

**Signature:** signature removed

**Date:** 14/02/03

**In my utopia, human solidarity would not be seen as a fact to be recognized by clearing away prejudice or burrowing down to previously hidden depths but, rather, as a goal to be achieved. It is to be achieved not by inquiry but by imagination, the imaginative ability to see strange people as fellow sufferers. Solidarity is not discovered by reflection but credited. It is created by increasing our sensitivity to particular details of the pain and humiliation of other, unfamiliar sorts of people.**

**Richard Rorty (1989), Contingency, Irony and Solidarity**

**Excerpt from: The South African 2002 National Budget Speech by Finance  
Minister Trevor Manuel**

University of Cape Town

## ACKNOWLEDGEMENTS

The completion of a journey that is ones Masters degree is simply not possible without the help and wisdom of others. I would therefore like to extend my eternal gratitude to those whom have made this whole experience possible.

Firstly, I would like to thank the Lord Jesus Christ for allowing my life to be so greatly blessed and for affording me guidance and determination to complete this chapter in my life. I would like to thank my family for all their love and support throughout my university career. Without the financial and emotional backing of my parents such a project would not have been possible. All that which life affords me from now on shall be because of them.

I would like to thank the University of Cape Town and Professor Andre du Toit and the department of Political Studies, for allowing me to participate in their program and for enriching me with the experience that I have had with you. A specific mention needs to go to Dr Harry Stephan and Dr Thiven Reddy whose academic wisdom, friendship and good cheer have made my time with the Department an invaluable one. A final mention needs to be made of my friends and colleagues. All those long hours discussing the politics of the world have enriched my education and made this research possible. To Steven Nakana, Zweli Jolobe, Gavin Davis, Chris Maroleng, Neil Matthee, Steven Kou and Paul Boughey, your brotherhood and friendship in things personal and academic shall remain with me always.

Gary J Smith

February 2003

## **LIST OF ACRONYMS**

<b>ANC</b>	<b>African National Congress</b>
<b>AU</b>	<b>African Union</b>
<b>BEE</b>	<b>Black Economic Empowerment</b>
<b>BWIs</b>	<b>Bretton Woods Institutions</b>
<b>CODESA</b>	<b>Convention for a Democratic South Africa</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>GATT</b>	<b>General Agreement on Trade and Tariffs</b>
<b>GEAR</b>	<b>Growth, Employment and Redistribution</b>
<b>GNU</b>	<b>Government of National Unity</b>
<b>G-8</b>	<b>Group of Eight Countries</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>IPE</b>	<b>International Political Economy</b>
<b>LDC</b>	<b>Less Developed Country</b>
<b>MNC</b>	<b>Multinational Corporation</b>
<b>NEPAD</b>	<b>New Partnership for African Development</b>
<b>NICs</b>	<b>Newly Industrialized Countries</b>
<b>NP</b>	<b>National Party</b>
<b>RDP</b>	<b>Reconstruction and Development Program</b>
<b>SACOB</b>	<b>South African Chamber Of Business</b>
<b>SADC</b>	<b>Southern African Development Community</b>
<b>SAPs</b>	<b>Structural Adjustment Programs</b>
<b>TAC</b>	<b>Treatment Action Campaign</b>
<b>UN</b>	<b>United Nations</b>
<b>US</b>	<b>United States</b>
<b>WHO</b>	<b>World Health Organization</b>
<b>WTO</b>	<b>World Trade Organization</b>

## TABLE OF CONTENTS

### ACKNOWLEDGEMENTS

### INTRODUCTION.....1

- Establishing the Research Parameters.....3
- Organization.....5
- Strategy.....7

### Chapter 1

#### **“The Irreversible Train”: The Formation of Post-Apartheid ANC Economic Philosophy in the Face of Globalization.....11**

- (a) Introduction.....11
- (b) What is meant by Globalization?.....13
- (c) The Three waves of literature.....17
- (d) Conclusion.....22

### Chapter 2

#### **The Negotiations for the New South Africa: ‘The Spirit of the Transition’.....24**

- (a) Introduction.....24
- (b) Background: The Nature of the Apartheid Economy.....27
- (c) The New Struggle: Corporate Scenario Planning and Social Contracts.....30
- (d) ‘The World Bank as a Knowledge Bank’.....43
- (e) Summary.....48

### Chapter 3

#### **The Nature of Economic Policy in post-Apartheid South Africa.....52**

- (a) The Debate on Political and Economic Restructuring.....52
- (b) The RDP years.....63
- (c) GEAR: A ‘Macroeconomic Discipline’.....69
  - (c.1) Post-Liberation political economy and the end of ‘two stage’ theory.....61
  - (c.2) The formation of GEAR.....70
  - (c.3) The establishment of economic fundamentals.....71
  - (c.4) Initial Results.....73
  - (c.5) Government’s defense of GEAR.....75
- (d) Conclusion.....76

### Chapter 4

#### **Thabo Mbeki and Black Economic Empowerment.....78**

- (a) The Mbeki Administration.....78
- (b) Black Economic Empowerment.....83

**Chapter 5**

**Analysis: “Is there Gold at the End of the Rainbow?” .....92**

(a) South Africa and the Global Economy .....92

(b) ‘Growth with Equity’ .....95

**CONCLUSION.....99**

**BIBLIOGRAPHY.....103**

University of Cape Town

## INTRODUCTION

There have been many perspectives and arguments put forward to describe the current state of post-apartheid South Africa's political economy. These have generally tended to depend on which side of the ideological spectrum one resides. Due to the chronic levels of poverty and inequality that South Africa faces, debates on economic policy have become fundamental to the new regime. Many have become perplexed and frustrated by the ruling party's approach to this debate. This is as the broad democratic movement was always thought to favor social policies when presented with political economic thesis. Whilst others believe that government has played too great a role post-1994 and should take more of a backseat in favor of the market. The result has been a debate which has moved beyond the ideological stand-offs of the past, to a new arena of contradictions and practical analysis. What is clear is that the ANC has fundamentally shifted its economic philosophy since the context of liberation and struggle. This research seeks to make sense of this evolution and to present a theme of pragmatism and convergence.

This thesis argues that the ANC-led government's movement towards conservative fiscal policy is primarily based upon two key limitations and constraints that have become a reflection of their current convergent stance. These fundamental influences have been the impact of the ANC's interpretation of the **globalization hegemony**, and the nature and purpose of the **South African transition** from apartheid to democracy.

These two areas of influence have dictated the formulation and implementation of ANC macro-economic policy. First, the impact of globalization has proven an undeniable factor in domestic government policy. The ANC's reading of globalization as an 'irreversible train' that reflects the hard truths of a developing market in the current global political economy has meant that a certain arena has been set up in which government has been forced to operate.

Secondly, on the domestic level, this paper argues that the nature of the South African transition has severely constrained the mantra of the new regime. The corporatist solution ensured that many interest groups have been afforded a stake in the 'new dispensation'. However, because of the elite nature of the process, certain interest groups have been prioritized. The South African solution saw the 'new' become incorporated into the 'old' as opposed to the old being replaced. This has resulted in the 'national democratic revolutionary forces' taking over the reins of the political sphere, whilst the economic realm or private sector has largely remained under the control of the established status quo. This has led to constraint and restriction in the arena of political economic debate and the spectrum available to governmental policy. This reality has dictated the relationships and policies that have emerged out of the post-transition phase, beginning with the Government of National Unity (GNU).

As the ANC continues to grapple with attempts to reconcile their undeniable 'struggle' ideology with the perceived new reality of macro-economic stringency, the result has been a contradictory yet convergent debate. The juggling of ideals such as redistribution and 'ubuntu' with privatization and 'sound macro-economic fundamentals, has led to seeming different arguments being presented to different fronts. This research seeks to make sense of these contradictions and to present merely one perspective on the factors that have contributed to the nature of the new regime.

Then President De Klerk's momentous speech in February of 1990, which effectively allowed for the release of all political prisoners and the unbanning of various liberation organizations, took place in a rapidly globalizing world order. It had become increasingly clear that the apartheid regime could not afford to exist in economic isolation.

It became the task of negotiators for the new South Africa to firstly create the foundation of political stability. Without political stability South Africa would not attract the amount of capital that was now frequenting the globe. Alongside this negotiation process for a politically free South Africa, there was a dual negotiation sequence. This took on a more corporate guise, as big business now identified the ANC as inevitably taking control of the state. It was the task of such business groups along with the help of international consultation teams, to economically influence an organization based on the nationalist ideals of the revolution. The resultant corporate pacts between varying South African elites would condition the new democracy and highly influence the contested arena of national economic policy.

### **Establishing the Research Parameters**

This project takes an IPE approach to illuminate the genesis of macro-economic policy under the ANC government. The interaction of globalization and the global market with post-Apartheid South Africa and subsequent national economic policy, serves as the key analytical focal points. This paper presents merely one perspective and is fully aware that many positions and arguments could be made to explain South Africa's current 'messy debate' concerning economic policy and development.

The paper sets out the following argument:

The current ambiguity of contradiction and convergence of the post-Apartheid South African political economy is a direct result of the ANC's perception of the theme of limitation and constraint. The ANC has read certain global and national realities as placing consequent policy, action and debate in a very narrow realm. This has led governmental rhetoric to favor an attitude of pragmatism rather than a strict adherence to their ideological history. This paper is built on the premise that the ANC perceives:

- (1) the global political economy as uniting political economic forces in a single, profitable and unforgiving global market place (Gilpin, 2000);

- (2) a global market place based on the theoretical tenets of competition, efficiency and productivity (Gilpin, 2000);
- (3) globalization as a process that has come into full bloom in the post-Cold War 1990's;
- (4) that a developing economy such as South Africa needs to be on board to reap any benefits;
- (5) non-participation equates to marginalization;
- (6) the state as a key player in African political economy, despite the dominance of the neo-liberal agenda;
- (7) the national transition from apartheid to democracy as ensuring a corporatist solution that has restricted the new regime;
- (8) that this solution has allowed for the advent of a knowledge based South African society
- (9) And, that Black Economic Empowerment (BEE) is the correct route to address South Africa's white dominated private sector, inequality and poverty

It is the task of this case study to closely analyze the connection between global processes and national realities.

Hence, the questions of concern to this topic are:

1. Why has the ANC embraced conservative fiscal policy?
2. How has the ANC interpreted the hegemonic process of globalization?
3. How has South Africa positioned itself in the global economy characterized by globalization?
4. Why were the negotiations so important in influencing economic policy in South Africa?
5. How has the ANC economic philosophy evolved over time, and how has this been reflected in post-1994 national policy?
6. Has South Africa made any progress in the fight against chronic inequality and poverty that has plagued the country as a manifestation of apartheid?

7. Who are the key players in South Africa's political economy and how are they shaping South Africa's destiny?

### **Organization**

This thesis is split into five chapters, which signify two fundamental sections. Chapter's one and two debate and outline the two perceived areas of vital influence over the terrain of post-apartheid political economic ideology. Chapter one examines the influence of globalization. The debate attempts to identify what the paper refers to when utilizing the concept and identifies the perceived schools of thought regarding the rise of globalization in the 1990's. The objective is to pinpoint how the ANC-led government has perceived the process and what this has meant for subsequent debate and policy in post-apartheid South Africa.

Chapter two investigates the influence of the South African transition from apartheid to democracy. This chapter seeks to highlight why the negotiations were so important in shaping the new regime and the interest groups that would come to dominate it. The nature of the apartheid economy, which entrenched the structural crisis of poverty and racial inequality, forms the genesis of this case study. The elite nature of the corporate negotiations is identified as the defining process for economic policy in the new South Africa. The scenario planning sessions hosted by major South African conglomerates are thoroughly examined to identify key players and themes. The World Bank and IMF are identified as playing key consultation and facilitation roles. The chapter fundamentally examines the evolution of ANC economic thinking from the 1955 Freedom Charter through to the 1990 Harare ANC-COSATU economic policy planning session. This lays a foundation for an analysis of the ruling party's economic policy from the RDP through to GEAR.

Chapter's three and four, represent a second section, which takes a closer look at the inner goings on of the political economy of the new regime, and closely seeks to analyze that which was set up by the negotiations and the overarching theme of

globalization. These two chapters analyze two 'hot' topics of debate in post-apartheid South African political economy and seek to identify their causal link to the factors discussed in chapters one and two. Chapter three begins by identifying the perspectives in the debate on political and economic restructuring which characterized the 1990's. Then moves on to examine the subsequent economic policies, namely RDP and GEAR. RDP is explained as representing a reflection of the structural crisis of the post-apartheid era and serves as a reminder to South African economic technocrats of the massive challenges that face them. RDP served as a fundamental 1994 election document that was sufficiently apolitical to ensure a smooth transition and had enough in it to satisfy the broad array of interest groups. GEAR is the plan that the government has adopted to achieve the goals of the RDP. It is a highly controversial document that has its origins in the ANC's analysis of globalization and the nature of the transition.

Chapter four serves as an analysis of Black Economic Empowerment (BEE) as the vision of the presidency of Thabo Mbeki. This chapter investigates the plan and the players who are taking this strategy forward. The rise of Mbeki from negotiator, to deputy-president and finally president, is identified as key to the establishment of economic fundamentals within the ANC and South Africa. His vision for the political economy of the new South Africa viewed the introduction and success of BEE as elementary to the overhaul of the apartheid legacy of inequality. The policy would serve a dual purpose, to fight poverty on the ground and to create an ANC loyal private sector. The creation of a loyal black middle class is viewed by ANC conservatives such as Mbeki, as being key to the entrenchment of ANC political power. BEE's connection with GEAR is examined in order to demonstrate the ascendance of systemic capitalism in the South African context.

Chapter five serves as an analysis of the current state of South African political economy in the face of the changing nature of the global political economy since 1990. The chapter concludes with an appeal for the need for 'growth with equity'

as the only acceptable way forward to conquer the twin evils of poverty and inequality.

### **Strategy**

This research moves between the three levels of analysis. Firstly, by undertaking a study of the IPE and the driving force of globalization, the paper adopts an international systemic focus. Secondly, by identifying the case of South Africa, the paper shifts from a systemic to a national focus. And finally, through the identification of key individuals in the formation of economic policy in the new South Africa, the paper shifts to the role of the individual. This strategy fundamentally understands the connection between these three levels. Of vital importance is the nature of the integrated relationship between the international and national levels. The global free market has enforced a dependent relationship, which has bound the destiny of the national with that of the international system. The integrated and open nature of the system has largely rendered South Africa's economic prosperity on activities elsewhere, namely at the heart of the market in the North. The development of marginal economies has become difficult, as the center of the system has come under increasing pressure due to corporate corruption and mismanagement having sent global markets into panic.

This is a study of the IPE from the perspective of the South African state. Despite the recent implementation of the AU in Durban and varying active regional bodies across the continent, nation-states remain the vital factor in African political economy. It is understood that the types and capacities of African states differ. In this regard, South Africa's relationship with the global market is largely different to many on the continent. However, what has become uniform is the marginalization of African states with regard to the global reproduction of wealth. Due to the dominant nature of the ANC in South African politics, it is safe to use the ruling party interchangeably with the state. The assumption made is that no state in a globalized world is exempt from global political and economic

constraints. The formation of the BWI system has meant that all have become pegged to the same international system.

Finally, this research adheres to a political-economic framework of analysis. J.C.L. Simonde de Sismondi wrote in 1815, "Political Economy is the name given to an important division of the science of government. The object of government is, or ought to be, the happiness of men, united in society; it seeks the means of securing to them the highest degree of felicity compatible with their nature, and at the same time of allowing the greatest possible number of individuals to partake in that felicity." (1815:1). Centuries later this remains at the heart of the science and continues to be the task of government. What has changed, however, is the international nature that this activity has now undertaken.

At its most fundamental, political economy, as utilized by the likes of Roger Tooze, Robert Gilpin and Susan Strange, is the interaction between political and economic activity. Frieden and Lake (1991) define economics as the 'system of producing, distributing and using wealth', and politics as, 'the set of institutions and rules by which social and economic interactions are governed'. For some, political economy refers to the various means by which government policies and institutions influence the market. And conversely for others, the focus is upon the ways in which the market molds government policy. This has become of increasing importance as economics has come to predominate global relations, as was born out of frustration at the traditional narrow political focus of International Relations.

The fundamental conflict in IPE according to Balaam and Veseth (1996) is between the interests of the individual and the broader interests of the society at large. This is the tension between the market (individuals engaging in self-interested/private activities) and the state (the undertaking of the collective action). The state can be defined as the political institutions of the modern nation-state. To summarize, it is a geographical region with an associated government

and a well-defined territory and population, with the government having the capability of exercising sovereignty over this political space (Balaam and Veseth, 1996: 5). The market on the other hand, includes those individual actions and decisions that fall largely into the private sphere. These are the economic institutions of modern capitalism that are dominated by self-interest and formulated by the guise of competition (1996:6). These two concepts have an inherent tension and embrace fundamentally different basic values. This contestation of power and wealth is at the heart of IPE.

As the world has become globalized it has become important to investigate the interrelationship between international processes and domestic action, giving rise to the IPE approach. This has come into prominence in the post-Cold War era but has its origins in classic imperialism and hegemony. The field should be conceptualized in the realm of International Relations, beginning with Realism in the 1950's and 1960's. In fact, Strange (1984) argues that orthodox IPE has traditionally been a reflection of US foreign policy and has transformed as the US has reformulated its role in International Relations.

At its most fundamental, Tooze explains that IPE is the analysis of the overlap of four key areas: international politics, international economics, domestic (national) politics and domestic economics. Tooze explains, " In fact, it was only by breaking down traditional distinctions between the international and the domestic, and between politics and economics, that IPE scholars were first able to understand some of the complex linkages between international and economic that are still with us today" (Tooze and Murphy, 1991: 2). For Gilpin, at the heart of these linkages is the relationship between society, the market and the state. He describes the relationships between these concepts having, "profoundly shaped the course of modern history and constitutes the crucial problem in the study of political-economy" (1987: 11).

The period roughly from 1975 until the turn of the century, saw the fundamental breakdown of distinctions between politics and economics, and the international and the national. This has largely been a result of the globalization process. This has lent to the need for the expansion of knowledge in this field to break down the traditional narrow focus. Indeed, poverty, inequality and hunger, have increasingly become political tools. One way has been to investigate the role of new players in IPE, players who fall outside of the traditional US focus. It is in this regard that this research seeks to contribute. Tooze explains his frustration at the US dominance of the field, "Similarly, many of us...are more concerned with the involvement in the global political economy of people who are often ignored because they are considered less powerful" (1991: 6).

During the negotiations for the new South Africa, whites gave up the sphere of the 'political' to concentrate on the realm of the 'economic'. This was considered a move in line with the times as International Relations became concerned with economic issues. It was argued that stability in the 'political' sphere was vital before economic prosperity. Post-Apartheid South Africa has seen these two spheres become mutually reliant. Business needs conducive economic policy and entrenched political stability to flourish. And, government needs the success and investment of the private sector in order to survive. Added to this, is that this entire picture is fundamentally influenced by the systemic level, an influence that has grown ever louder.

In sum, this paper treats economics and politics as simultaneous phenomena. And, in understanding our case of national economic activity in South Africa, we witness the increased influence of the systemic level. This gives us a complete macro perspective on the debate.

## *Chapter 1*

# **“THE IRREVERSIBLE TRAIN”: THE FORMATION OF POST-APARTHEID ANC ECONOMIC PHILOSOPHY IN THE FACE OF GLOBALIZATION**

“Perhaps the most difficult aspect of globalization is that it is associated with a rise in inequality even when it brings improved living standards. This is not a welcome prospect, especially given our inherited inequalities and the existing chasm between rich and poor.” (Baskin, 1998)

“And so we return to a question with which we began. Is the state in Africa part of the solution or part of the problem?” (Wilson, 2001)

### **(a) Introduction**

It is the initial focus of this research to describe the global neo-liberal order in which we now live with regards to the phenomenon of globalization. It is the objective of this section to outline what exactly is meant by globalization and to analyze what its effects have been for the prospects of economic policy in South Africa. It is a study of the present state of the global economy in order to investigate the interrelationship between the globalization process and the potentiality for domestic economic policy in an African context. This section is undertaken with the intention of setting the framework for how a marginalized state, such as South Africa, has positioned itself in this globalized economy. This is in order to present the inherent contradictions, constraints and possibilities that now face post- 1994 South Africa.

