



OCCASIONAL PAPER NO 129

Economic Diplomacy Programme

December 2012

Values Versus Interests in the G-20's Global Economic Governance Effort: A South African Perspective

Peter Draper

South African Institute of International Affairs

African perspectives. Global insights.

ABOUT SAIIA

The South African Institute of International Affairs (SAIIA) has a long and proud record as South Africa's premier research institute on international issues. It is an independent, non-government think-tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs with particular emphasis on African issues and concerns. It is both a centre for research excellence and a home for stimulating public engagement. SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond. Core public policy research themes covered by SAIIA include good governance and democracy; economic policymaking; international security and peace; and new global challenges such as food security, global governance reform and the environment. Please consult our website www.saiia.org.za for further information about SAIIA's work.

ABOUT THE ECONOMIC DIPLOMACY PROGRAMME

SAIIA's Economic Diplomacy (EDIP) Programme focuses on the position of Africa in the global economy, primarily at regional, but also at continental and multilateral levels. Trade and investment policies are critical for addressing the development challenges of Africa and achieving sustainable economic growth for the region.

EDIP's work is broadly divided into three streams. (1) Research on global economic governance in order to understand the broader impact on the region and identifying options for Africa in its participation in the international financial system. (2) Issues analysis to unpack key multilateral (World Trade Organization), regional and bilateral trade negotiations. It also considers unilateral trade policy issues lying outside of the reciprocal trade negotiations arena as well as the implications of regional economic integration in Southern Africa and beyond. (3) Exploration of linkages between traditional trade policy debates and other sustainable development issues, such as climate change, investment, energy and food security.

SAIIA gratefully acknowledges the Swedish International Development Cooperation Agency, the Danish International Development Agency, the UK Department for International Development and the Swiss Development Corporation, which generously support the EDIP Programme.

Programme head: Catherine Grant, catherine.grant@saiia.org.za

© SAIIA December 2012

All rights are reserved. No part of this publication may be reproduced or utilised in any form by any means, electronic or mechanical, including photocopying and recording, or by any information or storage and retrieval system, without permission in writing from the publisher. Opinions expressed are the responsibility of the individual authors and not of SAIIA.

Please note that all currencies are in US\$ unless otherwise indicated.

ABSTRACT

As the world moves towards a multipolar power structure, so global economic governance becomes more challenging. One central issue is the need for major powers to find a basis on which to collaborate. For this reason, there is a rising interest in the potential of values to guide global norms in general and economic negotiations in particular. The Konrad Adenauer Foundation recently issued proposed guidelines for this purpose. This paper attempts to assess the extent to which those guidelines could be adopted by South Africa, as it establishes its domestic democracy, and participates in various global economic governance forums. The focus is on South Africa in the G-20 in particular. The paper concludes that the current architecture of South Africa's positioning within that forum, and global economic governance in general, is compatible with the KAS guidelines. In the medium term, however, the evolution of South African policies is in some doubt, principally owing to domestic shifts in interpretations placed on the democratic order established in 1996, and also South Africa's continuing social problems.

ABOUT THE AUTHOR

Peter Draper is Senior Research Fellow in the Economic Diplomacy programme at the South African Institute of International Affairs. His other domestic affiliations are: Adjunct Professor at Wits Business School; senior consultant to the India, Brazil, and South Africa think tank consortium at the Centre for Development and Enterprise; and research associate of the Department of Political Science at the University of Pretoria. His current international affiliations include: board member of the Botswana Institute for Development Policy Analysis; non-resident senior fellow of the Brussels-based European Centre for International Political Economy; and vice-chair of the World Economic Forum's Global Agenda Council on Trade. He holds a Master of Commerce degree from the University of Natal (now University of KwaZulu-Natal).