From the time of the unbanning of the national democratic movement and the beginning of the negotiation process in 1990, mainstream ANC economic thought has tended to view globalization as an ‘irreversible train’ upon which South Africa needs to board or face the prospect of marginalization. The consultation and presentations delivered during the negotiations by various economic think

tanks were fundamentally viewed as reflecting global political-economic realities which South Africa would need to adhere and engage. As vigorous or activist as the government's policy vision may have been post-apartheid, the inescapable reality was that globalization was in full bloom. That perceived reality, contained consequences for South Africa's government policy and therefore the people of South Africa. The ANC at the time agreed with the view that:

“ The fall of the Berlin Wall in 1989 symbolizing the collapse of communism; the increasing pace of trade liberalization marked by the end of the Uruguay Round of the GATT negotiations in 1994 followed by the establishment of the WTO in 1995 and the subsequent downward pressure on tariffs... unrestricted flows of short-term capital around the world; the huge acceleration in the speed of information flow brought about by the growth of the internet in the same period, all combined to change not only the environment in which the countries of Southern Africa operated but also the political and economic realities inside these countries themselves.” (Wilson, 2001:2)

Amidst these transformations, economic globalization became conceptualized. The post-Cold War victory of the West saw the establishment of heightened trade between countries, capital flows, multinational enterprises, and technology (Hayter, 1999). Global institutions such as the UN, IMF, WTO and World Bank have attempted to dictate or influence policy at the national or international levels. “ Given these processes and organizations that South Africa cannot ignore and that point to neo-liberal economic philosophy”, it became clear to the ANC that, “there is no sign of a return to extensive involvement of the state in social welfare” (Wilson, 2001: 3). This represented to the ANC the prospect of very little room to maneuver as their ‘struggle’ ideals now had to take on a new guise. What has become clear of late is that subsequent economic policy and government rhetoric has reflected these realities and has shaped a somewhat ambiguous vision and a messy debate. This vision at times seems to follow the stringent macroeconomic fundamentals of the neo-liberal agenda, yet at other times seeks to emphasize ‘ubuntu’ and redistribution. This has witnessed large-

scale privatization being confusingly shrouded in liberation rhetoric, and has at times placed the formation of a capitalist black middle-class at the center of attempts to facilitate a fundamental poverty-alleviation crisis. In sum, the ANC-led government has viewed globalization as an unavoidable process and that despite the challenges of inequality in South Africa and IPE at large, stringently believes in the opportunities within the paradigm for the upliftment and development for its people. Their view of globalization is one where the state remains the focal initiator in maintaining stability and providing opportunity for those whom the market ignores.

**(b) What is meant by globalization?**

This section shall follow the literature on globalization and attempt to highlight the current academic influences on South African political and economic practitioners. Globalization has presented certain possibilities and constraints for South Africa and this has become clear in the current political-economic spectrum.

Busch (2000) emphasizes the concern that because of the ‘multi-disciplinary’ nature of the literature concerning globalization, a single definition or summary of the field is an impossible task. In agreement this research seeks to identify ‘common threads’ and to focus particularly on the changing role of the **nation-state** in the debate.

Described by Hay and Marsh (2000) as the “buzz word” of the 1990’s, globalization has found prominence in virtually all fields of social science literature. Many view the process as positively integrating the globe in a value and wealth maximizing exercise that is increasingly reaching more of the world’s desperate while maintaining and increasing the wealth of the core. Such a stance views the process as mutually beneficial to all, bearing in mind the natural inequality of liberal economics. This is to say that globalization has ensured or will ensure that all will benefit according to levels of productivity and efficiency.

Others, mainly from the non-aligned South, view the process as a movement generated by the world's core to benefit the wealthy and to entrench the economic and political values of those in power. This preservation of the status quo has the intended or unintended effect of the exploitation and marginalization of those economies that cannot compete with the economies of scale, as seen in the industrialized north.

Keohane and Nye (2000:15) examine globalization in terms of globalism and interdependence. For them, "Globalism is a state of the world involving networks of interdependence at multi-continental distances. The linkages occur through flows and influences of capital and goods, information and ideas, and people and forces, as well as environmentally and biologically relevant substances. Globalization and deglobalization refer to the increase or decline of globalism." A distinction is made between globalism as a phenomenon with a long history and globalization as a process of increasing globalism in the present or the past. The intensity and complexity of globalism is described in terms of thickness and globalization is the "process by which globalism becomes increasingly thick" (Keohane and Nye, 2000: 18). The degree of thickening gives rise to a density of networks, institutional velocity and transnational participation.

McGrew (1992) agrees that the increased technological innovation and the internationalization of production and exchange have been the contributing factors to the present system. This is to say that globalization is a process associated with the compression of time and space leading to the ideal of a 'global community' that dominates contemporary thinking and discourse. Put simply, the sophistication of air transport, cyberspace communication and satellite connections are thought to have resulted in a geographical compression that connects us all in a common humanity. The form and nature of this common humanity is hotly contested with many in the developing world believing that it is the creation of those who drive it for their own gain. In this vein globalization

can be seen as a symbol of Western economic and political domination on the rest of the world.

Schrire (2001) argues that it is important that we view globalization as process and not an outcome. He defines the concept as, “the processes based upon technology, which increase both speed and scope of linkages across state boundaries in areas including the economy, polity and culture” (2001:447).

Gilpin (2000) associates economic globalization with the enormous increase in international trade, financial flows and activities of multinational corporations. The process aspires to link more economies into this considered mutually beneficial global economic system. This process has resulted in an integrated global system with certain players becoming more predominant. The leading players being united in their belief in porous economic borders, increasing interaction between states, the aspiration of the market as the dominant entity, and the retreat of the state in the interests of the rich and the poor. Berger and Dore (1996) point out that massive increases in the flows on international capital over national boundaries are encountering less national regulation. Furthermore, the Bretton Woods institutions were believed to ensure the stability of the system characterized by interdependence and economic cooperation (Gilpin, 2000:19). Gilpin utilizes statistics such as the increase of world trade from \$57 billion in 1947 to \$6 trillion in the US dominated 1990's, to prove the immense wealth-creating machine of global capitalism led by free trade.

McGrew defines globalization as, “the multiplicity of linkages and interconnections between states and societies which make up the modern world system” (1994:23). He associates three processes that are at work as a direct result of globalization. Firstly, the worldwide nature of political activity has resulted in a ‘stretching’ of the global political playground. Secondly, the fact that organizations below the state are having increasing influence on global issues has resulted in the ‘deepening’ of global actors. And, the growing number of

agencies and associated issues has resulted in the 'broadening' of influential global phenomena (1994:3).

Manuel Castells the Spanish-born globalization scholar from the University of California, Berkeley, explains that, "...the global economy is that particular economy which has the capacity to work as a unit in real time, on a planetary scale..." (2001:3). Castells posits that this new economy can be defined according to three inter-related characteristics. Firstly, globalization has ensured that productivity and production is increasingly based on knowledge and information. The speed, scope and depth of knowledge and information dissemination have infiltrated all spheres of productivity. In other words, productivity has become entrenched in knowledge and information through the spread of information technology. Secondly, the new economy is indeed global. This means that most if not all jobs around the world are influenced by the fortunes of the core of the global economy. And finally, the capacity of this global economy is technological, organizational and institutional.

Globalization's technological capacity refers to its ability to structure the globe through telecommunications and informational systems. The organizational capacity alludes to firms and networks organizing their activity into truly global operations. And, the institutional capacity refers to the processes of deregulation and liberalization, which allows for the unification of the economy to operate globally. In this guise it has become the task of national governments to comply with these regulations and to set up institutions to positively engage this process (Castells, 2001). Therefore, the state needs to encourage creativity to set up a network society in order to partake in the internationalization of productivity with regards to goods and services. African states have thus far been the biggest losers in this challenge.

### **(c) The Three Waves of Literature**

Thus far this section has highlighted what we mean by globalization, it is now the focus to trace the academic evolution of the concept and to locate the different perspectives that have accompanied this evolution.

The triumphant view of the neo-liberal hegemony following the Cold War characterizes the first wave thinkers of globalization. This school was developed in the early 1990's by so called globalization high priests such as Thomas Freidman and Kenichi Ohmae. The first wave scholars viewed a world where all had come under a single global market. In their view the nation-state had become superceded by the prevalence of powerful MNCs whom were viewed as attributing no loyalties to any government. Such thought reflected the growing prominence of business elites at the time. Japanese political economy consultant Ohmae (1990) in his book, *'The Borderless World'*, describes a global market free of government control as information, capital, culture and labor flow openly in a 'global village'. He describes that, "Government officials exercise power by regulating and deregulating the market, but their new role is to assume a backseat, not the drivers position, and to make sure that their country is benefiting fully from the best performing corporations and producers in the world, at the lowest possible cost to their people on a long term basis" (1990:13).

For first wave scholars such as Ohmae (1990) and Freidman (1999), the world was becoming an increasingly smaller place. With the increase in information distribution, the amount of people traveling, and the dominance of English, global political economic relations were becoming increasingly efficient and profitable. International and domestic governance was seen as a hindrance to the value maximization that such scholars held dear. This is reflected in Ohmae's vision, "In a sense, duty-free shops are the precursor to what life will be like in a genuinely borderless environment. The same goods cost the same amount of money no matter what country you are in. In none are the prices higher because of duties or taxes" (1990:27).

Freidman's (1999), *Lexus and the Olive Tree*, argues strongly in favor of the merits of this 'new' era of 'globalization round two' on the back of the fall of the Soviet Union and the rise of the United States to the position of global hegemon. He postulates a time defined by satellites and the Internet, which he views as "shrinking the world from size 'medium' to a size 'small' (1999:xvi).

Politically speaking, first wave thought on globalization fits in neatly with the argument championed by Francis Fukuyama's (1992), *The End of History and the Last of Man*. He argues that the victory of the West following the Cold War had ushered in an era led by the convergence of principled liberalism, democracy, individualism, market superiority and free trade. Furthermore, this assimilation of global priorities would importantly define a time of prosperity and political peace. Fukuyama importantly defines history in terms of political conflict, with his new era led by globalization, culminating in the victory of economics over politics thus viewing the end of political conflict in a time of neo-liberal utopia.

By their own admission, this "borderless world" tended to represent the 'Triad' of North America, Europe and Japan. The opposing understanding of globalization foresaw a global community more multidimensional in nature. This argument is skeptical about states around the world converging to a United States led global movement espousing openness and the relegation of the state apparatus. Especially as many in the Third World view the state as the only protection from the vicious and unforgiving global market. Instead of everlasting peace and prosperity this school, led by Samuel Huntington's, '*Clash of Civilizations*', envisioned a world rife with fragmentation and new forms of intense ethnic, political and economic conflict. In other words, the end of the bi-polar global structure would lead to increased national and ethnic priorities in an uncertain and anarchical world (Huntington, 1996). McGrew concedes that, "War and permanent preparation for war, political fragmentation, cultural diversity, and the immense gap between the advanced state and the poorest states remain central

features of the contemporary global system" (1994:2). Therefore, despite the influence of globalization, the world remains divided into 170 nation-states that continue to follow their own national interests.

Schrire (2001) in agreement reaffirms that the first wave belief in a stateless and harmonious globalization is a flawed analysis. He explains that, "The political kingdom is far too well entrenched in human society to be easily vanquished. Conflict is endemic and will re-emerge sooner or later in one form or another" (2001:450). In addition, as the struggle for FDI intensifies, the state has come right back onto the agenda. "Even formally radical states in Africa, Asia and Latin America are competing with each other to become integrated into the global economy" (2001:451). Gilpin (2000) concurs that despite the advent of globalization, the world is less integrated than in the pre war era. As he explains, "Try telling a Mexican or North African low skilled laborer that we now live in a global economy in which national boundaries have ceased to be important. In fact, much of globalization rhetoric is no more than the conceit of a rich and industrialized country" (2000:295).

Second wave globalization thinkers such as Boyer and Dore (1996) and Hirst and Thompson (1996) typically challenge the first wave view that globalization is threatening the role of the nation-state or that the market has impinged on the state's ability to influence the international political economy or to address national economic policy. They openly reject the 'homogenization' thesis and point out that what first wave thinkers describe is a 'Triadization' of global political economy and certainly not a globalization.

Hirst and Thompson (1996) in '*Globalization in Question*', maintain that the state remains "an important site, medium and agent of globalization". They in fact contend, that the belief that a global free market in partnership with the dominance of unbiased MNCs fundamentally altering our lives, is largely a myth.

Firstly, they argue that the “present highly internationalized economy is not unprecedented.” They point to the process as being one of many evolutions of the international political economy since the 1800’s. Secondly, they point out that truly transnational companies are relatively rare and that the belief that any such companies operate without allegiance to a nation state is a reflection of neo-liberal idealism. “Most companies are nationally based and trade multinationally on the strength of a major national location of production and sales” (1996:2). Thirdly, they fundamentally challenge the ‘global’ in globalization. Their argument is that, “capital mobility is not producing a massive shift of investment and employment from advanced to the developing countries. Rather, FDI is highly concentrated among the advanced industrial countries and the Third World remains marginal in both investment and trade” (1996:2). Thus, whilst the ‘Triad’ or G-3 superpower economies continue to concentrate capital amongst themselves, the world economy is a reflection that is far from global. Finally and at the heart of the Hirst and Thompson argument, is that if these superpowers hold such a monopoly over the international political economy they thus have the capacity to engage in constructive governance over financial markets and capital flight. There is a belief that global markets are not beyond regulation and that effective control at the international level need not undermine national governance (1996:3).

In a similar vein Boyer and Drache (1996) challenge the first wave school by maintaining that the “nation-state remains the conduit for investment”. They believe that those who uncritically follow the market will encounter average economic results and will face the scourge of unemployment and poverty. They posit that globalization has put the state right back on the agenda albeit in a reformed and innovative manner, “Markets are efficient in allocating scarce resources in the short-run. By contrast, the nation is the conduit for investing in the future. Moreover, the state organizes the market by ensuring transparency, fairness and access” (1996:3).

In sum, the second wave school focuses on the political nature of globalization in the belief that pure economics has not defeated political realities. They prioritize the state as the locus of engagement and emphasize that the 'borderless world' does not exist for the majority of the world's peoples and that the imposition of such an ideal on the entire globe would inevitably result in unevenness and polarization.

Building on the second wave perspective, Hay and Marsh (2000) in *Demystifying Globalization*, further seek to 'bring politics back in' and investigate the prospects for governance in the debate. They advance a third wave perspective of globalization literature which, "seeks to develop a multidimensional approach to the various processes that impact – often in highly complex and contingent ways – to produce the phenomena variously referred to as economic, political, social and cultural globalization" (2000: 3). This is to critique the, at times over-exaggerated claims, made in the name of this new fashionable area of study. They argue that analysts need to comprehensively "capture the complexity and contingency of contemporary change" (2000:3).

This relatively new third wave is therefore a post-disciplinary approach that seeks to engage in 'complexification' in order to fully 'demystify' and unpack simplistic claims made by scholars of this 'process with no subject'. Hay and Marsh (2000) are severely critical of those who posit the 'inevitability' argument and fully reject the perspective that views globalization as 'a process working independently of the actions of real subjects.' In 'bringing the subject back in' they seek to 'invert the conventional causal logic and conceive of globalization as the independent rather than the dependent variable" (2000: 8). In essence third wave thinkers argue that there is no such thing as a process that is forcing the hand of the state to deregulate, for macroeconomics to converge and for cultures to homogenize. And if there is, it is by no means global nor as intense as globalization high priests would have us believe.

#### **(d) Conclusion**

It has been the task of this theoretical section to investigate the broader restrictions and influences that have come to bear on the South African political economic psyche coinciding with the advent of the negotiations in 1990. It is largely naïve to believe that a future ruling party would blindly and stringently adhere to purely one interpretation of a fundamental concept such as globalization. However, it is the argument of this section that certain realities have been taken from the broader analysis and is reflected in current ANC-led economic policy.

From the first wave analysis, the ANC did register that globalization is in full bloom and that South Africa needed to be on board or face marginalization. This was reflected in a willingness to open the South African economy and to engage the global political economy. On the back of the Cold War and following the collapse of the welfare state in the Eastern bloc of Europe, it was always unlikely that an economy being set up in the 1990's would reject the globalization thesis.

Bearing in mind South Africa's geography and political economic development, ANC economic practitioners at the time found much truth in the argument of second wave thinkers. This is a belief in the position that globalization has advanced the role of the Third World state as they seek to rejuvenate domestic economics and compete for vital FDI. This argument posits that it is the task of such states to tap into the availability of creativity in national fiscal policy to set up institutions to foster capital flow. This is to invest in knowledge and talent to uplift desperate communities. In other words, unlike in the "borderless world" social policy was viewed as paramount as the future of the nation would be fundamentally influenced by 'political choices'.

This fusion of purpose between the 'irreversible train' and the importance of social policy, has at times led to a messy debate and an ambiguous vision. Or put simply, an ambiguous articulation of that vision. The post-1994 ANC-led

government has continuously emphasized their adherence to pragmatism as opposed to ideology, as a ruling party. It is a party, which has continuously had to maneuver within an environment of constraints, with globalization proving to be a fundamental influence.

University of Cape Town

## *Chapter 2*

### **THE NEGOTIATIONS FOR THE NEW SOUTH AFRICA: 'THE SPIRIT OF THE TRANSITION'**

"Oh South Africa, better be quick, times are wild. Yesterday was like many strange dreams, today a beautiful white light floods the beloved country."

Lallitha Jawahirilal, 2002

#### **(a) Introduction**

The corporate nature of the South African negotiated transition served as a further constraint for the new ANC-led government. The process involved momentous political maneuvering that resulted in widespread deals and agreements that came to define the nature of the 'new' state. It was a trying and complex process as the negotiators sought to include all in the settlement; this was no easy task considering South Africa's broad array of opinions and positions. But it became clear that the leading negotiators, the ANC and the NP, were determined to set a date for 'free and fair' elections. The eventual outcome was an election date set for the 27<sup>th</sup> of April 1994, and a plan for a government of national unity (GNU) for the first term thereafter.

This chapter argues that the negotiations for the new South Africa were pivotal in shaping the ideas that would come to reflect and embody the new nation. The process would fundamentally come to dictate the relationships and policies that would emerge. This paper makes the distinction between the negotiations for a political settlement that came to be known as CODESA, and the economic negotiations that took place on corporate farms and boardrooms all over the country. These corporate scenario-planning sessions became a frantic exercise to influence ANC economic thought, and thus the future of South Africa's political economy. It is with these economic negotiations or 'elite pacts' that this research is concerned.

The South African transition from 'apartheid' to democracy that culminated in the historic democratic elections in April of 1994, was truly one of the 'miracles' of the twentieth century. The socio-political struggle on a continent cursed by colonial oppression and extraction seemed hopeless a few short years earlier when the country was ravaged by continual civil unrest and political violence. The political settlement that emerged from four years of negotiations defied history and rightfully earned South Africa the admiration and marvel of the rest of the world. Not only had the anticipated civil race war been averted but the process inspired a new unity and reconciliation in a historically troubled society wrecked by discord, pain and suffering. The new South Africa was built on the foundation of one of the most democratic constitutions in the world, a constitution that fundamentally banned discrimination of any kind and finally set a traumatized nation free. The hopes of millions of South Africans were placed in the hands of the new dispensation to finally bring about change and to lead the new nation into the 'Promised Land.'

On the backdrop of systemically entrenched poverty and inequality as a legacy of 'apartheid', economic liberation has proved far more elusive and complex than the political transition to democracy. This was partly due to the fact that the ANC was traditionally a liberation organization that historically focused its attention on the political overthrow of an unjust state and paid little attention to economic issues. In fact, the ANC's official economic position up till 1990 was the nationalistic ideals of the Freedom Charter of 1955. In a changing economic world such ideals were outdated and the period from 1990 saw the battle of many interest groups to influence the ANC's economic philosophy and ultimate policy. The new Government of National Unity (GNU), led by then President Nelson Mandela, devised the Reconstruction and Development Program that outlined the economic crisis in South Africa and broadly identified the GNU's vision to achieve economic parity in the second most financially unequal nation in the world. Politics and economics have always been inter-linked in South Africa, and the RDP pointed out how history had economically paralyzed the country and the

majority of its people. The program, with its emphasis on redistribution and development, was largely used as an election document and represented a mixed economy that was a result of the compromises of the transition. The program did well to highlight the desperation of South Africa's economic divide but lacked a clear plan of action. In 1996, GEAR, was introduced and signaled the entrenchment of economic orthodoxy in South Africa through a plan that emphasized conservative macroeconomic fundamentals. In five short years, the ANC went from an anti-imperialist and nationalistic movement to one implementing a homegrown structural adjustment. The program witnessed the economic evolution of the ANC as a ruling party that dedicated the country to an outward orientated growth strategy, which hoped to encourage much needed job creation. Inequality and poverty alleviation remain the mammoth challenges of the new state and only once this has been achieved can South Africa truly be free.

This research seeks to examine how South Africa has positioned itself in the global economy. It is an investigation of the interrelationship between international political economic phenomena and domestic economic policy. This is bearing in mind that it is geographically positioned on the most economically desperate continent in the world and therefore far away from any dynamic markets. The paper examines why the negotiations from 1990-1994, were so important in shaping South African economic policy and largely conditioned the new state. This ties in with the investigation of how the ANC economic philosophy has evolved and been shaped over time. In other words, the case study focuses on how, in conjunction with the globalization thesis, the negotiations and the corporatist solution further constrained and restricted the end solution of ANC economic philosophy. Thus, a further contributing factor to the ambiguous nature of the South African political economic vision.