ABBREVIATIONS AND ACRONYMS

BEE	black economic empowerment
Cosatu	Congress of South African Trade Unions
dti	Department of Trade and Industry
EU	European Union
G-20	Group of Twenty
IMF	International Monetary Fund
KAS	Konrad Adenauer Stiftung
SACP	South African Communist Party
SADC	Southern African Development Community
SARB	South African Reserve Bank
SOE	state-owned enterprise
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change
WTO	World Trade Organization

INTRODUCTION

Since the Second World War the international economic order has been run largely along Western lines, a circumstance reinforced by the dissolution of the Soviet Union in 1991. This order¹ was underpinned by US geopolitical hegemony, and based on broadly liberal ideological foundations. Those foundations consisted of three elements: first, democratic national political systems; secondly, progressively more open trade, investment and (since the 1970s) domestic and international financial regimes; and thirdly, multilateral institutions to govern financial and trading systems. Participation in this order was based on an understanding that certain government prerogatives would be protected at the national level, while openness to international trade – and to a lesser extent finance and investment – would be pursued progressively. This was known as the ‘embedded liberalism’ compromise.²

The emphasis on trade, financial, and investment openness accelerated as the Cold War came to an end. US power approached its zenith; and the erstwhile Keynesian demand management macroeconomic framework and associated import-substitution development orthodoxy broke down in favour of ‘Washington Consensus’ policies. Subsequently, increased economic and geopolitical competition, from China in particular and certain emerging markets more generally since the 1997 Asian financial crisis, challenged the Washington Consensus framework.³ The current international financial crisis, which has its epicentre in the developed world, has further shaken the foundations of Western leadership of the world economic order while raising new possibilities concerning stewardship of the global economy. These dynamics have tended to lead to impasse in key multilateral organisations, thus accelerating the crisis of multilateralism.

This is the world in which South Africa now finds itself: an old order dying, and a new one yet to be born. There are many questions about what the new order will look like, and indeed whether multilateralism in general, as we have grown to understand it, can work in the absence of a hegemonic power imposing direction on the system. Against this background of impending flux, this paper seeks to answer a key question: how strong South Africa’s commitment to the present system is and related to this, whether or not South Africa, as a new emerging power, is ready and willing to assume a degree of leadership in managing and reconstructing the multilateral framework, and to make the requisite sacrifices in sovereignty this entails.

In answering these questions it is necessary to pay attention to the specific dynamics of South Africa’s political economy and how they interact with economic diplomacy choices among the leadership of the G-20 group of developing nations, of which South Africa is a member. Those dynamics and choices are, in turn, substantially rooted in an evolving mosaic of values within South African society. Consensus in global economic governance matters depends largely on a convergence of values among key participants, hence possible trajectories of South African views on such values, particularly liberal democracy, are assessed. The concluding section considers potential South African orientations towards a proposed set of principles for framing global economic governance discussions, as laid out by the Konrad Adenauer Stiftung (KAS).⁴

SOUTH AFRICAN ATTITUDES TO THE 'WESTERN' LIBERAL INTERNATIONAL ECONOMIC ORDER

Values: The democracy issue

Representative democracy is a key part of the South African reality, and is firmly entrenched in the constitutional framework so painstakingly negotiated between 1990 and 1996. On the face of it, therefore, South Africa should be well in tune with the democratic imperative that informs much international political discourse. The further the country moves from its first 'democratic' elections in 1994, however, and the longer it remains mired in chronic, deeply structural unemployment accompanied by severe income inequalities, the more challenges to democracy there will be. Furthermore, they will come about in a nation which, although melded together under the long shadow of a deeply traumatic and divisive Apartheid past, is yet made up of many different and distinctive cultures, traditions and general outlooks. Consequently there is a substantial divergence in attitudes towards liberal democratic values in their broadest sense and on the values framework that should govern South African society.

For example, while the South African constitution is internationally acclaimed as a model for liberal democratic values and social inclusion, there is a strong lobby within the country's ruling tripartite alliance⁵ that argues that it represents only a staging point towards a 'second transition'.⁶ The constitution thus is regarded as a compromise the alliance had to make to obtain political power, but one in which too much was given away to minority, particularly 'white', interests. In such quarters the judiciary, for example, has come to be seen as a key enforcer of an illegitimate outcome, because the opposition and various civil society groups regularly use the courts to enforce certain prerogatives; while those who support the constitution and the liberal democratic ideals it represents are regarded as 'counter-revolutionary'. From this perspective therefore, the constitution should be amended or maybe discarded altogether. At the heart of this tension is a – perhaps irreconcilable – difference over value systems: those who support the constitution adhere to its bias towards individual rights; those who wish to overhaul it in the name of the mooted second transition see those individual rights as standing in the way of majority interests, notably the racial transformation of society.

Such schisms are not merely about racial politics. The power of tribal chiefs to administer 'their' territories and, in the process, the access 'their' subjects may or may not have to formal judicial mechanisms, is a topical case. Chieftainly power is governed by the Traditional Leaders Governance Framework Act, which affords chiefs sweeping powers over land use and control, in a throwback to patrimonial relations⁷ associated with conventional wisdom about African society. The traditional courts bill, currently working its way through parliament, is ostensibly designed to bring traditional leadership governance systems in line with the constitution. As currently framed, however, it would apparently entrench the chiefs' rights to administer justice while denying 'their' subjects' access to the formal courts system.⁸ Many sectors of civil society (notably women's groups, since it is women that stand to be most disenfranchised) oppose the established and proposed traditional leaders' governance frameworks.⁹ This dissension has led to a schism at the heart of the government that is also playing out in the ANC's internal politics.¹⁰

These two examples demonstrate the complex and evolving mosaic of widely divergent interest groups in South African society, pulling social and economic policy in different directions. Consequently the nature of the state and its relationship to society is deeply contested terrain. South African democracy is very much a work in progress and a stable equilibrium is very difficult to discern. The South African political system might, for example, come to resemble that of Brazil – a relatively stable and increasingly confident multi-racial and multi-cultural democracy, albeit one beset with deep-seated development and governance challenges. Such an outcome would accord with the notion that the South African constitution has established a ‘floor’ under democratic governance in South Africa.¹¹ This view presumes that institutions associated with the constitution cannot be undermined or replaced by populist or authoritarian governments. On the other hand South Africa could come to resemble Venezuela, which has a populist government, authoritarian politics and a conservative minority establishment, all of which have brought economic stasis in their train. What are the implications of governance outcomes for South Africa’s participation in global economic governance arrangements? These are challenging questions for which there are no simple answers.

The divergent tendencies at the heart of South African politics afford a degree of flexibility to the political leadership in its engagement with the world. It is unlikely that global economic governance arrangements will cohere around a hard-core ‘values-based’ approach;¹² they constitute so broad and generalised a constraint that it will not put South Africa out of kilter with global developments. It necessarily means, however, that the country is unlikely to come down hard on the side of the ‘democracy promotion’ agenda¹³ in discussions concerning global economic governance, particularly since that agenda is associated with ‘the West’¹⁴ which, in turn, is associated with colonialism and support for South Africa’s past Apartheid regime.

While such bitter memories are likely to fade over time, there could also be a cultural- or values-based connection between the black South African body politic and China,¹⁵ leading to an affinity that may not be shared with the West. Bell and Metz¹⁶ argue in a pioneering article that this could coalesce around broadly shared values pertaining to: the centrality of community; relative emphasis accorded to horizontal relations among ‘unconnected’ individuals in relation to vertical relations between ‘connected’ individuals; and respect accorded elders in society. Although they also note substantial divergences, they contend that Confucianism, now gaining ground in Chinese society, and the putative Southern African humanist value structure of ‘ubuntu’ – enjoying something of a vogue in South Africa – have much in common and each can learn much from the other.