### **(b) Background: The Nature of the Apartheid Economy**

The fundamental task that faces South African policy makers today is to find a solution to chronic poverty. Poverty and inequality are twin evils that were a direct inheritance from the apartheid system. Historians Lester, Nel and Binns (2000) explain that racial segregation began in South Africa with the advent of the industrialization process. Following the South African War (formerly known as the Anglo-Boer War) at the beginning of the twentieth century, Blacks and Afrikaners were increasingly sidelined as the British imperialist power sought to monopolize South Africa's resources. The discovery of gold in the former Transvaal witnessed the formation of global capitalism with the establishment of British mining companies. The South African colony was now viewed as a capital asset to the crown. The mining companies soon realized that to fully exploit the newfound minerals they needed to establish a mass cheap labor force. Blacks were soon recruited from the surrounding rural areas to toil underground and retrieve the minerals that would build the South African economy. Lester, Nel and Binns (2000) describe how this process not only placed South Africa on the global economic map, but also solidified the country's future of deep economic, political and social divide. The influx of British capitalism surrounding the discovery of gold and the establishment of a cheap black labor force led to racial divisions in the labor force in urban areas. In addition, rural African communities were put in American style native reserves and mine workers were placed in industrial zones in and around the urban mines and factories. And thus began the 'Two nation' system that the new South Africa continues desperately to overcome. The country began to take on a distinct economic divide between the races and between the rural and urban areas. To this day, the provinces with a progressive urban culture led by business continue to thrive, whilst the rural provinces head into economic decline.

The fierce marginalization of African communities was perpetuated by the election of the National Party (NP) in 1948, which was a direct result of the growing feeling of Afrikaner nationalism at the time. This was a fiercely anti-

imperialist and religious movement that sought the emancipation of the Afrikaner nation from the British. The nationalistic Malan administration officially introduced the political system of 'Apartheid', and blacks were formally excluded from white society through the advent of the pass laws. The growth of capitalism in the agricultural sector meant that many rural Afrikaners were driven into the cities and were at a distinct economic disadvantage to their European counterparts. This led to the advent of the 'poor white' class in South Africa. Tensions began to erupt between mining capital that sought free trade in order for South Africa to become globally competitive, whilst agricultural capital sought state protection in order to grow. This mutated racially and regionally based economy became ingrained and has influenced South African politics until this day. Apartheid entrenched this reality. The system created chronic levels of inequality between regions and races, and entrenched poverty in the marginalized African communities (Marais, 1998).

In summation, the Apartheid economy was based on three distinct pillars. Firstly, the economic base has traditionally been the minerals-energy complex (Bond, 2000). The extraction and exportation of gold, diamonds, platinum, coal, and electricity has driven the global competitiveness of the Apartheid state. South Africa has been a leading traditional producer of 14 out of the world's 26 leading minerals (Arnold, 2000). Secondly, an established agricultural sector largely made the pariah state self-sufficient during the days of economic sanctions. In addition, South Africa has been a considerable exporter of maize, fruit, wines and fish. Finally, South Africa has always had the most advanced manufacturing sector on the continent. Luxury goods such as motor vehicles are produced locally near to world standards and are in line with first world road, railway and air transport. The Apartheid manufacturing sector struggled without access to foreign markets and has now been identified as an area for growth (Arnold, 2000).

The 1960s were the pinnacle of the Apartheid economy as South Africa was internationally competitive because of its massive mineral resources and

politically strategic because of its extroverted anti-Communist stance. The Sharpeville massacre in 1960 brought the international spotlight on the Apartheid regime and relations with the international community began to progressively sour. However, in many ways Apartheid was largely allowed to continue because of the continual economic investment of global superpowers until the regime's last days (Arnold, 2000).

The Apartheid economy compounded the structural crisis of uneven development by overproducing luxury products for the upper income market. Blacks, Indians and Coloureds were considered cheap sources of labor, and were therefore given second-class citizenry. Income distribution was extremely uneven and was accompanied by racially distinct access to basic services (Bond, 2000). Such phenomena gradually boiled under the surface and began to explode in the forms of civil unrest and violence. As the world increasingly became interconnected through the globalization process following the end of the Cold War, South Africa lost its appeal and began to economically decline from the 1970's. From around 1973, growth rates dropped markedly. There was falling net investment, increased unemployment, falling average real wage rates and increasingly unacceptable levels of poverty and income inequality, which would become the breeding ground for civil unrest and the underground economy (Michie and Padayachee, 1997).

By the time of the transition in 1990, GDP growth had gone from 5.5% in the 1960's, to 1.8% in the 1980's with the early 1990's viewing a disastrous negative 1.1%. Both fixed and private investment was down as the state of civil unrest and widespread sanctions had led to South Africa losing its competitiveness and capacity to loan its way out of trouble. In addition, large levels of capital flight and decreasing levels of personal savings were combining to cripple the economy. Years of military expenditure at the expense of domestic reform initiatives contributed to the recession of the 1990's as the cost of continual military action (both at home and abroad) eventually took its toll (Marais, 2001).

It became increasingly clear to the business sector that a racially based economy was not sustainable and that political stability was increasingly viewed as fundamental if South Africa was to turn its economic fortunes around. Macroeconomic indicators seemed to compound the situation. Marais (2001) points out that by the 1990's all three of South Africa's traditional sectors were in trouble. Mines were shutting down or downsizing throughout the former Transvaal and the Free State, the manufacturing sector was in a crisis as exports were not competitive further than the region, and the agricultural sectors contribution to GDP had dropped from 9% to 6%. One saving grace was that the apartheid state had not fallen into a debt trap, a tradition that the new dispensation would continue. It became obvious that much needed growth would never occur whilst the country was in a continual 'State of Emergency'. The powerful private sector increasingly began to realize that Apartheid could not lead South Africa into the twenty-first century and that political change was needed if economic stagnation was to be turned around.

The private sector, led by the powerful Anglo-American mining conglomerate, began to meet with ANC officials in Lusaka as early as the late 1980s. Official negotiations began in 1990 after the historic speech by then President De Klerk in February of 1990 in which he effectively released all banned political organizations including the ANC and the Pan Africanist Congress (PAC) (Sparks, 1994). The negotiations for the new South Africa began in earnest later that year, and the battle was on to shape South Africa's economic destiny.

### **(c) The New Struggle: Corporate Scenario Planning and Social Contracts**

Patrick Bond (2000), in his examination of the negotiations from 1990 till the end of 1993, labels the process an, '*Elite Transition*'. This was on account of the process largely being labeled as a corporate pact between the NP led state, the ANC central apparatus and big business. The result was a series of pacts and agreements behind closed doors that resulted in the ANC getting incorporated into

the state as opposed to the old state being overthrown and replaced. For Adam, Slabbert and Moodley (1997) the negotiations signaled a draw, both sides realizing that they could not violently defeat each other and that political stability was desperately needed before economic growth could get under way. The political restructuring at Codesa was part of a broader process to rebuild economic growth, which had steadily declined since the 1970s. Therefore, considering the political, social and economic conditions, there was no other choice but to go to the negotiating table.

What resulted was a corporatist solution. The Apartheid state could not find a way to permanently suppress the challenge of the broad array of bodies that made up the liberation movement. And, the opposition could not find a way to physically gain control of the concentrated power of the state. Despite the desperation of the 1980's, there began the ambitious move to restructure the political sphere. South African capital was increasingly beginning to realize the futility of the NP led state repression. In their opinion, a negotiated settlement (as opposed to violent overthrow) served as the only opportunity to save South African capital and for the troubled nation to have any hope of reintegrating into the global economy, an eventuality that had become so important following globalization (Marais, 1998). So as Govan Mbeki relates, "the oppressor and the oppressed came together to chart the road to a democratic South Africa" (in Lester, Nel and Binns, 2000: 246).

The ANC's participation is especially interesting as we witness the liberation movement's evolution from revolutionary politics to that resembling a pragmatic orthodoxy. It is to witness the ANC church adapting itself from a liberation movement into a ruling party and engaging the domestic and global context in which it finds itself. Some tough decisions had to be made and the ANC worked within the confines and restrictions of domestic and international capital to come up with a position that would take South Africa forward. The nature of this final position is what has been at the heart of a messy public debate of late.

Many similar transitions to democracy around the world had been associated with extreme economic downturns. New nations when integrated into the global economy had traditionally struggled to receive investment. Globally intensified international competition, the fickle nature of global capital and the growth of protectionist tendencies on behalf of the developed world, made entry and survival exceptionally difficult for newly democratizing nations. Michie and Padayachee (1997) argue that South Africa had some advantages to these global developments at the time of its transition. Namely, it had a large and diversified manufacturing sector, it had been open to foreign direct investment (FDI) for many decades, it had a considerable banking and human resource base, it had a globally competitive edge in specialized activities (mining and the production of metals) and it was strongly believed that the economy would be favored by investment when reintegrated into the global economy (1997:10). It was strongly believed on all sides that once the political sphere was stabilized the 'sleeping giant' of the South African economy would drive the nation forward.

It is important at the outset therefore, to outline what each of the parties expected from the negotiations process. Within the ruling bloc, the aim was to formulate an outcome that ensured minority rights and that could 'modernize' South African capital in line with global trends. This was both a political and an economic process. Largely white big business sought two objectives. Firstly, to dismantle the exclusionary political/economic framework of Apartheid. And secondly, to institutionalize a democratic regime along the lines of the ideals of the Bretton Woods institutions, which had grown in international influence. Put simply, big business increasingly began to think globally and found the ideologically based racialized political system in South Africa to be economically counter-productive and a hindrance to their increasingly global objectives.

According to Marais (1998), white South African capital sought from the new ANC ruling elite, a political democratization that would follow the international

guidelines of structural adjustment. This was considered vital to commit South Africa to a new economic recovery path to deal with the economic crisis that had arisen from years of nationalistic policies. The conflict would arise as to what degree this would break or maintain economic practices of the past. This new reality would focus on the incorporation of a new black middle class into the previously white dominated private sector. The hope was for a depoliticized wealthy black body that would commit South Africa to a capital accumulation strategy. As explained by Adam, Slabbert and Moodley, "From the point of view of sophisticated business, what better government could be in power to deal with militant unions and the impossible tasks of satisfying an impoverished half of the population than a liberation movement under a moderate charismatic leader with universal legitimacy, yet also bound to work within the parameters of the economically feasible?" (1997:172). It is important to note that business was not uniform in its views to be expressed at the negotiating table, but were broadly united in their desire for the need of a competitive outward orientated market economy in a broader context of political stability (Marais, 1998).

From the perspective of the movement the process served as the victory of their efforts. They sought a settlement that would change the inequalities and injustices of the past, one that would put South Africa on the long awaited road to peace and prosperity. The focus of the ANC was on the political sphere as they sought the attainment of the powers of the state that was viewed as the symbol of their victory. The belief was that only once such power was comprehensively attained, could they then formulate the future as they saw fit. This would come to be known as the 'two-stage' theory. Such thinking was largely associated with the liberation ideology of the late Cold War and has since become problematic in a domestic sphere controlled by the conservative forces of the private sector and in an international community represented by the dominance of the Bretton Woods institutions. The results of the negotiation process would largely prohibit populist redistribution and short-term state led upliftment of the poor. The ANC

would struggle to gain control of the economic apparatus, a sphere that the white minority now focused their efforts.

The standoff was compounded by fears that both sides would resume the armed struggle of the past if a satisfactory agreement was not reached. Marais (1998) points out that many feared that the NP state (which had the advantage of controlling the state and had the support of capital) would return to its 'laager' of Afrikaner nationalism and would discontinue the process in favor of maintaining the exclusionary nature of the apartheid status quo. Furthermore, many feared that the ANC would return to the physical opposition of the 1980's if unsatisfied with the final deal.

On the fringes of the process were three potentially violent groupings. The IFP of KwaZulu Natal was a region and an organization engulfed in political violence. Their leader Mangosuthu Buthelezi was visibly unhappy with the sidelining of his organization in the process and threatened to boycott the final elections. The ultra-right wing were also unhappy with the process and what it meant for their dominant position, they would attempt various acts of violence to destabilize the negotiations. Finally, the various homeland administrations were embattled during the negotiations and would also be a source of violence in response to the negotiated settlement (Sparks, 1994).

In the end the pact reached would revolve around the NP, the ANC and big business. Various behind the scene deals ensured that sidelined groups were incorporated although their influence would be curtailed. Adam, Slabbert and Moodley (1997) believe that the transition was peaceful largely due to the corporatist nature of the endeavor. The deal tapped into the vast resources of the state and the private sector. This allowed for troublemakers to be bought out and put on the pay role, and for retrenchment packages and pensions to be swiftly dealt with. This would prove vital in the restructuring of the National Defense Force and in the stabilization of the temperamental ultra-right wing. As talk of

civil war continued to reverberate out of all quarters, it was the task of the elite pact of business, the NP state and the ANC to get certain destabilizing elements firmly in the new broad church. It would be this church that would carry South Africa 'kicking and screaming' through this volatile time.

The negotiation process put the ANC as the future ruling body, in the delicate position of having to satisfy both the demands of the privileged white business sector and the voiceless impoverished masses. The representation of many interests, ideologies and ethnicities would be a task the ANC would need to learn quickly on taking control of one of the most divided countries in the world. Such a reality would give rise to the necessity for nation building and common purpose articulation, a task that would be led by the new President Nelson Mandela (Marais, 1998).

Once the decision had been made to enter into a negotiation process, the struggle for the new South Africa took on a fundamentally new form. This was from an armed operation from the bush of exile alongside domestic civil protest led by the United Democratic Front (UDF), to the boardrooms of Johannesburg and the high profile corporate game lodge getaways in South Africa's vast nature reserves. Alongside the Codesa talks, which began at the World Trade Center in Johannesburg on December of 1991 for the end of apartheid and the restructuring of the political sphere, was an aggressive corporate initiative to influence the ANC economic philosophy and in so doing shape future national economic policy (Sparks, 1994). After all, this was the organization that was thought to lead the 'Red' invasion of Southern Africa less than a decade ago. As mentioned earlier, the ANC had focused its liberation efforts on the attainment of the political power of the state and by its own admission had paid less attention to the economic liberation of the country. It was thought that control of the state would allow the ANC to economically restructure the country as they saw fit. The nationalistic Freedom Charter remained the economic philosophy of the revolutionary organization that comprised of a tripartite alliance between the ANC caucus, the

labor led trade union movement (COSATU) and the South African Communist Party (SACP). The belief in redistribution as a spur for growth as outlined by the 1990 *'Discussion on Economic Policy'*, served as a uniting force among the alliance members that proved to be short lived. Mainstream economists and the media soon dismissed the policy as populist and short sighted in its macroeconomic fundamentals. This history of broad economic slogans of principle severely constrained the ANC's capacity at the negotiating table (Marais, 1998).

The question of relevance therefore, as posed by Bond (2000), is how such a 'left' leaning revolutionary organization that was governed by labor and nationalism, came to be seduced by the neo-liberal agenda. In other words, how has the so-called 'left' continually been silenced (the endorsing of the GATT in 1993 is a case in point) in economic debate? This is as ANC technocrats moved from the idealistic Nationalism of the Freedom Charter, to the Keynesian approach agreed upon at the ANC-COSATU Harare conference of 1990, and eventually to the neo-liberal structural adjustment of GEAR. This ushered in the term 'Comrades in business' as former union members set up investment initiatives. This reality would allow for someone such as Cyril Ramaphosa to move from the leadership of the National Mineworkers Union to become one of capitalism's favorite sons as CEO of one of the country's most powerful conglomerates. This shift in focus led to redistribution and development being replaced by a focus on 'economic fundamentals', such as stabilization and growth.

The social contract scenarios from 1990-1994 involved behind the scenes deal making in which the ANC delegates were wined and dined a steady neo-liberal diet from South Africa's business conglomerates and the consultant teams from the IMF and the World Bank. The negotiations were undertaken on the backdrop of a nation engulfed in political violence and unrest. All were keen to ensure that the new ruling elite fully understood the nature of the global economy and that certain interests were prioritized over others. The initial aim was to tone down

the ANC mass action strategies and to forge a working relationship between the elites on both sides. In the words of Bond, "Above all, the early 1990's required from South Africa's elites a special effort: they had to learn each others basic objectives, philosophy and discourses, and they had to begin to make concessions – mainly rhetorical, but to some degree concrete – to build trust between negotiating parties with once vigorously opposed interests." (2000:56).

The scenario planning sessions were crucial in the brainstorming of the ideal type economy and how the status quo needed to be changed. The delegates were ushered in the direction of neo-liberal and Keynesian philosophy, with very little alternative thinking accepted. The collapse of Second World socialism, the failure of the European welfare state and the surge in prominence of the BWI's and neo-liberal globalization meant that the sessions were treated as a reality check for all economic practitioners involved. The consultation teams believed that there was a new Global order in the making and that South Africa had to be tuned in to such developments and not to get left behind (Marais, 2001). This is the ideology that this research has labeled as the 'irreversible train' in the previous section.

The key figures in setting up the sessions were Clem Sunter, Bob Tucker and Laurence Schlemmer from Anglo- American, Nedcor/Old Mutual and Sanlam respectively. It was a highly confidential and sensitive process and information was only brought to the public attention through selected leakages to the business press. In depth analysis was often over looked in favor of coming up with a deal that reflected a 'coerced harmony' across various sectors (Bond, 2000). Marais (2001) explains that the recurring themes included the instruction that future economic policy had to be grounded in a strong foundational culture of consensus building, and trust. The economic debate revolved around macroeconomic stringency, outward orientated practice and the facilitation of the state. Consultation teams clearly wanted South Africa to wipe the slate clean and to put this developing economy firmly in line with the globalism that was encapsulating

the world. The reality of this was often expressed in melodramatic terms. Sunter of Anglo-Gold summed up the perspective of business when he said, "Negotiation works. Rhetoric is dropped, reality prevails and in the end companies concerned go on producing the minerals, goods and services." (Bond, 2000:58).

The first attempt to forge a contract between the ANC, the NP, big business, labor and civil society, sought to promote economic orthodoxy and democracy as a priority over racialized politics and non-democratic principles. The Nedcor/Old Mutual, *'Prospects for a Successful Transition'*, was a scenario planning session in mid 1990. Tucker, who entertained the country's leading economic and political thinkers at the expense of R1, 7 million of Nedcor/Old Mutual funds, hosted the session. This showed the high priority that the conglomerate placed on being at the forefront of the process. The Tucker model sought an ANC/NP coalition government that ought to strive for political stability. The scenario plan emphasized that once such a political ideal was in place the government should do all in its power to ensure high and sustained growth through the adherence to the market economy. The ANC were continually informed that only once growth was consistently high, could the state then embark on a redistribution program (Bond, 2000). Tucker's team emphasized that a compact was in everyone's interests as socio-economic reforms needed to occur before and not after the political transition.

Broader South Africa at the time was experiencing considerable township violence and the KwaZulu Natal political killings were spiraling out of control. It was particularly difficult to forge an agreement, as many believed at the time that the NP was largely instigating the violence as a secret 'third force'. Subsequent evidence has supported such claims. This issue eventually led to the breaking down of relations between Mandela and De Klerk, as the ANC accused the NP of having a double agenda. The June 1992 Boipatong massacre of 48 residents resulted in a minor crisis for the negotiations as the ANC walked out of Codesa. This resulted in the intensification of civil mass action, which led to the Bisho

massacre of ANC supporters by the collaborative Ciskei state-troopers (Sparks, 1994). *'Prospects'* realized the instability of the time and emphasized the need for elites to make a pact that would force the rest of the country to 'get on board' (Bond, 2000). Despite its elite nature it was noted that the position was sold to many a member of the democratic movement.

The second such scenario session was hosted by the Afrikaner based insurance company Sanlam in 1993. *'Platform for Investment'* was a conservative opinion on the political and economic phenomena in South Africa. The paper warned that the pressure against a NP/ANC power sharing arrangement would be stark and thus the marriage had to be based on a firm foundation. The session realized the reality that no one power could get ahead in this process and that negotiators should stave off a 'quick fix solution' (Bond, 2000). Sanlam strongly believed that revolutionary elements in the ANC were increasingly being sidelined and that the majority ANC constituency had enough faith in their leaders to accept whatever was in the final agreement.

The session was largely an assurance to business that the ANC leadership was far more moderate than they expected and that they would shift away from labor and costly redistributive elements. This was on account that the ANC leadership had a continuous relationship with the World Bank, the IMF, the business movement and the Development Bank of Southern Africa (Bond, 2000). Furthermore, it was presented that redistributive forces would continually be sidelined as they envisaged a corporatist outcome between business and labor. They argued that Cosatu's socialism was considered to be essentially non-Marxist and that the trade union would be moderated by their more 'sober minded' ANC exile leadership. It was the history of the Apartheid mind-set to largely overestimate the influence of the Unions on the ANC elite who would prove to be far more orthodox than white South Africa ever imagined.

Bond argues that *'Platform'*, largely underestimated the growing frustration of the masses at the increasingly collaborative nature of the movement's elite's, and the ability of such forces to derail the process. The paper was void of any socio-economic concessions and firmly ushered the ANC delegates away from any populist restructuring of the economy in favor of the poor. This particular planning session did well to outline the reality of the South African case and the immense challenges that face a developing economy in the ruthless global market.

Other sessions included the Mont Fleur scenarios hosted by the social democrats, *'Growth for All'* by the South African foundation, and SACOB's *'Economic Options for South Africa'*. All of these scenario planning sessions were remarkably successful in bringing elites into the fold and in sidelining economic radicals. In other words, the process was crucial in deciding who was in and who was out. The ANC were aggressively presented theses which all made the fundamental point that in the current global arena there was 'no alternative' to economic orthodoxy. They were warned of so-called quick fix redistributive policies that had driven the struggle ideology against economic Apartheid. The final deal ensured that the ANC took over the reins of the political and economic sphere but that business retained sufficient clout to secure the maintenance of their prominent position by ensuring that the privatization of capital was placed as a priority over redistribution. The seeming open mindedness of the ANC elite to economic restructuring meant the intensification of the struggle for economic control of the new ruling bloc. As coined by Marais (1998), the conclusion of the negotiations signaled an emphasis towards the strategy of deracializing the privilege of South Africa's economic elite.

Morris (1993) poses the important question, "Will the new society perpetuate the highly divisive social elitism of the past, but on a more non-racial basis? Or will it tend towards a more egalitarian system that strives to muffle inherited frictions by redistributing resources and institutional power?" (1993: 8). The process did not deal with the fundamental dismantling of the structural basis of the nation's

inequality. The nature of the deals struck with corporate South Africa meant that economic empowering endeavors such as Black Economic Empowerment (BEE) took on an elite stature as a conservative interpretation of global economics and its driving force of globalization was adopted and implemented. Therefore, the 'two nation' system would remain, but the key difference was that the top tier would become increasingly multiracial. Morris (1993) would label this the prospect of the '50% solution.'

Therefore, despite the raging violence at the time, a corporatist pact was reached between all involved. The ultimate objective of preserving the South African nation state had been achieved as political stability was obtained through widespread consensus. The political deal involved the signing of Sunset Clauses that effectively made power sharing compulsory in a GNU. The ANC made promises not to purge the security forces and the civil service. A set of constitutional principles was established in an interim constitution that would evolve into the final constitution of the new liberal democracy. The constitution would prove to be one of the most progressive in the world and would make sure that South Africa would never suffer an oppressive regime again. The economic deal involved many concessions, the most important of which was the awarding of economic portfolio's to former NP economic technocrats such as Chris Stals and Derek Keys (Marais, 2001).

Marais (2001) illustrates that by 1993 the language and rhetoric of the ANC and business policy documents were converging. The ANC leadership was shifting away from their activist roots of the 'developmental state'. Bond (2000) explains that the economically conservative side of the movement was beginning to take shape and would eventually come to dominate the macro-economic stance of government. The 1990 ANC-COSATU policy conference, which decided on a mixed approach to be taken to the negotiating table, had all but died by the conclusion of the 1993 Sanlam planning session. Further signs of the shift 'right' were signaled by the demise of the Macro-Economic Research Group (Merg).

This team was headed up by Vella Pillay and was set up by the ANC to lead its research into future macro-economic policy. Merg came up with, *'Making Democracy Work'*, in November of 1993. The paper largely represented the mixed approach of Keynesian economics and warned against the blind adherence to the market at the expense of social criteria (Michie and Padayachee, 1997).

Merg strongly advised against the Reserve Bank being allowed independence in the constitution, they believed a similar decision had facilitated the demise of Russia in 1993, and that South Africa should follow the tightly reined East Asian model. But the sentiments of Mandela on the topic of the independence of the Reserve Bank at the time indicated in which direction the ANC was moving. Mandela explained, "We argued for the independence of the Bank not only because we are committed to the sound economic management of the country, but also because we want to send out a strong signal to the international and local business and financial communities that we are serious about this commitment." (Marais, 2001:134). And thus, *'Making Democracy Work'*, never got past a recommendation and Merg lost impetus to the ANC's Department of Economic Planning (DEP) led by Trevor Manuel.

The DEP began to represent the conservative thinking on the rise in the ANC executive ever since Trevor Manuel and Tito Mboweni took over from Max Sisulu in 1990. Mboweni's recommendation that the Reserve Bank remain independent (effectively controlled by shareholders) was passed and enshrined in the debates of 1995 leading up to the introduction of the final constitution of 1996. Sisulu took over Merg, which became the National Institute for Economic Policy. Leading decision-makers such as Jay Naidoo and Alec Erwin began to water down the Cosatu calls for nationalism, and labor's ideals of worker control. This signified a distinct power shift in the economic thinking of the party, as progressives went silent against the dominant discourse that postulated 'no alternative'. With the elections of 1994 and the appointment of NP cabinet ministers to all economic portfolios in the GNU, the new South Africa would

officially adopt a neo-liberal interpretation of globalization. This ideological framework would form the foundation of future policy formations. (Bond, 2000).

In the words of Marais, "the task assumed by the ANC was to construct and administer a hegemonic project that would be based on a radical break with the exclusionary paradigms enforced under Apartheid." (2001: 93). To a large degree reconciliation and consensus took over from conflict and triumph. The revolutionary ideal of smashing the existing oppressive state was superseded by the replacement of the exclusionary state with an inclusionary one. With Mandela as its champion, the ideology of the inclusionary state became the driving force of the new South Africa. In this environment of reconciliation, the ANC 'exercised restraint' in their demands and in their pursuit of fundamental change (Marais, 2001). The struggle ended without a victor. The new struggle would be over whose interests would come to dominate South Africa's new economic path. It would prove difficult for the new administration to act decisively on economic policy as they were in "office but did not necessarily have power" (Adam, Slabbert and Moodley, 1997: 2). Thus, whilst the ruling party dominated the political sphere their ideas on social policy would be continually restricted by the perpetual white domination of the private sector.

#### **(d) 'The World Bank as a Knowledge Bank'**

The South African movement against Apartheid was traditionally exceptionally weary of the BWI's and the conditionalities that have accompanied loans to Africa. This was on account of the devastating effects of World Bank loans to the continent and the crippling effects that the debt crisis has meant for other African countries. Bond (2000) argues that the 'left' in the movement was successful in strongly advising against the temptations of widespread loans from the global financial institutions. This was at a time when the World Bank and IMF were desperate to find an African success story for its Washington Consensus style structural adjustment system, based on massive loans to achieve stability accompanied by democracy. The ANC movement traditionally had deep roots

against such forces. Bond highlights one such example when he gives the case of how South Africa countered the World Bank acronym TINA (There Is No Alternative) with THEMBA (There Must Be an Alternative). Themba is a Zulu word for hope.

Bond (2000) explains that the basis of the ANC's traditional skepticism is largely due to the BWI's historical support of oppressive regimes on the continent, none more so than in Southern Africa. A close examination of the activities of international finance organizations in the region, highlights their continual support of colonial rule and their financial backing of neo-colonial African kleptomaniacs. Bond points to the BWI investments being utilized to build white economies for the interests of white consumers at the expense of the oppressed. The example of the Kariba hydroelectric dam project on the Zambezi river, which was built for the direct benefit of the Apartheid state along with British and US multinationals, is illustrated as a case in point (Bond, 2000). Despite the rhetoric for democracy and development, the IMF and World Bank's interest in the continent was dictated by the Cold War geopolitics of the time. This required the blocking of the spread of Communism in the region, a reality which often resulted in the BWI's having bedfellows of the like of Mubutu Sese Seko of former Zaire, the most extreme of African dictators. Other partners included the vocally anti-Communist Apartheid state, the financial support of which perpetuated a system that committed some of the most heinous human rights abuses on the continent. To add to the woes of a traumatized continent, the victors of long fought after independence struggles, now had to face years of accumulated colonial debt or face being cut off from the world. Furthermore, such countries had to loan more in order to rebuild and to get battle weary economies up and running. These loans came with conditionalities that handed over power to international forces (Bond, 2000).

In South Africa the World Bank continued to provide the Apartheid state with loans despite the calls by the ANC to impose sanctions following the Sharpeville massacre of 1960. As early as 1966 with Sharpeville fresh in the memory, a \$20

million loan was granted to Pretoria. A further example was the funding of the Lesotho Highlands Water Project that was used to provide much needed water to the farms and mines of the Transvaal region. BWI loans only began to halt in the 1980s after pressure from the US congress. After supporting their enemy for so long it is no surprise that exiled ANC members were exceptionally weary of following the indebtedness they had witnessed in their host countries around the continent, and by allowing the influence of such a reality at the expense of domestic thinkers and practitioners.

Despite not being allowed to gain physical influence through the provision of loans, the World Bank and IMF were able to influence the economic future of South Africa through the guise of influential consultation groups that frequented the economic planning sessions outlined above (Michie and Padayachee, 1997). They often teamed up with the old ruling bloc and big business to provide economic consultation to ANC elites who increasingly welcomed such advice. Specialist teams under Geoffrey Lamb, a former South African who was an old Sussex mate of Thabo Mbeki, would travel around the country advising on all economic matters from macro-economic policy to education, housing and health (Bond, 2000). The World Bank became increasingly involved in urban planning initiatives and would be a key influence in the planning of the RDP program, although the policy was extensively domestically funded. Furthermore, The Land and Agricultural Policy Center (LAPC) was a World Bank NGO that would have increasing clout over ANC rural housing policy from 1992-1994. In virtually all areas of economic policy formation, the World Bank was working behind the scenes to reach a market driven solution.

Michie and Padayachee (1997) explain the different focuses of the two institutions. The IMF reports typically analyzed the possibility for sustained growth in a country dictated by poverty. They pointed to the need to liberalize financial relations as a strategy to eliminate balance of payment deficits required to set the economy on the path to growth. The IMF assessed the poverty levels of

the country, emphasized the need for saving and closely examined the spending levels of the government. They called for the liberalization of trade by focusing on an outward looking economy dedicated to the attainment of FDI. The institution accentuated that this reality would only occur if the national currency was devalued and there was an abolition of exchange controls. The underlying message was that the new economy needed to focus on growth before they embarked on redistribution. Redistribution too soon was thought to cripple the spending power of the state and the economy as a whole. The IMF consultation missions were typically well received by domestic business. Other quarters widely criticized their synopsis as fundamentally underestimating the poverty crisis in the new country as well as the crippling lack of skilled labor as a result of a racialized economy. Such criticism was skeptical of the IMF style adjustment's ability to fundamentally change the patterns of inequality in the country, an objective that was thought to be the priority.

The IMF did manage to issue an \$850 million loan to South Africa on the eve of the 1994 elections. It was officially said to be for the rejuvenation of the agricultural sector in their bid to restructure around exportation, but many believed that it was to service Apartheid debt. Whatever its use, the South African letter of intent that is typically attached to the acceptance of such a loan, signaled the affects of the IMF's ideology on the new economy. According to Michie and Padayachee (1997), the new South African dispensation committed itself through the letter of intent to: the reduction of the budget deficit, reducing the civil service wage bill, committing to tight monetary policy, fostering investment and to liberalize the tariff system in conjunction with the devaluing of the national currency. This put the new developing economy firmly on the road to global integration.

The World Bank missions focused on four broad areas. They concentrated on macroeconomic policy, employment prospects, public expenditure options and future industrial policy. Using the typical Washington Consensus rhetoric that

was influential at the time, the World Bank sought to commit the imminent GNU to an outward orientated sustainable growth led strategy. The consultants recognized the alleviation of poverty as the major objective of the new policies but that this could only be overcome in a market friendly environment. The fundamentals required (good economic fundamentals would become the watch phrase of the new regime) were geared to open up the South African economy to international competition and FDI. Future key economic players such as Erwin, Manual and Mbeki agreed with this strategy as the only alternative in the context of the time. In this light, the new ANC government needed to implement tight fiscal policies to keep balance of payments at a premium and to commit to the attraction of foreign capital (Michie and Padayachee, 1997).

Such integrationist policies would prove to underestimate the crippling effect of massive amounts of domestic capital flight out the country, the fickle nature of foreign investors and their skepticism of the safety of their money in an African economy. South Africa would soon have to face the reality of skeptical investment, currency fluctuations and the lack of patriotism on behalf of the domestic private sector. All of which negatively affect job creation and the alleviation of poverty.

In sum, although the BWI's did not achieve the leverage they desired through the granting of loans, they were able to influence policy makers through their comprehensive consultation campaign. South Africa's signing of the GATT in 1993 and the letter of intent that accompanied an IMF loan of the same year, was a clear indication of what was to follow. Therefore, although not externally imposed, the GEAR program of 1996 under Finance Minister Manual, was a direct result of his education on neo-liberal ideals. Despite maintaining the struggle rhetoric of redistribution and equity, South African economic technocrats strongly placed their faith in free markets, FDI and high and sustained growth. South Africa adjusted to its new global and domestic climate of growing globalism by giving orthodoxy a 'human face', by attempting to maintain their

struggle ideals in a globalization context (Bond, 2000). This is what this research has called an ambiguous vision that has often yielded contradictory rhetoric. And conversely what government officials have termed a 'resolute pragmatism' needed by a ruling party.

The initial discussions by the ANC and COSATU economists for a state led RDP strategy, would differ to the eventual RDP White Paper tabled before parliament. In the words of Robert Urquhart, the final document had a distinct BWI feel. "The White Paper is more neo-liberal in approach and harks back to some of the sectional documents of the Bank. It argues for the need to extend the international competitive edge to selected industries. The impression one receives then is a move away from interventionary RDP to an RDP which will rely more heavily on a freer market to promote growth and generate employment" (in Michie and Payadachee, 1997:45).

#### **(e) Summary**

Michie and Padayachee (1997) summarize the question of how the liberation movement became attracted to the neo-liberal paradigm that has dominated the globe since the end of the Cold War. Furthermore, in so doing, entrenching South Africa's future relationship with the global economy. These can be summarized by five factors surrounding and involving the negotiation process that have been discussed in this section.

Firstly, there has been a lack of economic policy debate within the ANC throughout its history of struggle. The Freedom Charter remained the official policy document up to 1990 despite its outdated ideals. As mentioned, the 1990's were a tumultuous time for economic debate and the ANC delegation came under assault from international and domestic capital and the Apartheid state. During this period the ANC would be exposed to a series of scenario planning sessions of 'executive training programs' by foreign business, domestic big business, investment banks and economic think tanks. This led to a divergent array of

economic views by the time of election in 1994 that resulted in incoherence and a lack of solidarity (Michie and Padayachee, 1997).

Secondly, there was also a series of conflicting policy positions with regards to the role that international financial institutions such as the World Bank should have in the reformulation of the South African economy. Views ranged from being strongly opposed to their presence and that South Africa should avoid all contact from such imperial institutions, to those who broadly accepted their ideals and believed that South Africa had much to learn from the leaders of the global economy. The neo-liberal views of the BWI's eventually became absorbed in the ANC leadership, although there has been a determination to give neo-liberalism the human face that South Africa's context requires (Michie and Padayachee, 1997). In other words, neo-liberal practices have been espoused along with daily rhetoric continually involving the ultimate goals of alleviating poverty and narrowing inequality. The analysis of this case shall investigate the relevance and practicality of growth with equity in the developing context.

Thirdly, Michie and Padayachee (1997) point out that in the time leading up to the elections of 1994, members of the tripartite alliance agreed to subsume their position to that of the ANC itself. The initiative was handed over and has yet to be retained. Much of the COSATU leadership moved over to the ANC or the private sector, and therefore the organization would increasingly lose its 1980's momentum.

Fourthly, South African white big business conglomerates used the time of the negotiations to effectively forge pacts and agreements with the ANC through behind the scenes planning sessions. This was a private campaign to introduce the former exile revolutionaries to the delicacies of capitalism and to emphasize their common destinies as South African elites. This future had to be clearly mapped out and that such a 'forged marriage' was essential if the new South

Africa was to attract foreign capital, a reality considered essential for a developing country's survival.

Finally, Michie and Padayachee (1997) point to the make up of the GNU as the final factor that led to the entrenchment of orthodoxy reflected in economic policy. In the spirit of compromise and reconciliation, high profile economic portfolios were handed to NP cabinet ministers, along with the Governorship of the Reserve Bank.

The great resources of the private sector had successfully been utilized to influence the democratic movement on both the policy and ideological level. ANC leadership increasingly felt that their options were severely constrained in an era labeled 'The End of History', they believed they were indeed hearing the hard truths of a new developing economy dictated by neo-liberal globalization. The strong influence of the ANC's conservative elite was coming to the fore as the emphasis shifted onto the creation of a black middle class. This is bearing in mind that the organization was created to service the needs of disenfranchised black middle class lawyers in 1912. Marais argues in this vein that the party's working class links have always been sidelined and it is no surprise that when the crunch decisions had to be made such radical influences would continue to be excluded. Therefore, it has always been the ANC ideal to create a patriotic black capitalist class as a strategy to infiltrate the stranglehold of white domination in this sector, it was hoped that this could be reconciled with the gradual eradication of poverty through the narrowing of the gap of inequality.

The ANC was left with very little 'room to maneuver' within the quagmire of economic bargaining that characterized the economic negotiations. The seeming conversion of Communists such as Erwin, Manuel and Mbeki himself, has been the result of the ANC reformulating its position in society from a liberation movement to a ruling party. There is a view that as a developing nation the future upliftment of the South African people would need to have capital on

board. The tough choices had to be made and the costs of becoming a pariah nation yet again, were too high for a traumatized society to take on at that time. Sanctions had proven that economic survival was not possible in isolation, especially not as the world became increasingly integrated. The task was to utilize the global regime of neo-liberal economics to achieve the growth needed to uplift the poor and to allow the potential of South African business to finally flourish with the incorporation of a growing black middle class. South African competitiveness continues to rely on this reality.

University of Cape Town

### *Chapter 3*

## **THE NATURE OF ECONOMIC POLICY IN POST-APARTHEID SOUTH AFRICA**

### **(a) The Debate on Political and Economic Restructuring in South Africa**

The success of South Africa's transition in the 1990's was dependent upon the effective restructuring of the national economy. At a time of much political uncertainty it became vital for South Africa to effectively devise a plan that would facilitate a growing economy. Debates on economic restructuring and economic policy were therefore urgent and set the platform for the policies that would follow. It is the task of this section to follow these debates and to gain an understanding of the positions and contradictions of this challenge. The section shall examine the evolution of economic discussion of the ANC, Cosatu and the responses of big business, in order to identify fault lines and areas of convergence. Finally, the vigorous literature of academics at the time will also be examined in order to present the array of contesting perspectives which characterized this period. It is the objective to make sense of the debate and to trace the progression of economic thought which culminated in the policy documents of 1994 and 1996.

Kentridge (1993) describes a time of much sophistication and dynamism in the realm of economic policy debate, "ideological labels have lost their purchase as apparently irreconcilable positions have seemed to converge" (1993:1). The once perceived simplistic conflict between white capitalists and black socialists had become superseded by a necessary discussion concerning issues of economic restructuring, the relationship between growth and redistribution and a search for the right combination concerning the state and the market (Kentridge, 1993). Natrass (1994) outlines that it was the task of those involved to "come up with a consistent set of policies which promoted economic growth and job creation, alleviated white fears and boosted business confidence – while at the same time supporting redistribution, affirmative action, small business development and

trade union demands” (1994:346). This would prove a massive balancing act that gave rise to initial documents tending to be very broad statements of intent as opposed to an exact plan of action. In the spirit of the negotiated transition it was imperative to keep all the key players on board and to avoid the marginalization of specific interests from the grass roots to big business.

As mentioned in the previous section, the ANC economic agenda prior to its unbanning in 1990, was always that of the broad ideals of the Freedom Charter. On his release in 1990 Mandela confirmed, “The nationalization of the mines, banks and monopoly industry is the policy of the ANC and a change or modification of our views in this regard is inconceivable” (in Nattrass, 1994:344). Such assertions were the product of years of ANC struggle against apartheid and restated their historical ideals. Kentridge (1993) points out that as can be imagined in a time of such uncertainty, Mandela’s statements were particularly concerning to the financial media and business. Such comments would introduce the economic debate and set out the direction and character of the years following up to the elections of 1994.

Nattrass (1994) outlines that on the question of national economic restructuring the democratic movement could be divided into three camps. The first were the moderately inclined national leadership who were supported by ANC economic technocrats. This group accepted that the national movement would have to compromise on the question of economic policy. They were aware of the global economy and were registering international and domestic pressure to drop the nationalism slogan. They were attuned to the fact that their political survival depended on the success of a vibrant economy and were increasingly concerned about the reality of the macroeconomics of direct redistribution. This group would be championed by the ANC’s Department of Economic Planning (DEP) under the leadership of Trevor Manuel and Tito Mboweni, who espoused a future national economy friendly to investors and guided towards the facilitation of much needed growth (Nattrass, 1994).

The second group, were the grass roots activists, who viewed these changes in the leadership's thinking as particularly unfortunate. Theirs was a fundamental belief in the virtues of the Freedom Charter and that the ANC leadership was now courting with the enemy. Such activists believed the ANC should not break with their traditions and should continue in the cause of nationalism and redistribution. Such thinking would increasingly become frustrated with the direction that the leadership was taking on economic policy (Natrass, 1994).

The third group, were the trade unionists who would lead the call for 'Growth through Redistribution'. Like the grass roots activists they were also becoming frustrated at the leadership's increasing lack of consultation on economic issues. They were concerned about the future of labor in the ANC and would seek to oppose the leadership's movement towards business (Natrass, 1994).

By 1990 the calls from business and the financial media along with academics such as Peter Moll (1991) in *The Great Economic Debate*, resulted in the steady decline of nationalism from the economic agenda. In fact it became clear to commentators such as Moll that nationalism was an ideological call as opposed to a definite plan. The thinking in the ANC leadership would further assist the momentum away from the radical rhetoric of nationalistic ideals.

The 1990 Discussion Document on Economic Policy (DDEP) did not refer to nationalism. The document desperately sought to forge unity between the alliance by presenting the paper as a progression of the Freedom Charter. The document called for the 'reconstruction' of the South African economy by labeling the project 'Growth through Redistribution'. Strong state intervention remained an important cornerstone of the hegemonic agenda to rectify the inequalities of apartheid. Privatization remained an evil considered unacceptable in an ANC economic plan. It was a national development strategy formulated by the ANC, SACP and Cosatu, along with outside economic advisors. The document formed

the basis of the 1991 Draft Resolution on Economic Policy outlined at the ANC National Conference of that year (Kentridge, 1993).