If South African democracy matures and acquires a stable equilibrium¹⁷ it is possible that the country would find itself straddling the ‘democratic’ orientation of Western countries and the authoritarianism of emerging states such as China in a classic ‘middle power’ role.¹⁸ This could afford the country more leverage in international economic negotiations and greater potential for alliances, conditioned by the cold calculus of economic interest. On the other hand, if South African democracy suffers serious reverses and authoritarian governance becomes entrenched,¹⁹ two consequences are foreseeable. First, the country’s legitimate claim to participation in global economic governance would be undermined, at least in Western eyes, with attendant implications for South Africa’s ‘political gateway’ status (discussed in more detail below). Secondly, it would be likely to drive the country into the ‘authoritarian’ camp because it would increasingly rely on

Chinese and perhaps Russian support to bolster its representational claims. This could partly explain South Africa's enthusiasm for the BRICS²⁰ grouping.

Economic interests in global governance

South African attitudes toward trade, investment, and financial openness are easier to discern. That does not indicate a domestic consensus but rather that there is significant and potentially more intense contestation over these issues, fuelled by an array of domestic interest groups.

South Africa's financial system is robust, highly developed, and globally respected.²¹ Its finance ministry and central bank understandably guard this position in forums such as the G-20, and advocate liberal domestic economic policies in order to build broader competitiveness in the economy. Under the 1999–2008 presidency of Thabo Mbeki this ideological orientation was supported, sustained and extended – at least initially – into trade and investment policy. It was, however, accompanied by contrasting domestic regulatory impulses: on the one hand trade and investment liberalisation and deregulation of key private industries, and on the other, tighter labour market regulations and the establishment of an elaborate institutional framework to promote black economic empowerment (BEE). Overall the approach was one of product market liberalisation accompanied by labour market tightening. To some extent this contradictory thrust accorded with the ethos of the embedded liberalism compromise underpinning the liberal international economic order, although primarily it reflected domestic political and economic considerations.

A disparate coalition propelled Jacob Zuma's ascent to the presidency in 2009, an event that introduced considerable uncertainty into government's commitment to the relatively liberal, economic model. There are those, such as the leaders of the South African Communist Party (SACP), who advocate abandonment of the Mbeki model (which they term 'the 1996 class project'). They have substantial influence over trade and investment policy and supported by the Congress of South African Trade Unions (Cosatu) advocate more state direction of the economy through industrial policy, state procurement and state-owned enterprises, and – rhetorically at least – increasing protection, in particular of domestic manufacturing.²² Important elements of the business community, represented among others by the Manufacturing Circle, an industrial lobbying group, favour this thrust and hope to reap rewards from it.

Many black entrepreneurs have benefited from state contracts and the broader BEE policies and favour their continuation, at the same time being sceptical of greater trade or investment liberalisation, which may threaten their prerogatives. The populist leaders of the African National Congress Youth League actively advocate nationalisation of South Africa's lucrative mines whilst pursuing private gain, often through state contracts. This direct threat to their interests has understandably captured the attention of big business concerns, which, while often rhetorical supporters of liberal economic reforms, are now much more enmeshed in international ventures and therefore less attentive to the relative openness of the domestic economy. Ironically, the SACP leaders advocating reversal of liberalisation oppose nationalisation of the mines, since in their view the advocates are simply keen to secure those assets and are not committed to a genuine programme of nationalisation. These tendencies, and more, are at work in an increasingly opaque

tripartite alliance governing structure in which the centre of economic policy-making, if indeed there is one, is hidden from view. Overall, contradictions at the heart of the South African economic policy debate have greatly intensified since 2009.

What, then, is the country's attitude likely to be towards multilateral regulatory frameworks designed to maintain and extend the liberal international economic order, or future derivatives of it?