The 1990 Discussion document would firmly set the economic debate alight. It was the first in-depth ANC economic document and many analyzed it for insight into future economic policy trends. The document cemented common ties between business and the ANC on issues such as the need to overcome poverty and inequality, to address chronic unemployment and for blacks to be strategically empowered in the private sector (Kentridge, 1993).

However, the document was widely criticized on certain theoretical levels by business and by economists within the movement. Sacob was particularly concerned with the document's heavy reliance on state intervention, a reluctance to connect wage increases with productivity and the direct rejection of privatization. Sacob was particularly concerned at the ANC's perceived role in the market pertaining to determining prices and the relaying of information to economic actors (Kentridge, 1993).

ANC economists such as Moll (1991) in, *Growth through Redistribution: A Dangerous Fantasy?*, were also skeptical of the 'Growth through Redistribution' slogan. Moll (1991) states that whilst understanding the motivation and attractiveness for such a strategy, it would prove fundamentally irresponsible in the long run. He argues that the belief that large gains from redistribution are to come from the manipulation of the demand for goods and services at the macro-level, is a fundamentally flawed one. Furthermore, he does not believe that the gains would be as large as the document predicts and that it is an incorrect assumption that massive welfare targets can be met all at once by increasing government spending and average wages (Moll, 1991). Moll believes that this reality is particularly tragic as the poor would be the worse off as inflation increases and as the economy becomes unsustainable. He posits that no 'income redistribution package' in South Africa would be as easy to administer as the

1990 Document believed. In sum, by failing to recognize certain 'trade-offs' between desired goals, Moll (1991) argued that the movement ran the danger of creating unattainable expectations, receiving reduced political support and ultimately failing the poor. Gelb writes in 1991 that it was the challenge of ANC practitioners to drop 'utopian fantasies' and that there was a need for, "engagement with capitalism, the object being to intervene and shape a capitalist order which is both more humane and more dynamic than has been true of South African capitalism in the past...by enabling the working classes to become considerably better off, economically and politically, than they have been" (Gelb in WIP, 1991:43).

Ultimately, the ANC National Conference did not pass the policy document in July of 1991. Such theoretical criticism by progressive economists and due to pressure from business interest groups, the movement began to re-examine the question of growth and redistribution. Importantly, as Kentridge (1993) points out, future ANC economic policy proposals would not put redistribution first and growth as an after thought. The DEP would change its policy direction to facilitate both towards a 'Growth with Equity' strategy. This was reflected in a set of policy proposals in 1992 called *Ready to Govern*, although seeking to find continuity with the 1990 document, this new policy path sought a new direction for the movement. The private sector was now seen as an essential partner, privatization was for the first time introduced and the state was now increasingly being viewed as a facilitator and not a provider. The DEP was determined to set up a clear development path for the ANC leading up to the considered eminent acceptance of power.

ANC economic thinking was by no means uniform on the nature of future economic policy and the subsequent focus of economic thinking. As mentioned in the previous section, another economic think-tank called Merg, set up a report entitled, *Making Democracy Work: A Framework for Macroeconomic policy in South Africa*. One of its leading economists Raphael Kaplinsky argued in 1993

that South Africa had a unique 'opportunity for change'. The proposal built on the foundations of the 1992 Cosatu Conference on economic restructuring. The four pillars of the Cosatu position were: job creation, human resource development with an emphasis on skills development, a social wage and increased delivery of social services and security provisions, and the empowerment of civil society groups particularly workers, women and the rural (Merg, 1993). Essentially the Cosatu position was characterized by the need to increase the capacity of worker power. In conjunction the trade union sought a strong, decisive and democratic state, which campaigned for growth and which supported economic reconstruction (Merg, 1993).

The Merg policy argued that the central goals of the ANC at the time was to eliminate poverty and inequality as a consequence of apartheid, to democratize the economy by empowering the oppressed, to ensure productive employment opportunities and a living wage, to initiate a growth and development strategy to increase the quality of life of all South African particularly the poor, and to maintain a prosperous and balanced regional economy (Merg, 1993).

Merg economists took these goals as their starting point and sought an economy in line with the Keynesian or mixed economy approach. Essentially they wanted the direct and strategic attention of the national economy to be focused on the poor and marginalized. The program criticized other perspectives as being too pro-rich and strongly opposed their 'trickle down' connotation. The policy agreed for the need for sustained growth and macroeconomic balance, for prudent and risk averse fiscal monetary and balance of payment management and for the participation in free global markets. But differed with the DEP in the role of the state in the development process particularly on the issue of social service provision.

The varying economic policy positions of Merg, the DEP and Cosatu within the movement led to a vigorous debate in the early 1990's as to the desired direction

of ANC economic policy leading up to the elections. The political and economic intellectual debate is particularly salient in presenting the different perspectives of the time.

Nattrass (1994) in, *Economic Restructuring in South Africa: The Debate Continues*, gave a critique of the strong interventionist strategies of the likes of Merg. She particularly investigated contentious issues such as the debate on higher wages, intervention in the capital market and the degree of importance attributed to business confidence.

Nattrass (1994) argued that the post-1990 debate on economic restructuring needed to move past the old simplistic liberal versus radical debate and to instead focus more on the fluidity and pragmatism that was needed by the democratic movement to foster a successful policy agenda. She outlines that the ANC had correctly progressed from the redistribution and strong state perspective as a means for attaining growth of the early 1990's, to a more business friendly position with an emphasis on increased fiscal discipline as a means to sustainable redistribution. On the question of more or less state intervention, she seeks a meritocratic and efficient state with strong and vibrant ties to the private sector (Nattrass, 1994).

Her criticism of Merg was that the developmental-state operated project which they espoused, had become outdated by the 1990's. Due to certain changes in the global economy, capital's influence had increased and its scope had become a lot more fluid. Capital was crossing borders quicker than the state could manage. As sustainable investment became paramount for national economies worldwide, increased investment opportunities for capital made the creation of the correct policy environment crucial. In sum, Nattrass (1994) argued that the result was a decrease in government bargaining power at the national level and that the state needed to attract fixed investment in order to achieve the ideal of sustainable development.

Moll (1991) concedes that the state must react responsibly in the light of the increasing importance of investment and growth. He posits that the state should avoid sudden rises in government spending and wage earnings in order to foster an environment of stability. Moll argues for the importance of reorganizing the supply side of the economy in order to encourage growth. Only this would yield sufficient returns from the demand side for effective restructuring. The point made by both Moll (1991) and Natrass (1994) was that any country in the post Cold War period could not survive if there was a drastic capital flight out of the economy, and that such a reality would be disastrous for any attempts to uplift the poor. In this light it is therefore imperative for national economic policy to prioritize an agenda with regards to international and domestic capital, and in so doing to focus less on direct state intervention and redistribution.

In defense of the Merg position, John Sender (1994) in *Economic Restructuring in South Africa: Reactionary Rhetoric Prevails*, countered the belief that Merg had ignored the role of business interests. He claims that the lack of private sector investment in the national economy was central to the Merg analysis. He believed that such a critique oversimplified the reactionary rhetoric. Essentially Sender (1994) questions the link between less state intervention, risking business confidence and increasing investment. This approach seeks to contextualize the South African and the Third World experience for an argument in favor of a strong and responsible state. Sender (1994) takes issue with a blanket portrayal of the state as a 'corrupt', 'arrogant' and 'rent seeking' entity. He believes such a deduction ignores political struggle, ideological campaigning and conscious institutional campaigning. Sender posits that Merg argued for the need to modify and invent the institutions crucial for capitalist industrialization, with an effective industrialization policy being vital for productivity, skills enrichment and job creation.

Raphael Kaplinsky (1994) of the Industrial Strategy Project writing on the same debate asserts that a fall in wages, a maintenance of corporate power and a weak state which is unable to correct market failure, is unacceptable for the post-apartheid economy. Kaplinsky (1994) maintains that the above position is unsustainable and pays little attention to the problems facing the South African economy. He points particularly to areas pertaining to the need to address South Africa's reliance on the mineral and energy complex, of the need to engender the changes in work-organization and inter-firm linkages in global industry, and of the imperatives in promoting black entrepreneurship.

He outlines the ISP position on the debate to firstly seek an industrial restructuring which is not only sustainable but that is politically feasible. He envisages a positive role for the state in this regard. And secondly, to fundamentally address the inadequacies of the South African state by engaging in a pro-active path with regards the developmental debate (Kaplinsky, 1994).

Finally, Fine (1994) argues that the standard debate on economic restructuring had ignored the South African political history. He expresses that economists had overlooked the heritage of the economic and political realities of the South African experience. He questions the prioritization of business in this context as an underestimation of the state in the state and market debate. In that as the state needs business for investment, so does business need the state for political and social stability. He makes the point that, "to appeal to the need for business confidence is to apologize for the ANC having come to power" (1994:20). Fine (1994) believed in a need for policy analysts to understand the context in which ANC economic documents were devised in the 1990's. He warns against an oversimplification of the relationship between the ANC, Cosatu and the SACP when relating economic issues. Although the alliance remained united in their historical goals of non-racism and the armed struggle, the 1990's economic debate was characterized by contradictions and convergence. Therefore, any debate on this topic needed to grasp the changing nature of the democratic movement. In

this regard Fine (1994) explains, “the 1990’s have witnessed a shift in the locus of decision making to a high level in the ANC leadership and negotiating team. Lower level activity has been subdued and displaced” (1994:24).

This section has sought to follow the debate on national economic restructuring which characterized the period from the unbanning of the ANC until the 1994 elections. This has been to gain a greater understanding of the influences that have shaped the movements economic thought and eventual policy. What is clear is that the ANC had experienced fundamental shifts in economic thinking during this period. The movement seemed to adopt a pragmatic approach which sought to engage a wide array of interests as possible. As Kentridge (1993) highlights, it was unclear whether this pragmatism was through political necessity or due to a genuine change in economic direction. ANC policy makers had to find a balance between the neo-classical influences of the Bretton Woods Institution’s, the Keynesian developmental-state approach favored by ANC economists and could not ignore their loyal grass roots support who had a strong distrust of capitalism as a result of apartheid and the failings of structural adjustment programs on the rest of the continent. From this debate it becomes clear that the politics of economic restructuring was one of compromise and contradiction. Past ideological stand-offs needed to be replaced to insure a broad coalition and to foster a legitimacy of institutions. Once this would be achieved the ANC leadership would increasingly take the lead in the economic debate and shift policy in line with the growth orientated thesis.

Bearing this debate in mind it is important that we take a look at the economic policies that have resulted. As touched on thus far, economic policy in democratic South Africa has been characterized by the RDP (1994-1996) and GEAR (1996-). Conventional analysis of the two economic policies have generally taken three interpretations.

The first of these interpretations views the RDP and GEAR as two discrete policies, occupying opposite ends of the ideological spectrum. Thus the RDP embodies what might be called a more socialist approach to macroeconomic policy-making, as opposed to GEAR's neo-liberal approach. In June of 1996 the ANC government replaced the RDP with GEAR under relatively discreet conditions. Such an approach would view the move as the formerly socialist-orientated ANC betraying its constituency in favor of an emerging bourgeois agenda.

A second interpretation, one often advanced by government, is that GEAR is an extension of the progress made by the RDP. As such it offers technical guidelines that elucidate how the 'economic' components of the RDP vision are to be achieved. Therefore it is the plan to achieve the goals laid out in the RDP. The GEAR policy, being a macroeconomic policy, is moreover suitably silent about the 'social' aspects of the RDP, which fall outside its domain. However, in getting the macroeconomic fundamentals right, GEAR does the groundwork in preparing a suitable context for the delivery of these social goods.

A third interpretation is that GEAR is a response to a range of constraints functioning at the domestic and international levels. Most prominently, at the domestic level such constraints include the demands of South African big business, while at the international level the realities of economic globalization coupled with the apparent triumph of neo-liberalism over alternative ideologies has meant that the only paradigm in which macroeconomic policy may legitimately operate is a neo-liberal one. This views the developing economy as being firmly in the straightjacket of the global market.

The third interpretation fits into the argument of this research. The RDP was a result of a wide-ranging consensus that reflected the ideals and concerns of the time of the transition. It was a document that sought to unite South Africa in a time of reconciliation and nation- building. The policy did well to highlight the

problems that face the new nation. It largely fulfilled the purpose of being a solid foundation document for an uncertain election period, a document which sought to incorporate all was a result of acute calculated guesses. This was at a time when globalization had not reached its peak.

This research argues that GEAR is the physical plan to achieve the goals laid out in the RDP. The RDP served the purpose of the time as a moral piece that identified the stark problems facing the new nation. Where RDP was vague, GEAR set out a definite set of macroeconomic principles that intended to put South Africa on a steady growth strategy. GEAR was a result of years of negotiations and was the place where technocrats wanted South Africa to be from the beginning of the negotiation process. Therefore, RDP and GEAR do not represent different ideological standpoints, but the evolution of economic practice in a young democracy. An ideologically unbiased pragmatism has become a hegemonic project of the ANC administration and has largely dictated the public sphere. South Africa has taken on the moderate economic agenda in order to cater for the unique cultural, economic, social and political practices of the African setting. GEAR 'speak' has come to reflect the reality that was sketched out during the negotiations. One such strategy has been the BEE project, which has sought to utilize the neo-liberal agenda in order to empower a growing black middle class as a means to narrow South Africa's notorious inequality. Such a strategy has the intention of creating an ANC loyal private sector as a response to the traditional lethargy and unpatriotic attitude of white big business. Such an approach prioritizes the consolidation of a black capitalist class as opposed the fundamental eradication of poverty.

#### **(b) The RDP years**

Lester, Nel and Binns (2000) label the RDP as a set of moral regeneration principles as opposed an economic policy. The program provided an identification of the new South Africa's inherited structural problems as a legacy of apartheid. The implementation of the RDP in 1994 provided a foundation

document that served as a cornerstone policy for the new ANC government. The policy did well to thoroughly analyze the context that the new administration was inheriting. To map out a set of goals that the new government ought to attain to cleanse the country of the structural imbalances that had accumulated since the beginning of the colonial project in South Africa. In other words, the RDP would prove a source of self-evaluation for the ANC and its objectives as a ruling party.

The policy was a broad consensus and set of compromises of divergent interests and did well as a unifying and reconciling force. The politically neutral policy steered clear of making contentious macroeconomic decisions but instead settled on broad ideals in the Keynesian mould. The program was claimed as a victory for all interests groups. As University of the Witwatersrand professor Tom Lodge points out in his work, *South African Politics since 1994*, the policy meant different things to different people. For the group clustered as the broad 'left', such as ANC allies the SACP and COSATU, the RDP was hailed as a decisive break from western conventional economics. At the SACP 9<sup>th</sup> Congress in 1995, the organization's leadership proclaimed a victory for the poor of South Africa. Their vision of the program included basic tenants such as redistribution, reconstruction through inward focused development, a leading role for the state apparatus, and the priority of the process being essentially people driven. It was viewed victoriously that the disenfranchised had finally become the priority of a South African government. Such views would become increasingly sidelined over time, as the people centered ideals of the 'left' would suffer complete disillusionment by 1996. This was as their mainstream ally would take the 'short walk to orthodoxy' and replace redistribution for growth, therefore, shifting the focus off of the poor onto a growing black elite (Lodge, 1999).

The new ANC-led GNU took a less populist view of the new RDP as they tried to juggle the ideals of the struggle with a commitment to the market signaled by the endorsement of privatization and the down-sizing of the public sector. As mentioned, the policy was utilized primarily as an election manifesto as its tenants

were simplified as 'jobs, water, houses, peace and land'. Having such broad ideals and a widespread purpose, would eventually make the RDP impotent and force the government into a more aggressive stance.

For the conservatives such as business, the RDP signaled a victory of their consultation efforts since 1990. They tended to focus on the foundation policy's commitment to: development through a partnership between the state and the private sector, the downsizing of the state, international competitiveness and an educated and productive work force (Lodge, 1999).

The eventual RDP White paper in September of 1994 began to illustrate the departure from the ethos of the original RDP document agreed upon by the ANC and COSATU, as government technocrats found it increasingly difficult to reconcile the Keynesian and neo-liberal agenda. This would signal a progression that would result in the neo-liberal GEAR policy of 1996.

In the words of the ANC publication, *'RDP Challenges'*, "The RDP is an integrated program, based on the people, that will provide peace and security for all and build a nation. It links reconstruction and development and deepens democracy" (ANC, 1994:2). Such was the rhetoric of the RDP years, a reconciliatory tone that sought to incorporate market principles with a social responsibility. One of the strengths of the program was to identify the widespread challenges facing the new era. The RDP prioritized ten fundamental challenges.

- To shift expenditure patterns to meet new priorities,
- To implement new inter-governmental fiscal relations,
- To restructure and transform state and parastatal institutions,
- To restructure the civil service,
- To maintain a culture of fiscal discipline by containing government consumption and by reducing foreign debt,
- To invest in the people,

- To harbor a partnership between major players such as government, business and trade unions,
- To create an environment of stability by restoring law and order as a strategy for investment,
- To create a democratic local government structure to deliver on RDP principles,
- And to make society responsible for development (ANC, 1994:2).

As can be seen these were very broad challenges of principle and served as the foundation for future macro-economic reform. The ANC viewed the project as building on the ideals of the Freedom Charter that would eventually lead the economy on a path of sustainable development to eradicate the twin evils of poverty and inequality.

The six basic principles of the program were a deliberate reflection of widespread consultation and debate. The ANC made it a point of the reconciliatory period to incorporate all sectors of society and to not take on a triumphant stance. This is well reflected in the creation of economic policy since the negotiations. The basic principles of the RDP were: an integrated and sustainable program, a people driven process, peace and security for all, nation building, the linkage of reconstruction, development and growth, and the entrenchment of a democratic ethos in South Africa (ANC, 1994:4).

The priority was on the upliftment of the poor, rural and female, whom through a bottom up approach, were identified as the greatest victims of economic segregation and in need of a structural boost. As a liberation movement, it was important for the new ruling bloc to publicly and officially represent those, whom the system they had fought against, had made the most desperate and marginalized. The policy therefore, warns against trickle-down development and outright growth strategies, as not prioritizing the improvement of the quality of those in desperate need. The policy envisaged a combination of democracy, participation, development and restructuring through a process that was a

combination of both commandist and liberal practice. This was expressed in the ANC position at the time, " One of our basic principles... was that of linking reconstruction and development. This is in contrast to the argument that growth is needed before development is possible, an approach which would leave intact the severe regional, racial and gender and structural imbalances that characterize the present economy" (ANC, 1994:82). This was thought to only be achieved through, "the leading and enabling role of the state, a thriving private sector, and active involvement by all sections of civil society which in combination will lead sustainable growth" (1994:79).

Such principles were sufficiently idealistic and politically neutral not to be opposed. These ideals would serve to entrench governmental rhetoric that remains to this day. The RDP served its purpose for the time period that characterized the transition. All however knew, that the battle would resume when hard decisions needed to be made as to how exactly these basic tenants of a free democracy, would best be achieved.

The program was headed by Jay Naidoo as a unique office in the presidency. The office channeled money into various projects with mixed success. The program was plagued by delivery inefficiency from its inception. Lester, Nel and Binns (2000) claim that this was as a result of the office lacking clarity as to its role and function and as the office was void of top ranking ANC officials. As a result, from the \$2.5 billion allocated to program, only roughly \$1 billion was ever spent. In the years following the 1994 elections, the office would receive much criticism from all quarters, because of the seeming lack of clarity with regards macro-economic fundamentals.

Key problems began to arise when structured plans were formulated to satisfy principled objectives. For example, as globalization expanded in influence it would become increasingly difficult to use words such as reconstruction, development and growth in the same breath. The struggle would be on to decide

which of these three would become priority number one. The RDP tended to take an active role in the achievement of equity by warning against the trickle down approach to development. Others, whose voices were becoming more prominent by the day, were arguing in favor of a definite growth strategy as a precursor to reconstruction. Conflicting opinions would arise with regards the role of the state in this process. In other words, to what degree the responsibility rested with the state to rectify centuries of socio-economic destruction. Many within the ANC up-coming elite believed that the route of labor would result in South Africa incurring the wrath of international markets that would be to the detriment of economic growth. It was widely felt amongst such ANC elites that following the end of the Mandela euphoria, South Africa would lose its most 'favored nation status' and become just another developing economy. This line of thinking in the ANC would take government policy into the realm of capital, as think tanks would seek to keep spending on education, health and housing in real terms. It was over these issues that the RDP would eventually be disbanded.

As economically conservative deputy-president Thabo Mbeki would increase in prominence and take over the reins of day-to-day administration from Mandela, the RDP would eventually be faded out. Jay Naidoo and his office would exit the office of the presidency, as Mbeki would usher in a new generation embracing the 'no alternative approach'. It has been noted that Mbeki and Naidoo would often clash at cabinet meetings. The paramount role of Mbeki in South African economic policy is investigated in the next chapter. Although the RDP ideals and objectives remain, the program became largely seen as a socio-economic experiment at a time of much uncertainty. It was clear that there were many influences over South Africa's solution but that the RDP did well in achieving a sense of stability at a time when the country could have gone either way. The new breed of ANC technocrats such as Mbeki, Manuel and Erwin would seek to commit South Africa to full integration into the global economy.