South Africa seems committed to multilateralism.²³ It is actively engaged on many fronts, from the G-20 to the World Trade Organization (WTO), the UN Framework Convention on Climate Change (UNFCCC) and beyond. This broad orientation is consistent with the tripartite alliance's negotiations culture, stemming largely from the structures that brought about the 1996 constitutional settlement. The default position remains one of commitment to negotiation: 'to jaw-jaw is better than to war-war'.²⁴

In some spheres however, there is a more practical impulse behind the commitment to negotiation. This is the desire to constrain the power of dominant Western powers, particularly the US, in the international system. The tendency is particularly marked in foreign policy and security areas. It is echoed in the trade sphere where, in addition to the US,²⁵ the European Union (EU) is a key target of alliance building. Furthermore, the Department of Trade and Industry (dti) does not adhere, at least rhetorically, to a liberal policy stance but rather advocates active industrial policies to support particular manufacturing sectors, using trade protection as an instrument if necessary to build domestic capabilities. Overall this gives the trade negotiation stance of the dti a decidedly 'North-South' flavour. By contrast, in finance and macroeconomic matters – traditional G-20 terrain – South African positions follow a more liberal route, owing to the fact that the Treasury and the South African Reserve Bank (SARB), in line with their counterparts elsewhere, chart a relatively liberal domestic economic course. Hence their international negotiating alliances, to the extent that they are discernible to outsiders, probably tend to be more pragmatic (for example, extending to Australia and Canada).

The leadership question

Since 1994 South Africa has been the 'political gateway' nation of choice into Africa for foreign powers owing to its hitherto dominant economic position on the continent.²⁶ Multilateral economic diplomacy therefore consistently has been thrust upon South Africa, along with an African leadership role. South Africa has actively sought African backing for its positions in key negotiating forums; notwithstanding the tensions this can cause, given sometimes widely divergent economic interests. Consequently South Africa could hardly be considered a 'free rider' in the international system. True, the country pursues its own interests, but in some spheres also actively canvasses African views in order to represent them as far as it can. The same cannot be said of other emerging powers, which seem largely to represent themselves. Despite its ideological impulses the dti has also been rather constrained in implementing protectionist measures, at least compared with some of its emerging counterparts.

Yet in hewing to national prerogatives on the multilateral stage, particularly in foreign policy but increasingly in trade and investment, South African leaders consciously take positions at odds with Western designs. Partly this is fuelled by deep-rooted distrust of Western powers (particularly the US) in some South African quarters, arising out of a

history of open, covert or tacit support some of them gave to the Apartheid regime. Related to this is the fact that the foreign ministry in particular argues that for South Africa to retain a leadership position in the developing world, it must maintain a healthy distance from Western institutions and processes.²⁷ Yet another influential group represents emergent (and potentially ascendant) domestic ideological impulses, particularly those more sceptical of the liberal international economic order and wary of the constraints it is perceived as imposing on domestic economic policy.

Clearly these are not uniquely South African views. Nonetheless, as new powers emerge on the African continent, notably Nigeria but also Egypt and East African countries, so it is likely that those Western powers frustrated by South Africa's positioning will increasingly look for alternative interlocutors on the African stage. If, therefore, South Africa wishes to retain its political gateway role in global economic governance negotiations, it must be capable of drawing on a strong network of international alliances. Its membership of the BRICS and IBSA²⁸ groupings, for example, in theory offers this possibility. Although adherence to some notion of the global public good will certainly play a part in this process, it is more likely that such alliances will be driven more by domestic perceptions of the national interest seen against accepted notions of which alliances it is politically safe to forge.

A SOUTH AFRICAN PERSPECTIVE ON THE KAS GUIDELINES

The KAS guidelines are grounded in the German ordoliberal tradition of economic thought,²⁹ which combines the liberal principle of individual freedom with the conservative requirement for order and a concern for ethical outcomes in market competition. This tradition is at once wary of state-centric and laissez-faire economic development, while demonstrating concern for social justice interventions to meet egregious market outcomes. This logic extends to support for international rules to govern key market processes at the global level.