**(c) GEAR: 'Macroeconomic Discipline'**

The implementation of the Growth, Employment and Redistribution (GEAR) economic strategy in June of 1996 signaled the culmination of economic thought in the ANC since the beginning of the negotiations for the new South Africa. The policy and its execution has come to symbolize the ambiguous vision that juggling many constraints dictates. The 'run away train' perception of globalization and the corporatist solution of the transition are reflected directly in GEAR. The ambiguity resides in the policy being sold as a community based proponent of the poor. The primary objective of the transitional period was to entrench a foundation of political stability. By 1996, the ANC's dominance had allowed for this reality. It was now the task of the ruling party to build on this political stability by putting in place the fundamentals to attain growth. To this end, the former revolutionary organization had to prove to the domestic private sector and global investors, that South Africa was committed to political democracy and economic liberalization.

**(c.1) Post-liberation political economy and the end of 'two stage theory'**

As mentioned, ANC economic thought before the negotiations revolved around the nationalistic ideals of the Charterist movement emanating from the 1950s in the heyday of Ghanaian independence. Marais (1998) outlines that like many liberation movements, the ANC traditionally assumed the notions of the 'two stage theory' as a response to colonial domination. This assumed that the first step of liberation was to seize the concentrated power of the state apparatus, and that this would allow for the second phase of implementing far-reaching social and economic reform. This is a belief in the need for the eradication of the racist institutions and practices of the colonial state in order to replace it with a new pure one. Therefore, the fixation would be upon comprehensive seizure of the state apparatus. This formed the basis of revolutionary politics that reached a peak towards the end of the Cold War. However, as has been the focus of this research, the world has moved into a new era of political economy.

Unlike in the time of colonialization, the state is no longer an autonomous entity. Globalization has meant that a sovereign state is under the constant control of domestic and foreign capital. Mandela relays that an integrated global economy, "made it impossible...[to] decide national economic policy without the regard for the likely response of the markets" (Marais, 1998:161). As investigated in the previous chapter, the combined forces of domestic business and the global economy, made the ANC firmly constrained within the 'straightjacket' of market led principles. The struggle had allowed for the restructuring of the political sphere but the economic sphere remained (and continues to remain) out of their control.

#### (c.2) The formation of GEAR

GEAR was South Africa's first practical macro-economic strategy that sought to firmly establish the new nation's economic fundamentals. The orthodox policy was the result of consultation amongst the Reserve Bank, the Southern African Development Bank, the World Bank and economic theorists from Stellenbosch University (Bond, 2000). The program was devised in 'somewhat secretive conditions' and was released after briefings with top ANC, SACP and COSATU leadership. In fact, the majority of ANC MPs only became aware of the program as it was nearly complete. In this vein, current Minister of Finance Trevor Manuel (one of GEAR's chief architects) has continually told critics that the fundamentals of the policy are unegotiable although willing to encourage discussion regarding the details (Marais, 2001). This corporatist hegemonic project was the direct result of the 'coerced harmony' signed amongst elites from both sides during scenario planning sessions during the negotiations.

GEAR reflected the 'short walk to orthodoxy' as the ANC evolution of economic thought had committed South Africa to the internationally accepted principles of neo-liberal economic management. The ANC had come to power late enough to witness the collapse of state socialism in Eastern Europe and the collapse of one nationalistic African regime after the other. The ANC mainstream argued that in

the 1990s economic isolation was not an option and that South Africa needed a practical response to the ruthless nature of the global economy that dismisses and marginalizes those who negate the market in favor of revolutionary social reform (Lester, Nel and Binns, 2000:253).

As Manuel, Mboweni and Erwin came into prominence by 1993 the evolution to GEAR was set in motion as the ANC firmly rejected the Keynesian analysis of Merg. The letter of intent that accompanied the 1993 IMF/World Bank loan illustrated further the intention of the new government. The RDP did well to lay out South Africa's structural problems and the goals that the administration should seek to achieve. However, by the end of 1995 the humanitarian program was deemed too state orientated and not adept to deal with decreasing growth rates, slow delivery and fluctuating investor confidence. Some tough choices had to be made on the foundation of the political stability that was provided by the RDP and the transitional period. What South Africa desperately needed was a prolonged period of sustained growth to deal with poverty and unemployment, a consistent and cohesive GEAR was considered the answer to this call (Lester, Nel, and Binns, 2000).

#### (c.3) The establishment of economic fundamentals

Stephan Gelb in his work, *The Politics of Macroeconomic reform in South Africa*, states that macroeconomic intervention was needed to accelerate the process of microeconomic reforms of infrastructure development. As a start, GEAR practitioners decided an exchange rate devaluation was necessary as standard operating procedure. This devaluation proved unnecessary as the Rand was found to be overvalued. Gelb points out that policy focus shifted to restoring investor credibility. GEAR placed South Africa into an outward orientated strategy that relied on steady influxes of foreign and domestic investment. As an outgrowth of political stability, Gelb highlights that GEAR sought as its primary objective to make South Africa investor friendly. This was a long term and non-populist option that the ANC could afford to follow as a direct result of its

political dominance. Sustained growth could never be achieved without a constant flow of investment into the developing economy. As such the idea of intervention was abandoned and essentially the aim was to publish a document that reaffirmed the commitment to macroeconomic austerity. GEAR aimed to reaffirm the government's commitment to international competitiveness. The immediate aim was to show investors that the ANC was committed to orthodox economics whilst at the same time the policy was sold as home-grown (Gelb, 1999).

Many have described the policy as floundering between two-worlds with regards its ideals. The government publication, GEAR (1996), highlighted the intention to achieve high growth rates, expand the private sector, to improve output and employment, to achieve fiscal reform and to encourage trade and investment. On the other hand, this was hoped to service the country's social crisis. Thus the policy sought eventual redistribution, service delivery and job creation. The ideology followed the assumption that sustained growth should be attained as a primary objective and that this would lead to the eradication of poverty and unemployment. Such a position adheres to a positive linkage between growth and equity. The RDP objectives remained but the state took on a more facilitatory role in favor of the private sector. The plan therefore included: the reduction of state spending, the strict control of the budget deficit, the reduction of corporate taxation and foreign exchange rate controls, firm control on inflation, increased privatization, and the encouragement of wage restraint (GEAR, 1996). This was all the while packaged in a homegrown rhetoric of redistribution fighting poverty and inequality. Bond (2000) describes this hegemonic initiative as 'talking left while acting right.'

Natras in an article entitled, *'Gambling on investment: Competing economic strategies in South Africa'*, contends that this neo-classical growth strategy typically viewed the state as having to be both small and strong. She explains that the strategy requires the state to be strong enough to combat crime, a spiraling

health crisis, a chronically unequal education system, and to not be overawed by sectional interests. Whilst also being small enough to maintain efficiency and encourage investment.

GEAR's projections were markedly optimistic. The program envisaged growth increases culminating in a 6 per cent high by year 2000. On a practical level this would mean the creation of 400 000 jobs per annum on the back of 8 per cent boosts in exports per annum. Therefore, GEAR projected the creation of 1, 35 million jobs between 1996-2000. As a result of growth such job creation was deemed to benefit South Africa's socio-economic crisis. The focus on private investment and non-gold exports (especially the manufacturing sector) was hoped to be combined with increases in social spending on social infrastructure (Marais, 2001). In sum, the long-term project of GEAR had three objectives: growth, job creation, and socio-economic equity.

#### (c.4) Initial results

It becomes obvious then that GEAR has not achieved many of its long-term goals. By 1999 growth was hovering at the unacceptably low rate of 1, 2 percent which was up from a disappointing 0.5 percent in 1998. The building of a reputation that convinces investors has proven a painfully slow and complex process. Marais (2001) points out that the policy was criticized for its naiveté regarding the attraction of investment. The policy has been critiqued as being based on a 'leap of faith'. The international goodwill shown towards South Africa following the end of Apartheid has not led to the anticipated FDI. GEAR has been exposed to the fickle nature of investors as South Africa has struggled to shake negatively entrenched perceptions of the country and the continent on which it resides. Despite extensive privatization of state parastatalls in the fields of telecommunications, minerals, energy, agriculture, forestry, leisure and transport, for the purpose of attracting investment and for increased efficiency, 1998 FDI figures were lower than that of 1997 (Bond, 2000).

South Africa would soon discover that the 40 percent increase in global flows of FDI in the late 1990s was mainly for established industrialized countries. Domestically, there were no measures put in place that ensured the private sector stuck to their responsibility to lead the economy. Despite the offering of tax breaks to ensure business investment, the white dominated sector has not taken up the call for a renewed patriotism and have tended to prove lethargic on the whole. Off shore investments have proven more lucrative to major South African business. This was signaled by major domestic conglomerates such as Anglo-American and South African Breweries (SAB) moving their primary listings to the London Stock Exchange.

The proposed partnership between the private and public sector has proven troublesome, as the open nature of the economy has in fact resulted in greater capital flight out of the country. This vulnerability to capital flight and global market fluctuations has made delivery slow in areas such as education, health, housing and land reform. The money that entered and exited South Africa as a result of the macroeconomic stance, has largely been 'hot money' that has proven erratic and prone to perception. This inconsistency has made delivery exceptionally difficult (Bond, 2000).

Perhaps the biggest disappointment with the performance of GEAR thus far has been its inability to create jobs. Bearing in mind that the policy is long term, the performance thus far has been characterized by the phenomena of what economists have called 'jobless growth'. Lester, Nel and Binns (2000) describe the disappointing statistics that by 1999 the economy had shed about 500 000 jobs since 1994. And importantly, 350 000 of these were since the implementation of GEAR in 1996. The small and medium business enterprises have been the focus of recent Budget speeches and parliamentary deliberation, as the source of major job creation in South Africa. Mbeki has said, "Throughout the world, the small-enterprise sector is playing a critical role in absorbing labor, penetrating new markets and expanding the economy in creative and innovative ways" (Arnold,

2000:96). In this vein the 2000/1 Budget speech boasted large tax cuts for small business. This was compounded in president Mbeki's February 2002 State of the Nation Address, where he called economic transformation a national effort. Through his plea for 'Vuk' uzenzele' or lend a hand, Mbeki highlighted the point that government policy needs to be accompanied by communities getting involved in their own economic initiative to contribute to the national good. Jobless growth from 1994-1999 clearly hit home the realization that growth does not immediately result in employment, this was made difficult as a more directive approach would discredit the chosen macroeconomic fundamentals. South Africa therefore, needed to come up with innovative ways to create jobs.

#### (c.5) Government's defense of GEAR

Marais (2001) points to three areas where the government has focused its defense of GEAR. Politically, the policy has been portrayed as an elaboration of the principles of the RDP and therefore illustrates consistency in objectives since coming into power. Therefore, the program is viewed as the next step from the foundation of the political settlement.

Economically, the policy has been hailed for its commitment to macroeconomic fundamentals that have provided for sustained growth and a competitive private sector. Nattrass reviews these as, "a set of orthodox, outward-orientated, investor-friendly stabilization and adjustment policies; make the labor market more flexible, cut government consumption spending, and boost investment by the government and the parastatals" (1996:29). Furthermore, the reduction of government deficit in line with increased output would result in growth and the eventual comprehensive eradication of poverty and hunger. Such principles are described by Manual as fundamentals from which South Africa must not yield.

Finally, the ANC has continually defended the claim that 'sound fundamentals' have come at the expense of social service delivery. Despite budget cuts they point to a rise in social expenditure from 5.8 per cent in 1996 to 6.1 percent in

1999/2000. The finance ministry has maintained that continued GDP growth and success in tax collection would continue to witness increasing funds made available for land redistribution and reform (Marais, 2001). Mbeki has made the claim that no where around the globe after a negotiated settlement from a 'state of emergency' to democracy, has such sustained delivery been achieved.

#### **(d) Conclusion**

South Africa has not been treated as an African exception as was anticipated, and has been exposed to the troubles of all integrated developing economies pegged to the global economy. Thus, South Africa has increasingly become vulnerable to outside forces and global fluctuations. The national currency was particularly hard hit by the crash of the Asian Tiger's towards the end of the twentieth century, and the September 11<sup>th</sup> attacks in 2001. Although recovering to the best performing currency against the dollar in the year 2002, the Rand took a major crash at the end of 2001. Continued lack of confidence in African economic recovery and stability, along with global insecurity, has made neo-liberal success particularly difficult for vulnerable developing economies. South Africa has not been exempt from the global dominance of capital that tends to prefer the safe havens of the 'Triad'.

Lester, Nel and Binns (2000) make the following observations about South Africa governmental policy and its position in global reality. "When it left apartheid behind, South Africa did not leave behind the structures and processes which generate inequality. It did not enter some 'neutral' post-modern, post-industrial and post-apartheid arena in which it could transcend inherited inequalities and construct a totally revised political discourse and economic structure. Rather, it remains inescapably embedded within a globalized, Western-dominated, capitalist system, which continues actively to produce inequalities" (2000:322).

Structural inequality remains in South Africa and is widening as the 'trickle down' approach has failed to bridge the divide between rich and poor. The open nature

of developing economies have largely rendered the ANC unable to comprehensively alter this status quo. The political miracle was tough enough but the 'long walk' to economic liberation seems to be tougher yet. Of late investment has improved as South Africa has been relatively stable in global terms. The ANC's non-populist GEAR has begun to reap rewards in this area. Gold prices have been steadily improving and South Africa has become the hottest tourist destination since the September 11<sup>th</sup> attacks in the US. However, a national development project in an interconnected global economy perpetuating inequality, has proven tough. This is especially true when one brings into account the health crisis that is HIV/AIDS and the massive levels of unemployment that remains unabated.

Perhaps the biggest reality that has come out of GEAR has been the ideological authority that the program represents. As mentioned at the beginning, GEAR was a direct consequence of a coerced harmony that evolved out of the scenario planning sessions during the negotiations and very definite interpretations of globalization. This corporatist result has forged relationships between former enemies, which have maintained the elite nature of South Africa economic policy with regards who benefits and who losses out. Morris (1993) warns that, "Powerful forces are leading us towards a new two nation society, a 50% solution that will allow some South African's to embrace opportunity and privilege, but banish the rest to the margins" (1993:7). Although remotely changing in nature, the 'two-nation' system remains. Black, rural and female remain poor and marginalized. The top tier remains urban and white, although a growing black middle class have been the biggest beneficiaries of GEAR and have joined in the wealth accumulation of the private sector.

## *Chapter 4*

### **Thabo Mbeki and Black Economic Empowerment**

"...An important element of the tasks of the state is ensuring that the glass ceiling of apartheid is removed from above the aspirations and ambitions of the black middle strata and capitalist class. In a systematic way, the [National Democratic Revolution] has come to ensure that ownership of private capital... is not defined in racial terms. Thus the new state - in its procurement policy, its program of restructuring state assets, utilization of instruments and empowerment, pressure and other measures – promotes the emergence of a black capitalist class. Yet if this were to be an end in itself it would be a sure way to abort the NDR. While these forces are direct beneficiaries of the NDR and share an interest in its advancement in the current phase, they can easily be co-opted into agendas of their white counterparts; and they can easily also become a source of corruption within the state, ANC leadership of these forces is therefore crucial" (Mbeki in Corrigan, 1999: 67).

#### **(a) The Mbeki administration**

The advent of conservative macroeconomic principles in the ANC has culminated with the rise of Thabo Mbeki to prominence during the Mandela presidency. Although GEAR was written up by economists and the elite in the Ministry of Finance, it is well known that drafts continually needed to be passed by the office of the deputy-president. Lodge (1999) writes that Mbeki was in close discussion with GEAR technocrats long before the policy was shown to the ANC executive, and even Mandela himself. Furthermore, Lodge continues that although Erwin and Manuel have become the outward face of GEAR since its inception, Mbeki has largely been its driving force.

The policy characterizes his general non-populist stance, and its component of BEE, reflects his emphasis on the need for the prosperity of the private sector and his frustration at the investment lethargy of white business. Mbeki soon realized,

due to his close engagement with global politics and economic trends, that the revolutionary ideals of direct redistribution and nationalization were not possible in a developing economy in the 1990s. He identified that the only way to address inequality was to use the capitalist approach to enrich black South Africans, and in so doing, create a South African prosperity that was not based on racial or ethnic politics. The GEAR hegemonic project is a dream of Mbeki and is the foundation of his presidency. It would be a dream that he had not only for his own country, but also for the continent as a whole. An Africa led by market principles with South Africa at the forefront (Mbeki, 1998). South African economic policy reflects Mbeki's interpretation of globalization. An ANC engaged with market principles whilst championing the poor community reflects his adherence to pragmatism. He refuses to prioritize ideology and has continually committed South Africa onto the path that he views as best benefiting all interest groups. This coincides with the 'broad church' mentality that has always been the tradition of the ANC and was entrenched during the negotiations. This however, often means that the communication of policy becomes ambiguous as a fusion of ideals generally reflects the reality.

It has become no surprise therefore, that his election to president has meant an intensification of the GEAR hegemonic project in South Africa. GEAR for the Mbeki school, is more than an economic policy, it is the foundation of future South Africa's commitment to market principles and the entrenchment of political power for the ANC (Lodge, 1999). His vision is for the solidification of a partnership between the ANC led state and an ANC bound black driven private sector. As has been proven thus far, the political transformation has led to the ANC control of the public sphere as whites have subsequently rationalized change in the solace of the control of the economic sphere. As economics increasingly becomes important in a world dominated by the global economy, it becomes vitally important for the ANC as a political party, to take a hold of its own destiny. This can only be achieved once it obtains and maintains the control of

the private sector and the vitally important flow of domestic investment. Only then can the ANC attack poverty and inequality as it views fit (Mbeki, 1998).

Schrire (1998) writes in an article, *Thabo's Republic*, that Mbeki would find it exceptionally difficult to accept that after all he had to endure to become president, the success or failure of his administration would eventually be judged by white capital. In a free South Africa this power dynamic would have to change. Mbeki's views on economic policy and its ideal relationship with politics, has much to do with his history.

Mbeki was born in the Transkei in 1942 into a family deeply entrenched in the ANC tradition. His father, Govan Mbeki, was a well-respected ANC communist member and journalist (Mbeki, 1999). His affiliation with books was immediately prevalent as he would spend much time in seclusion in the company of his father's library. He became literate at an early age and would spend much of his early years reading letters from mineworkers in Johannesburg to family in the Transkei. He would soon be deeply engulfed in the politics of migrant workers and how the system was tearing the rural African community apart.

His first association with organizational politics took place during his time at Lovedale College, which proved the genesis of many ANC activists. He would join the Youth League at the age of 14, which was 2 years earlier than the norm. It was during this time that he learnt the history, philosophy and ideology of the ANC. He would soon connect the South African struggle with the rest of the continent with icons such as Nkrumah of Ghana being influential. On completing his high school education he traveled the country and became based in the PWV (Pretoria-Witwatersrand-Vereeniging) region. He took full advantage of spending invaluable time in the presence of liberation stalwarts such as Duma Nokiwe, Braam Fischer, J.B Marks, Nelson Mandela and Walter Sisulu (Mbeki, 1998).

Lodge (1999) identifies that Mbeki's scholarly potential was identified early on by Oliver Tambo, who realized that if Mbeki remained in South Africa he would be arrested for long periods of time and his talents would be wasted. After a brief detention in the 1950's, Tambo managed to utilize his influence to fund Mbeki's higher education at the University of Sussex. It was in England that his views on economics would be shaped. He completed his MA in economics and soon became involved in representing the movement on a global level. Following work in the ANC office in London, and stints in Nigeria, Botswana and Swaziland, Mbeki would operate under the guidance of Tambo in Lusaka. From 1975 he would become the party's political secretary and Tambo's official speechwriter. His rise to power included being elected to the ANC's National Executive in 1978, the director of information in 1984 and the head of international affairs in 1989. This was before being hand picked by Mandela for the deputy-presidency in 1994 and eventual presidency in 1999 (Lodge, 1999).

Mbeki was well known for being a strong proponent of the negotiated settlement in the 1980s and soon became a leading diplomat in the movement. He has largely been accredited with being part of the think-tank behind ideas such as the GNU and the Sunset Clauses. During the early years of contact with the NP during the 1980s in Lusaka and Europe, Apartheid officials would often be hosted by Mbeki. Sparks (1994) writes that this was often a ploy by Tambo to throw the white administration off guard. He was fully aware that the white officials were expecting the communist militancy that the NP propaganda mission had perpetuated. Yet, white officials would encounter this western educated, well-spoken and democratically driven economist, whose vision for a free South Africa did not have the radical dimena that was anticipated. His corporatist ideals were particularly encouraging to white business. Therefore, before the official negotiations in 1990, he would soon have the respect of South African businessmen and politicians. Although he took a back seat to Ramophosa during Codesa, he was well noted for being the dominant player in the successful effort to incorporate General Constand Viljoen and his Freedom Front into the

settlement. And, he was the key player in ending the political violence in Kwa-Zulu Natal leading up to the elections. His education, understanding and diplomatic skills under a crisis was well noted in these incidences. This was a pivotal move in avoiding mass violent unrest at the time of the 1994 elections (Lodge, 1999).

It is interesting to note that Mbeki was brought up on the diet of the SACP due to his father's involvement in the organization. He himself was in fact on the Politburo of the SACP in the 1970s and was largely considered on the ideological 'left' of the ANC (Lodge, 1999). He concluded his Communist Party activities long before he returned to South Africa, and high-ranking SACP members such as Joe Slovo, were well known to support Ramaphosa to succeed Mandela. Mbeki, as with most ANC officials, does not neatly fit into an ideological spectrum and is progressive on some issues and conservative on others. It is well known however, that economically speaking, his Sussex education combined with long periods spent with the ANC exile elite's, has put him firmly in the neo-liberal school. He follows a non-populist style that thrives on intelligence and consistency, as opposed to physical charisma and rhetoric. He was dominant in the discontinuation of the RDP and its office in the presidency. When speaking to critics of GEAR in the movement, he has been known to warn party members of betraying the movement by 'fake revolutionary posturing'. This is when addressing those who in his opinion, continue to thrash out struggle slogans and empty rhetoric without having an understanding of what is possible and what is practical.

Although being firmly identified in the class-centered approach based on the solidification of a black capitalist class, he is not unpopular amongst the ANC 'left'. And, his adherence to economic fundamentals as an approach to economic restructuring has gained the support of the business community. Although he has been noted to be exceptionally frustrated at white business's inaction towards his calling for a new patriotism with regards domestic investment and with the

entrenchment of investor confidence. This is a reality that has led to large levels of capital flight that continues to cripple the country. In Mbeki's opinion, black control of these large levels of capital will end this detrimental outcome, and would contribute to the attainment of a patriotic private sector (Mbeki, 1998).

Mbeki's presidency has shown an engagement in the realities of the international political economy. Mbeki's visionary status as the leader of the new generation of democratically driven African leaders, has endured him to be very popular abroad. He is a visionary sophisticated leader who was hand picked to lead South Africa out of the Cold War era and into the new global order of globalization. He has been key in transforming the ANC from a revolutionary liberation movement into a ruling party of a leading developing economy (Lodge, 1999).

#### **(b) Black Economic Empowerment (BEE)**

“If the national conference adopts the draft resolutions on empowerment – which include the intensification of government support for small and medium enterprises as a critical component of empowerment – the state is likely to play a much more active role than it has done in the past.” S’thembiso Msomi

BEE is a defining point of the GEAR plan for the eradication of poverty and the narrowing of inequality. Once the decision had been made to engage in a growth strategy as opposed a nationalistic route, the enrichment of a black middle class became the governmental priority. It is argued by the likes of Mbeki, Erwin and Manuel that once a black middle class becomes a reality, the growth that would be achieved would result in the eventual relief for those on the ground. This deracialization of South Africa's top tier was the result of the corporatist solution that was decided upon during the elite scenario planning of the negotiations. This was a bargaining process between labor, business and the state, to replace mass protest and civil unrest. These respective trade-offs were placed firmly in the context of decreasing governmental freedom in the growing restraint of the global economy.

This process viewed many unionists such as the head of the NUM, Ramophosa, defecting from unionism to the private sector. The corporatist solution has strengthened the interests of the powerful and has had the result of the sidelining of small business, the unemployed, rural communities and other weaker interests. Adam, Slabbert and Moodley (1997) describe that, "when union leaders become partners in profit-making business enterprises, the nature of old-style class antagonism changes fundamentally" (1997:146).

The struggle has now entered the boardrooms of corporate South Africa. Due to global constraints of privatization, the new government could not follow the rest of the continent by solving racial inequality by turning to the hiring power of the public service. The ANC could not employ a mass of black bureaucrats as has occurred around the continent, as privatization has meant the down sizing of government. The ANC has thus turned to the private sector for a source of enrichment for its constituency. Despite the predominance of the ANC politically, Adam, Slabbert and Moodley (1997) explain the crucial nature of the relationship between government and business with regards delivery. The private sector needs conducive governmental economic policy for it to prosper in market driven activity. On the other hand, the state is heavily reliant on investment, growth and expertise.

The ANC has utilized the spectrum of neo-liberal economics to further black involvement in conglomerates, and to thus utilize this as a stepping-stone to narrowing the inequality of the nation. This is to create an ANC loyal business community. A former Vula operative is quoted as saying, "I am a good capitalist precisely because I was such a good communist." (1997:166). The successful embourgeoisement of the liberation is signaled by the movement of top union officials to the head of corporations such as Anglo American Corporation. It has been argued that the relationship between the ANC and business is far closer now than it ever was with the apartheid state. Adam, Slabbert and Moodley (1997)

relay a story of how in 1982 Harry Oppenheimer confessed that he could not pick up the phone with Prime-Minister Vorster without interpreters. Botha is well known for not even wanting to be in the same room as Oppenheimer, a leader of the conglomerate that carried the South African economy. Therefore, despite a common interest and dependence, nowhere else in the world was the political and business elite so ethnically and socially divided as under Apartheid. Pretorius has been quoted as saying, "the exclusionary nature of Afrikaner nationalism did not allow consultation between government and English dominated business to be seen" (1997:170).

This has been countered by a close relationship that initially emerged between Oppenheimer and Mandela. In fact, when Mandela personally phoned 20 of South Africa's leading companies for a R1 million campaign donation, 19 complied (1997:171). This is not a reflection of a political or ideological affiliation, but rather an expedient relationship where both parties need each other. The ANC 'left' immediately realized that South Africa is not isolated, and all from Slovo, Manuel and Erwin have made this realization and have adapted to the current reality. "Many South African liberators have finally learned the one great lesson that Lenin taught his western sympathizers, which was not how to overthrow capitalism but how to recognize and utilize the greed that generates it" (1997:173).

A new wealthy black middle class has benefited the most from the negotiated settlement and has largely unashamedly followed the consumerist culture of previous years. A new self-confidence characterizes this group who measure South Africa's progress in line with American habits and consumerism. The state has been viewed as a source of enrichment and not a delivery agent for the people. This has not gone unnoticed by those below as more and more protest action has emerged in response to frustration at those 'comrades' who have now prioritized enrichment over grass roots development (Adam, Slabbert and Moodley, 1997).

Bond (2000) highlights that by the time of GEAR's 1996 introduction, BEE was largely acclaimed as a sham. There were 300 BEE beneficiaries as the white establishment sought black faces to gain access to the new state. Therefore, a privileged few amongst the new were assimilated into the old, as a handful were immensely enriched. It was largely viewed as a strategy of counter-insurgency as opposed a genuine commitment to reform. A key focus of GEAR's BEE employment strategy was the small business sector. Therefore, initial success was achieved in small industries such as the taxi service, shebeen's, township and inner city spaza shop's, and construction (Bond, 2000). For example, the shebeen industry defeated South African Breweries (SAB) in 1990 over the issue of the cost of wholesale beer in the townships. However, inherent market failure began to plague the small business sector as loan defaults, bankruptcy, overproduction and competition began to tear at the fiber of the townships. Taken from Meshack Khosa's Oxford dissertation, "Unavoidably, crises associated with capitalist accumulation are evident in the industry, namely record levels of default on taxi loans; over-supply of vehicles in taxi ranks; desperate monopoly pricing practices; intensified exploitation of labor; driver speed up; violent taxi feuds, which all reflect the growing intensity of the crises" (Bond, 2000:41). Hawkers and spaza shop owners remain survivalists as the profits have not been forthcoming. The 2002 budget speech continued to highlight this sector as the major source of employment and tax cuts have been wholesale.

For the black middle class BEE has become a very lucrative endeavor. BEE has now become the economic arm of the liberation struggle for former 'comrades'. It has been the main challenge of the Department of Trade and Industry (DTI) to make BEE a fundamental pillar of economic development and to make the process part of South Africa's global competitiveness. As investment accumulation became the major priority of the new dispensation, major FDI initiatives often accompanied a BEE clause. Enterprise magazine explains that, "BEE is about targeted programs aimed at increasing the participation of black people in the ownership, management and control of economic activities"

(2001:18). In other words, it is an initiative that campaigns for blacks to economically participate in the same sphere as mainstream business and not as a separate entity.

The late 1990s were a difficult time for the new BEE movement as they discovered the temperamental nature of the market and the fickle attitude of investors. The economic struggle for equality would become wrought with difficulties. The initial entrance point was via pyramid conglomerate shareholdings. The best example would be Don Ncube's Real Africa Holdings, which was supported by African Life Insurance and Real Africa Durolink investment/merchant banking (Bond, 2000). This was an insurance-based acquisition strategy that eventually turned to information technology. Another major BEE example was in 1993 when Sanlam sold a stake in Metropolitan Life to a black economic consortium called New African Investments Limited (NAIL), which was headed by Dr Nthoto Matlana. Further black business consortiums included interests in Pepsi, National Sorghum Breweries and African Bank. By the late 1990s black business began to experience major teething problems as bank rates soared and the JSE index began to plummet (Bond, 2000).

Nail controlled Johnic had reached nearly R70 a share in April 1998 but had crashed to R21 a few months later. In 1999 Ramophosa was forced out of Nail by his partners and set up his own banking based conglomerate. In 1999 Nail was engulfed in controversy as the executives awarded themselves a R35 million personal bonus for good performance. By the turn of the century empowerment companies such as Brimstone, Women's Investment Portfolio, Sekunjalo, Pamodzi and Cosatu's Kapano ke Matla, all fared badly and BEE was largely ridiculed (Bond, 2000). As a Financial Mail article of that year explained, "The model is flawed, some individuals are wealthier, but few jobs have been created. Where there should be new productive capacity, there is massive debt. And at stake is not merely the fortunes of a few companies, but the very legitimacy of the capitalist system" (Bond, 2000).

One sector that has actively embraced the BEE movement has been the traditionally conservative mining industry. Under Minerals and Energy Minister, Phumzile Mlambo-Ngcuka, legislation has been sent out that effectively transfers the mining sector over to the state. The new mining bill actively allows the state the capacity to allocate mineral rights to new mining developments that shall prioritize the previously disadvantaged (Financial Mail, 2002). BEE has taken off in leaps and bounds in gold and recent developments have seen a 50-50 joint venture between Harmony Gold and a BEE venture called African Rainbow Minerals. Under CEO Patrice Motsepe, African Rainbow Minerals has entered the 'premier league' of South African business and the mining sector in particular. The mining bill has not gone unopposed with many believing that traditional mining companies will be prejudiced by state allocation. The fear is that political allocations could result in contracts being awarded to the wrong developers who would not fully exploit South Africa's major assets (Financial Mail, 2002). BEE is well established in the mining sector and the recent tremendous performance by gold has done much to strengthen the process.

A defining moment in the BEE initiative came in 2001 with the intended launch of Safcoc, which was a merger between the South African Chamber of business (Sacob) and the National Federated Chamber of Commerce (Nafcoc). Sacob has generally been the broad organization representing South African business, whilst Nafcoc is an organization representing black business interests. The merger ripped the BEE movement down the middle and touched on sensitive issues such as the trade off between non-racialism and racial empowering. At the heart of the debate was whether a merger between traditionally white organizations with BEE initiatives was appropriate bearing in mind that black South Africans have yet to achieve socio-economic liberation. And, whether in this day and age of reconciliation, there remained room for black only organizations. The Black Business Council (BBC) believed that the merger was premature and thus would undermine the BEE project. Others such as Nafcoc president Simon Mathysen,

made the argument that a merger with Sacob would give black business greater access and would contribute to greater investor confidence. Then Sacob CEO Kevin Wakeford explained that, "Racial exclusivity is a crime in South Africa. We have to engage international bodies such as the International Chamber of Commerce (ICC) as one body. Enterprise development, empowerment, and economic growth will not be expected if we work separately" (Enterprise Magazine, 2001: 16). Both Wakeford and his Nafcoc counterpart Sabelo Macingwane, viewed the launch as a 'unity vehicle' and not a merger. It would be a 24-month process that would be accompanied by a transformation imperative. Government largely stood on the sidelines of the process but it is believed that it would be ideal to have one voice representing business (Enterprise Magazine, 2001: 16).

Although all agree that the process is imperative and will take a long time before reaping rewards, however, BEE has been wrought with infighting amongst those who formerly stood side by side in the struggle against apartheid. Mandela and Mbeki have been known to publicly criticize those at the forefront of the movement for reducing the initiative to petty arguments. One such example was what the Mail and Guardian called the 'Clash of the Comrades'. This was a court battle over a trust set up for former political prisoners who have continually complained of never seeing their money. The battle was between Makuna Trust (led by BEE kingpin Tokyo Sexwale) and Safika Investment Holdings. Makuna accused Safika of appropriating millions of Rands in M-cell shares, money that ought to have been shared among the former prisoners who subscribe to the trust. Eventually, Makuna won a court order to have Safika investigated by the DTI, and Safika retaliated by suing Makana for defamation of character (Mail and Guardian, 2002).

An article in the Business Day (1 October, 2002) emphasizes the ANC's commitment to ensuring a broader black stake in the national economy and a frustration at the slow rate of results. The article outlines the administration's

frustration at the lack of community engagement at the expense of individual enrichment. "The new approach articulated by the ANC at its national policy conference will see the departure from individual black economic empowerment to broad-based community involvement. It will also introduce quotas and time frames for the participation of black people in the economy. This might result in communities owning stakes in the tourism sector, mining ventures and restructured state assets" (Business Day, lead article Oct, 2002).

BEE has been a key component of the GEAR policy, which gives a clear example of the workings of neo-liberal economics on a developing state. As the global economy shifts from the exportation of primary goods to the manufacturing sector, South Africa has followed suit. Although mining continues to be the leader in BEE initiatives, the government has identified the telecommunications, fishing and Information Technology (IT) sectors for BEE intensification. It is well known that South Africa is one of the top cell phone users and producers in the world and have sought to take their expertise into the African market. An increased drive has occurred for South Africa to be at the forefront of the expansion of science and technology onto the continent. This is a realization that in a globalized economy manufacturing is the future, and African countries have to diversify their markets in order to survive.

The ANC has identified this as an opportunity to shape the South African economy. BEE guru Ramaphosa states that, "Contrary to conventional wisdom, the political transition does not provide us with the motivation to pursue black economic empowerment. The motivation was always there. Instead it provides the opportunity. And the opportunity is being exploited. Four years ago black people owned and controlled only 0,3% of the market capitalization of the stock exchange, they now control and own 10,3%" (Arnold, 2000:95).

BEE has become a method utilized by the ruling party to entrench neo-liberal values in black South Africa and to thus entrench political power. Natrass

explains, "As the ANC leadership began to worry about ensuring long-term sustainable growth – and hence also its long-term political future, its policies became more pro-business" (Marais, 2001:138). As a response to the growing need for an active relationship between business and government in a capitalist economy, the ruling party has realized the increasing importance of a patriotic private sector. Capital flight and lethargic investment continue to thwart government initiatives as economic control remains in white hands. The goal of Mbeki and others, to create a black capitalist class, has been viewed as imperative by the ANC elite in order to gain control over their own future. The key problem has been that the government has spoken of transformation, whilst black companies have spoken of BEE. Whilst government continues to utilize the process as a strategy to address the poor, BEE continues to focus on the empowerment of the new black business elite who have become farther and farther removed from the townships and rural areas. After all, the founding fathers of liberal economics do teach us that in capitalist society there is a natural inequality that is needed for capital accumulation.

**ANALYSIS: 'IS THERE GOLD AT THE END OF THE RAINBOW?'**

**(a) South Africa and the Global Economy**

How then has the new South Africa adapted to the global economy and what are the forces driving the national economy forward? The post-apartheid South Africa signaled its stance to the global economy by signing the GATT agreement in December of 1993. After the 1994 elections, Ministers Manuel and Erwin removed trade tariffs faster than required in key areas. In the same year South Africa decided to take a moderate loan from the Bretton Woods institutions that effectively serviced apartheid debt. The letter of intent that the new administration attached to the loan, signaled the new government's commitment to macroeconomic reform and placed South Africa firmly on a route to an outward orientated market economy. The new South Africa's devaluation of the national currency and the phasing out of exchange controls in order to attract FDI, has meant that the new democracy has integrated itself as a developing nation in the belief that normalizing adjustments would bring the economy in line with the global consensus (Bond, 2000).

Marais (2001) and Arnold (2000) outline that the new South African economy combines three important features. Firstly, a minerals and energy complex that extracts commodity exports for foreign exchange and an agricultural sector that has made South Africa largely self-sufficient. Secondly, it has an industrial sector in the semi-industrialized phase, which is an area that needs further concentration in order to become globally competitive. Thirdly, South Africa has developed information, communications and transport systems of the sophistication of the first world. The advanced phase of this sector has put the new democracy at a considerable advantage over other developing economies. And, I would add, the new economy has a rapidly expanding tourism sector that has grown considerably as political stability has proven long-standing. South Africa has been rated the fastest growing tourist destination since the September 11<sup>th</sup> attacks on the USA

that put most of the globe on a heightened security alert. The relative political stability that the ANC government has provided, has meant that South Africa has increasingly begun to host numerous global conferences such as the World Conference on Race and Racism in Durban in 2001 and the Conference on World Sustainable Development in 2002.

Despite the political and economic restructuring that has witnessed the advent of the new South Africa, Egyptian political economist Samir Amin, believes that South Africa remains a microcosm of the four worlds of the global capitalist economy. This reality was entrenched by the arrival of British imperialism that witnessed the advent of industrialization and the racial profiling of labor that remains to this day. There remains a first world white society living in international conditions, a third world urban black community whom resemble most modern industrializing third world urban dwellers, and a fourth world of rural peasants who remain in the age of tribal traditionalism (Amin, 1993).

It has been the challenge of the new administration to fundamentally overcome this racially demarcated reality. Amin assess four types of developing economies in the global economy and attempts to fit South Africa into this paradigm. Firstly, there are those developing countries that have moved into the industrialization phase and have become successfully competitive. These countries include South East Asia and the major Latin American countries. Secondly, there are those countries that have attempted to industrialize but have failed to become competitive or have required major restructuring. These include South Africa, Egypt and some Arab states. Thirdly, there are those countries that have remained pre-industrial but have succeeded in the exportation of traditional exports such as agriculture, minerals and oil. Such countries include the Gulf States and some African countries such as the Ivory Coast and Nigeria. Then finally, there are those who have not industrialized and have failed to promote competitive exports. This includes the majority of Sub-Saharan Africa (Amin, 1993).

Post-Apartheid South Africa through its macroeconomic strategy has sort to redress its position in this hierarchy. As mentioned, during the transition it was believed that the problem was political and not economic and that once the political sphere stabilized the economy would grow from this foundation. South Africa has not been able to detach itself from the most economically desperate continent in the world, and the massive international goodwill shown to the new Mandela administration did not yield the anticipated investment. The new economy has not been able to attract some of the 30 per cent swell in world trade since the late 1980's. The neo-liberal friendly economic strategy of GEAR, although improving, has also not sparked the kind of investment needed for sustainable growth and development.

The Mineral and Agricultural sector continues to carry the economy, as the industrial sector has not been able to keep abreast of international technology developments. This has been identified and addressed as the manufacturing industry has been focused upon along with information technology and telecommunications. These sectors have been prioritized for BEE. The results still have to be witnessed however. The continued reliance on minerals and energy has meant an increased vulnerability to price fluctuations as the global economy has moved on from these products and as the national economy remains reliant on imports, labor from outside its borders and foreign technology. In short, this has meant that South Africa remains a typical developing nation as a traditional exporter and importer of capital goods and technologies (Marais, 2001).

South Africa as an integrated developing economy is pegged to the performance of the global economy, this has continued to mean that its fate has remained on developments elsewhere, notably the center of the global economy in the West. As this paper has proven, the West does not always have the well being of such a developing nation at heart. This has been proven through the implementation of

Steel Tariffs and Farming subsidies by the Bush administration in the USA. This continually illustrates that Western governments will continue to prioritize domestic political popularity over the development of marginal economies. Both such protectionist measures cripple the competitive capabilities of the Third World economy. Added to this, the September 11<sup>th</sup> 2001 attacks on the World Trade center in New York City, have meant an increase in global market instability. This has meant that security and not poverty has become the priority of global leaders. Furthermore, a series of scandals in corporate America, such as the Enron debacle and the recent WorldCom collapse, has meant that global capitalism is in a state of much uncertainty. So long as examples of corruption and greed continue to diminish faith in corporate America, developing economies pegged to global success such as South Africa will continue to falter.

**(b) 'Growth with Equity'**

On the basis of this reading of international life, what could possibly be done domestically to achieve the original goals of the South African experience to eradicate poverty and to narrow inequality? What can South Africa do to place the nation on a road to growth in a volatile and unpredictable global economy?

The fact of the matter is that South Africa cannot isolate itself, especially at the foot of the most economically unproductive continent in the world. The new democracy cannot escape the influences of globalization and needs to positively participate in the globalization process. This research has argued that the state does have a positive role to play in the enabling of the national economy. South Africa has to be attuned to the dynamics of international capital markets and the economic policies of the north, along with those who are South Africa's major trading partners. The field of fiscal policy remains a key area of relative freedom for the developing state. It is the reality that no credible economic policy can possibly alleviate the country's chronic levels of poverty and inequality in the next decade. What is needed is consistency and time (Calitz, 1997).