On the face of it these ideological elements are present in South African economic policy, as elaborated by the ruling tripartite alliance. The mere fact that they are present does not, however, constitute a coherent ideology along the lines of ordoliberalism; rather, the ideas are often in sharp contention with one another. The economic policies that eventually emerge are the product of uneasy and shifting alliances across a broad ideological spectrum, and are based on considerations of power politics rather than tactical adjustments rooted in broadly shared ideological dispositions. The tripartite alliance has often been described as a 'broad church' and so it is, having so far managed to combine these different ideologies under one roof, with the ANC governing more or less from the centre-left; but the centripetal forces operating on the alliance are growing, and when they result in a rupture South African politics will be fundamentally redefined.

Consequently South African dispositions towards the KAS principles (see Annexure) ultimately depend on how intra-alliance politics play themselves out and are likely increasingly to be in flux. Nonetheless, as matters currently stand it is possible to chart some directions for the medium term.³⁰

The South African government could argue that it supports principles one to three, covering the rule of law, respect for private property, and enforcement of competition. The

competition issue is reasonably clear-cut: South Africa has one of the world's most widely respected competition regimes. The enthusiasm for state-owned enterprises (SOEs) to drive economic development in South Africa does, however, represent one significant qualification. SOEs dominate transportation, electricity supply and telecommunications. Furthermore, the government's interpretation of the rule of law, as applied to international organisations, is perhaps more flexible than the KAS has in mind; South Africa's complicity in the collapse of the SADC Tribunal, in deference to pressure from the Zimbabwean government following a series of rulings against Zimbabwe, is a case in point.³¹ In addition, BEE policies, which amount to positive discrimination, violate the private property principle because they involve redistribution of ownership, regardless of any political imperatives behind the policy. Similarly, nationalisation of privately owned mines would violate the private property principle, no matter how well intentioned or historically grounded such action might be.

Principles Four and Five pertain largely to financial markets and macroeconomic stability. Principle Four, the liability principle, would probably find support among South African banking regulators. It requires market participants to take responsibility for their actions, particularly in risk-taking. The SARB, however, operates an explicit 'big four' policy whereby the biggest four banks are deemed pillars of the system and therefore are – implicitly – seen as too big to fail. This oligopolistic framework is sometimes criticised as leading to cartel cost structures that seem impervious to competition policy. Nevertheless, along with sound regulation, it could be argued that the structure has played an important part in ensuring the stability of the South African financial system during the current international financial crisis and as previously noted, the World Economic Forum's Global Competitiveness Report consistently ranks the South African financial sector very high among its peers.³²

Principle Five effectively argues for sound monetary policy, with an implicit anti-inflationary bias. South Africa's inflation targeting regime resonates with this objective, albeit the mandate was recently reinterpreted to include growth and employment considerations. There is, however, a lobby in the tripartite alliance (with support from the Manufacturing Circle), that wishes to change the mandate to favour cheaper money and a weakened exchange rate, thereby favouring manufactured exports. Domestic debate on this matter has waxed and waned over the past five years or so.³³ Currently the SARB's deliberative framework probably accords more closely with the US Federal Reserve than the German Bundesbank. Obviously that is a good benchmark, even if not quite in keeping with ordoliberal principles; and unquestionably the SARB is generally respected by the investor community for the efficiency with which it pursues its mandate, and for its policy decisions.

Principle Six argues for state intervention where markets fail. In social policy this finds concrete expression in Principle Seven, concerning 'solidarity and social security'; both principles certainly find widespread support in South Africa. There is, however, substantial difference of opinion concerning the role of SOEs in the economy. A significant lobby in the SACP, Cosatu and the left wing of the ANC wishes the state to retain control over the 'commanding heights' of the South African economy. This view finds expression in some quarters in the notion that the tripartite alliance is constructing a state capitalist economic model. It is reflected in the apparent hands-on approach to management of SOEs adopted by the current Minister of Public Enterprises, which has caused tensions between the

various SOE boards and the minister.³⁴ Privatisation therefore seems off the agenda for the foreseeable future, no matter how badly SOEs perform. South Africa would appear to be moving closer to a Chinese, or Brazilian, or perhaps Russian approach to the relationship between the state and markets.