This paper supports the argument of a working paper for the 'Africa Institute for Policy Analysis and Economic Integration' (AIPA) called *Growth with Equity*. At the heart of the argument is the realization in the current global order of globalization that GEAR as a macroeconomic plan needs to prioritize the uplifting of the young democracy. If ideal levels of 6 percent sustainable growth are to be achieved in the new century, South Africa needs to improve international competitiveness, attract investment and create jobs (AIPA, 1997:3).

There is an inherent assumption that equity and growth are mutually exclusive ideals, as higher growth is founded on increased inequality. While this may be true in many instances, it is not a fixed truth and is not a necessary reality for a nation in the development process. AIPA points out that extended research has shown that inequality has decreased with economic growth. Government policies remain key to the alleviation of poverty. While the global economy does dictate domestic economic practice, South Africa is free to utilize the global reality to empower the disenfranchised.

Job creation is the only way to address poverty and to increase employment opportunities there needs to be sustainable growth. It is the responsibility of the ANC-led state to firstly build on the relative political stability to ensure that satisfactory measures are in place to achieve such growth and to importantly insist that sustained growth has a social responsibility to the nation's poor. A replication of the apartheid two-tier system is unacceptable in the long run. The aims of redistribution must be for the incomes of the poor to outgrow that of the rich (AIPA, 1997).

For consistent growth to be achieved the state needs to invest in its people by training the labor force to alleviate a growing skills crisis. The new global economy is based on knowledge and information, it is vital for South Africa to produce talented professionals to positively participate in the economy. The focus on BEE and employment needs to be on small, medium and micro enterprises.

Small business needs to break free of survivalist tendencies and to become a stable foundation for black entrepreneurship. Mbeki has been noted to have mentioned that South Africa needs to find new and innovative ways to create employment. It is the job of government to ensure that growth has a social responsibility by maintaining consistent levels of service delivery, to combat lawlessness and to invest in easing the plight of the unemployed (AIPA, 1997).

The engines of growth are exports and investment. The exchange rate depreciation of 1996 was used to kick start growth and competitiveness. This was followed by tight monetary and fiscal policies accompanied by wage restraint. There has been an emphasis on deficit reduction with the creation of an environment free to private spending. The entire project has been underpinned by the intention to make South Africa investor friendly. Thus far the results have been decidedly mediocre. The anticipated FDI has not come and domestic capital has proven non-committal to transformation and change. Arnold (2000) emphasizes that white big business must invest in the new South Africa as they once did the apartheid state, as the success of the new country is reliant on the active participation of all its people. As the market proves to be volatile, capital flight continues to cripple development initiatives. This has meant that GEAR's employment predictions have not reached desirable levels, which in turn has meant a lack of poverty relief (AIPA, 1997).

Despite these short term set backs, the firm policy of growth led initiatives must remain consistent to fight negative perceptions and to place South Africa at the top of the developing pile. Even if job creation is not immediately attained in sufficient numbers, sustained growth will benefit equity through the increased availability of resources for redistribution. It is pivotal for this redistribution to seek to move beyond the inherent structural racial and regional make-up. An ideal reality of reduced inequality and poverty will be a stimulant of growth within itself.

In sum, South Africa needs to work within the confines of the new global order to develop a homegrown strategy to achieve growth with equity. Global experience has taught us that openness is essential and the manufacturing and industry related sectors are pivotal for competitiveness and the reduction on the reliance on unsupportive global forces. Development is driven by domestic and foreign investment, with a concrete relationship between capital and government key to this reality. There needs to be domestic fiscal constraint and higher levels of personal savings. And, there needs to be an economic working relationship with regional developing markets. Government needs to make sure that the resources made available from these economic fundamentals are actively utilized to benefit those whom apartheid ignored (AIPA, 1997). This is to invest in the people through education, health and security.

South Africa needs to work from the foundational goals articulated in the RDP to promote coherence and use the current neo-liberal reality to serve the people. The ANC has now become a representative for many interest groups both rich and poor. Nattrass and Seekings (1998) explain that although there are high expectations amongst the poor of the ANC constituency, there is a sense of realism and patience in terms of expectations for fundamental change. Many poor South Africans do detect evidence of improvements or at least genuine attempts to provide basic freedoms. This immense loyalty has allowed the ANC to avoid short-term populist policies in favor of a long-term growth strategy intended to service redistribution. This has compounded political stability that must be utilized for economic liberation. The stakes are high as the window period becomes ever shorter, constructive results need to be forthcoming as an increasingly disillusioned impoverished society eroding towards ungovernability is a reality that must be averted.

## CONCLUSION

“The challenge for political science... is that a purely domestic analysis is no longer enough: it misses central determinants of domestic problems, because we no longer understand politics within countries – what we still conveniently call ‘domestic politics’ – without comprehensively understanding the nature of the linkages between national economies and the world economy, and changes in such linkages” (Busch, 2000: 44)

It has been the task of this research to clearly investigate the complexities surrounding the interrelationships between the national economic practice of South Africa and the international political economy. This research was based on the fundamental theme that the nature of post-apartheid South Africa’s at times ambiguous vision, is a direct result of the ANC-led government’s belief that a developing economy is placed in a vice of restriction and constraint. The belief is that is especially true in South Africa due to the corporatist nature of the transition and in the face of globalization. A context of exploitation and struggle is vital to such an analysis. The ANC’s evolution from a liberation movement representing the broad church of South Africa’s oppressed peoples, to becoming the ruling party of a developing economy, has witnessed the government continuously having to juggle varying ideals and objectives. The ANC has attempted to overcome this by adopting a hegemonic project of pragmatism with regards to economic restructuring.

The democratic movement’s economic vision for a free South Africa was always tabled in the Freedom Charter. However, by the time of the unbanning of the various arms of the liberation movement, the nature of IPE had fundamentally changed. By this time the Cold War context had evaporated and the ‘hype’ of globalization had reached full peak. This research has argued that the ANC’s reading of globalization has been a key factor in defining this juggling act. With

regards to globalization theory we saw that the literature contained three waves, which reflect the intellectual evolution of the process.

The first wave depicted the neo-liberal victory of business elites who described the creation of a 'borderless world' in a time period described as 'the end of history.' This school views the triumph of the market over the state and positively presents a story of inevitability and convergence. First wave thinkers strongly believe that globalization is the driving force behind the homogenization of culture, macroeconomic policy, democratic politics and a minimalist state.

The second wave largely represents a critique of such determinism and believes that this unevenly represented phenomena, is largely over-exaggerated by first wave thinkers. The school relates that present levels of capital flows are not dissimilar to the levels experienced before World War 1. They believe that politics and the state need to be incorporated into the debate as a facilitator of the process. Second wave thinkers argue that governance at national and international level is possible and is needed. This is as the process, if left uncontrolled, is largely uneven and amounts to nothing more than the intensification of capital among the 'triad'. They dismiss the claim made that MNCs live in a borderless world wherein they reflect no allegiance to any nation-state. Second wave thinkers posit that powerful nation-states are the agents behind the process and have designed it to suit their own gains. Therefore, what first wave thinkers describe as globalization is in fact 'triadization.'

The third wave literature is a new field of analysis and seeks to build on the second wave's sentiments regarding the need for the integration of political dynamics. They largely concur with the general critique concerning the uneven nature of globalization. This is a school that comprehensively seeks to 'demystify' globalization and to present its complexities in the quest to avoid simplification. It is a 'post-disciplinary' perspective of global studies, which seeks of us to 'invert the conventional causal logic and conceive of globalization

as the independent rather than the dependent variable'. In sum, second and third wave thinkers prioritize for scholars the fundamental need to pay witness to the 'deep political character of the process.'

During the time of the negotiations and scenario planning sessions of the 1990's the first wave was at the peak of its influence and eventually had a direct causal link to the subsequent settlement. Once in government the ruling party began to realize the need for measured state influence and GEAR reflected the ANC's interchangeability between the adherence to the state and the market. When contemplating South Africa's seeming embracement of conservative fiscal policy, one needs to remember these 'juggling acts' and overarching influences.

As outlined by Castells in this research, national fiscal policy need not directly reflect the Washington Consensus. Although certain fundamentals are considered non-negotiable, fiscal policy does allow the freedom to implement that which best suits the variances of a particular society. In this guise the state needs to invest in its people and to insist that South Africa becomes a diversified knowledge based society. This is key in the fostering of a positive renewal project.

A full understanding of the nature of Apartheid is fundamental when discussing the political economic future of South Africa. One needs to understand the stakeholders in this context of racism, inequality and poverty. This paper researched the South African experience from the transition, to witness how the new democracy approached political economic transformation from isolation to being incorporated into the globalization process. While it is true that the state seems to be adhering to the conservative path with regards to economic policy, the state has remained central in the restructuring process and has been the central agent of initiative and investment. Therefore, the South African case represents the 'complexities' of the interrelationship between globalization theory and national practice, with the state positively engaging the globalization reality whilst maintaining a fundamental role as facilitator and overseer.

Our case study of South Africa investigated the practical role of an African nation-state within this third wave of globalization. The negotiations for the new South Africa from 1990 transformed South Africa into a country ready to engage with global forces. The ANC ruling party has soon realized the fickle nature of global investors and the pains of being reliant on events elsewhere. South Africa learned that the foundation of any country intending on integrating into the global economy is political stability based on stark democratic principles. The dominance of the ANC has thus far allowed for this reality. The economic planning of an African state such as South Africa has become arduous in an international system that tends to exacerbate global inequality. As security and not poverty continues to dominate International Relations, South Africa has had to combine integration with strong homegrown initiatives. The BEE campaign has been analyzed as the ANC's solution to this balancing act, the initiative has been plagued by teething problems and has been critiqued for compounding the inequality that it sought to overcome. Only by effectively finding the balance between engaging globalization with domestic redistribution and development, shall South Africa achieve their utopian land, one free of hunger and poverty. Only then will apartheid have been defeated and will South Africa truly be free.

Thus in conclusion, we must recall the patterns and causes of inequality in South African society. It is not purely variance in intelligence or inherent abilities. As Fischer (1996: 7, 10) puts it, "Social milieu and social policy create inequality...and it will always be the socially constructed and changeable consequence of ...political choices."

---

## BIBLIOGRAPHY

### Books

Adam, Slabbert and Moodley, (1997) Comrades in Business – Post Liberation Politics in South Africa, Tafelburg Publishers, Cape Town

Arnold, G (2000) The New South Africa, MacMillan Press

Balaam, D and Veseth, M. (1996) Introduction to International Political Economy, Prentice-Hall Inc.

Berger, S and Dore, R. (1996) National Diversity and Global Capitalism, Cornell University Press: USA

Bond, P (2000) Elite Transition, University of Natal Press, South Africa

Boyer, R and Drache, D (eds) (1996) States Against Markets – The Limits of Globalization, Routledge: London

Brecher, Brow-Childs and Cutler (1993) Global Visions: Beyond The New World Order, Boston: South End Press.

Buck, P (1942) The Politics of Mercantilism, Octagan books: New York

Bull, H (1977) The Anarchical Society: A Study of Order in World Politics, New York: Columbia University Press

Busch, A (2000) “Unpacking the Globalization Debate: Approaches, Evidence and Data” in Hay, C and Marsh, M (ed) Demystifying Globalization, Palgrave Publishers Ltd: New York

Calitz, E (1997) "The South African Economy in an Integrated Global Economy: Features, Prospects and Implications" in Kotze, H (edt) A Future South Africa? Prospects for 1999 and Beyond, University of Stellenbosch Printing Department

Castells, M (2001) "The New Global Economy" in Muller, Cloete and Badat (eds) Challenges of Globalization-South Africa debates with Manuel Castells, Maskew Miller Longman (pty): Cape Town

Chabal, P (1992) Power in Africa: An Essay in Political Interpretation, Basingstoke: Macmillan chp 2

Chazan, N et al. (1988) Politics and Society in Contemporary Africa, Boulder, CO: Lynne Reinner

Chikuhwa, T (2000) Globalization and Regional Integration: Liabilities and Possibilities for Africa, MA Thesis (UCT) Unpublished

Chomsky, N (1994) World Orders Old and New, New York: Columbia University Press.

Chossudovsky, M (1993) The Globalization of Poverty, Zed Books Ltd, USA

Evans, P, Rueschemeyer, D and Skocpol, T (1985) Bringing the State Back in, Cambridge: Cambridge University press

Etziani, A (1994) The Spirit of Community, the Reinvention of American Society, Crown Publishers: USA

Fischer, C et al (1996) Inequality by Design: Cracking the Bell Curve Myth, Princeton: Princeton University Press

Freidman, T (1999) The Lexus and the Olive Tree, Harper Collins Publishers, USA

Frieden, J and Lake, D (eds) (1991) International Political Economy, Perspectives on Global Power and Wealth St Martins Press: London

Fukuyama, F (1992) The End of History and the Last of Man, New York: Avon Books

Gilpin, R (1975) US Power and the Multinational Corporation, Basic Books Inc: USA

(1987) The Political Economy of International Relations, Princeton University Press

(2000) The Challenge of Global Capitalism, Princeton University Press

Guma, XP (1997) "South Africa: Some Thoughts on Economic Prospects for 1999 and beyond" in Kotze, H (edt) A Future South Africa? Prospects for 1999 and Beyond, University of Stellenbosch Printing Department

Hague, R, Harrop, M and Breslin, S (1998) Comparative Government and Politics: An Introduction, 4<sup>th</sup> Edition Chpt 1

Hirst, P and Thompson, G (1996) Globalization in Question, Polity Press: Cambridge

Isaak, R (1995) Managing World Economic Change, International Political Economy, Prentice-Hall, Inc

Khor, M (2001) Rethinking Globalization-Critical Issues and Policy Choices, David Philip Publishers: SA

Lester, Nel and Binns, (2000) South Africa Past, Present and Future – Gold at the End of the Rainbow? Pearson Education Ltd, England

Lieber, R (1991) No Common Power: Understanding International Relations, 2<sup>nd</sup> ed. New York: Harper Collins

Lodge, T (1999) South African Politics since 1994, David Philip Publishers, Cape Town and Johannesburg

Luthuli, A (1962) Let My People Go – An Autobiography, Collins Clear Type Press: London

Makhijani, A (1992) From Global Capitalism to Economic Justice: An Inquiry into the Elimination of Systemic Poverty, Violence and Environmental Destruction in the World Economy, New York: The Apex Press

Marais, H (1998) Limits to Change, the Political Economy of Transformation, University of Cape Town Press

(2001) Limits to Change, the Political Economy of Transformation, University of Cape Town Press

Mbeki, T (1998) Africa – The Time has Come, Tafelburg Publishers, Cape Town

McGrew, A and Lewis, P (eds) (1992) Global Politics: Globalization and the Nation-State, Polity Press in association with Blackwell Publishers.

Michie, J and Padayachee, V. (1997) The Political Economy of South Africa's Transition, Dryden Press

Murphy, C and Tooze, R (eds) (1991) The New International Political Economy, Lynne Rienner Publishers, Boulder

Nattrass, N and Seekings, J. (1998) "Growth, Democracy and Expectations in South Africa" in Adedjian, I and Biggs, M (Eds) Economic Globalization and Fiscal Policy, Oxford University Press, Oxford

Ohmae, K (1990) The Borderless World – Power and Strategy in the Interlinked Economy, Harper Business: New York

Potter, D (1992) "The Autonomy of Third World States within the Global Economy" in McGrew, A and Lewis, P (eds) Global Politics, Polity Press in association with Blackwell Publishers.

Rodrik, D (1997) Has Globalization gone too far? Institute for International Economics, USA

Sandel, M (1996) Democracy's Discontent, America in Search of a Public Philosophy, Harvard University Press.

Shutt, H (1998) The Trouble with Capitalism-An inquiry into the Causes of Global Economic Failure, St Martins Press Inc: USA

Simonde de Sismondi, JCL (1966) "Political Economy" in Reprints of Economic Classics, Augustus M Kelly Publishers: New York

Sparks, A (1994) Tomorrow is Another Country-The Inside Story of South Africa's Negotiated Revolution, Struik Publishing Group: SA

Strange, S (1984) Paths to International Political Economy, George Allen and Unwin Publishers Ltd: UK

West, E (1990) Adam Smith and Modern Economics, From Market Behavior to Public Choice, Edward Elgar Publishing Ltd: England

Wilson, F et al (2001) Poverty Reduction: What role for the State in Today's Globalised Economy?, London: Zed Books

Worswick, J and Trevithick, J (eds) (1983) Keynes and the Modern World, Cambridge University Press

**Printed Sources/ Journals**

Adelzadeh, A (1996) "From RDP to GEAR: The Gradual Embracing of neo-Liberalism in Economic Policy" in Transformation 31: Critical Perspectives on Southern Africa

Amin, S (1993) "South Africa in the Global Economic System" in Pillay, D (ed) Work in Progress, WIP 87 Southern Africa Research Service, Johannesburg

African National Congress (1994) RDP Challenges, CTP Book Printers, Cape Town

African National Congress (1994) The Reconstruction and Development Program, A Policy Framework, Umanyano Publications, Johannesburg

Baskin, J (1998) "South Africa's Quest for Jobs, Growth and Equity in a Global Context", speech to 11<sup>th</sup> annual Labor Law Conference

Corrigan, T (1999) Mbeki: His Time has come. An Introduction to South Africa's new President, South African Institute of Race Relations: Johannesburg

Fine, B (1994) 'Politics and Economics in ANC Economic Policy: An alternative assessment' Transformation: Critical Perspectives on Southern Africa 25

Fine, B and Stoneman, C (1996) 'State and development' in Journal of Southern African Studies Vol 22 No 1

Friedman, H (2002) "The Clash of the Comrades" in Mail and Guardian, Vol. 18 no. 15

GEAR (1996) "Growth, Employment and Redistribution: A Macroeconomic Strategy" Ministry of Finance, unpublished

Gelb (1998) "The Politics of Macroeconomic Reform in South Africa" presented to Democracy and the Political Economy of Reform, Development Bank of Southern Africa

Gelb (1991) 'Capitalism: There is no alternative...for now' in Work in Progress 76

Hayter, S (1999) "The social impact of globalization" South African Labor Bulletin 23, 2

Huntington, S (1993) "The Clash of Civilizations?" in The Clash of Civilizations? The Debate. A Foreign Affairs Reader, Foreign Affairs

Human Development Report (1999), Oxford University Press

Kaplinsky, R (1994) 'Economic Restructuring in South Africa: The debate continues: A response' in Journal of Southern African Studies Vol 20 No 4

Kaplinsky, R (1994) 'A Policy agenda for post-apartheid South Africa' IDS Bulletin Vol 25 No 1

Kentridge, M (1993) 'Turning the Tanker: The Economic debate in South Africa' Centre for Policy Studies Research paper 32

Keohane, R and Nye, S (2000) "Globalization: Whats new? Whats not? (And so what?)" in Foreign Policy

Krasner, S (1984) "Approaches to the State" in Comparative Politics, Vol.16 no. 2

Manual, T (2002) "National Budget Speech" Pretoria, Department Of Finance

Merg (1993) 'Making Democracy Work: A Framework for Macroeconomic Policy in South Africa' in IDS Bulletin Vol 25 No 1

Moll, T (1991) 'Growth Through Redistribution: A dangerous Fantasy?' in The Southern African Journal of Economics Vol 59 No 3

Molobi, E (1998) "Time to get our Hands Soiled" in Leadership, Vol.17 no.1

Morris, M (1993) "Who's in? Who's out? Trying to Side-Step a 50% Solution" in Pillay, D (ed) Work in Progress, WIP 87 Southern African Research Service, Johannesburg

Nattrass, N (1994) 'Politics and Economics in ANC Economic Policy' in African Affairs 93

Nattrass, N (1994) 'Economic Restructuring in South Africa: The debate Continues' in Journal of Southern African Studies Vol 20 No 4

Nattrass, N (1996) “ Gambling on Investment: Competing Economic Strategies in South Africa” in Transformation 31: Critical Perspectives on Southern Africa

Nomusa, C (2001) “ Bumpy Ride to Unity” in Enterprise Magazine, Mafube Publishing Ltd

Nomusa, C and Slabbert, D (2001) “Mbeki Faces Challenges head on” in Enterprise: The Presidency Supplement, Mafube Publishing Ltd

Nomvete, Maasdorp and Thomas (eds) (1997) “Growth with Equity” in Africa Institute for Policy Analysis and Economic Integration, AIPA/ Francolin Publishers

Ramos, M (1998) “Tactics for Certainty Strategies for Change” in Leadership, Vol. 17 no.1

Ryan, B (2002) “A Step Ahead of the Whip” in Financial Mail, Vol.166 no.6

Schrire, R (1998) “Thabo’s Republic” in Leadership, Vol.17 no.1

(2001) “Globalization: The Political Dynamics” in South African Journal of Economic and Management Sciences, Vol. 4 No. 3

Sender, J (1994) ‘Economic Restructuring in South Africa: Reactionary Rhetoric Prevails’ in Journal of Southern African Studies Vol 22 No 1

Stiglitz, J (1998) More Instruments and Broader Goals: Moving Towards the Post-Washington Consensus, The 1998 WIDER Annual Lecture.

World Bank (1984) Towards Sustained Development in Sub-Saharan Africa: A Joint Programme of Action. Washington DC: International Bank for Reconstruction and Development.

(1989) Sub-Saharan Africa: From Crises To Sustainable Growth – A Long Term Perspective Study, Washington DC: World Bank

Xundu, X and Molebeledi, P “ANC pushes for broader black stake in economy” in Business Day October 1, 2002

University of Cape Town