Principle Eight advocates a neutral tax system that does not distort market incentives and mechanisms of allocation. It is not clear what this means in practice: most, if not all, states implement redistributive tax regimes for personal taxation at least. South Africa is no exception. As for corporate taxation it is not clear – to anyone other than a tax expert – exactly what constitutes a distortion and what does not. What is reasonably clear in the South African case is that there is a concern to maintain a competitive tax regime while minimising special deals for special sectors. In common with most countries such special deals of course exist, and may proliferate if the industrial policy lobby has its way. This would not render South Africa by any means remarkable, undesirable though such an outcome may be.

Principle Nine advocates inter-generational justice as part of a broader sustainability agenda. The South African authorities are moving in this direction, at the same time as they try to balance growth and employment objectives. This attempt is most likely to manifest itself in the form of a carbon tax regime, rather than carbon trading per se. Implementation will undoubtedly lag behind that of developed countries, but this would accord with agreed UNFCCC approaches, specifically the notion of ‘common but differentiated responsibilities’ for developed and developing countries. Mounting concern over the domestic cost implications of implementing carbon mitigation policies will reinforce this tendency.

Principle Ten advocates support for open international markets. In South Africa the global playing field is widely regarded as unfairly stacked in favour of developed countries. Hence while the South African government remains committed to the Doha round of WTO trade negotiations, its clear preference is for a developmental outcome that would accord greater market access to developing countries than they are themselves required to make.³⁵ The clearest manifestation of this approach is in trade negotiators’ frequent reference to the need for developing countries to retain ‘policy space’. Furthermore, domestically the lead department has shifted towards a more active industrial policy and an associated leaning towards tools of trade protection – at least rhetorically. Clearly South Africa is not alone in this reorientation process, and among its G-20 peers has behaved relatively responsibly by not implementing wholesale protection.

CONCLUSION

Taken as a whole, South Africa’s current economic policy is generally in line with that espoused in the KAS guidelines. Its future evolution, however, is a matter of considerable uncertainty and is intimately connected to factional battles within the tripartite alliance. Currently it seems likely that the notion of ‘state capitalism’ could gain momentum, and if so it could be accompanied by an intensification of the thrust against open international markets. While in the author’s view such a move would be undesirable it does not seem likely to be a radical reversal of previous policy. It will be constrained by the strong need to retain healthy public finances, as recent downgrades by international ratings agencies

attest. In this sense the financial interest acts as a powerful check on the more radical exponents of state capitalism and redistribution, but it is also in keeping with the broad evolution of economic policies among South Africa's G-20 peers; these in turn reflect the continuing impact of the global financial crisis and an underlying shifting power dynamic, associated with the rise of China in particular.

Based on this assessment it seems reasonable to conclude that the South African government will pursue negotiating alliances in the G-20 and other forums according to domestic political economy considerations, rather than a principled approach to democratic governance per se. Furthermore, it is unlikely to find the KAS guidelines too problematic, barring the possible exceptions noted above, nor are the positions it takes likely to be radically out of kilter with established international norms; although over time it may move towards a more sympathetic approach to developing country prerogatives. How these alliances will play out in terms of countries, coalitions, and cross-national sectoral interests is impossible to answer in the abstract. It depends on which negotiating area is under consideration, and how it fits into the constantly shifting mosaic of South Africa's domestic political economy.

ANNEXURE: THE KAS GUIDELINES

The Konrad Adenauer Stiftung offers 10 guidelines on prosperity, social justice and sustainable economic activity as preconditions for a successful social market economy. In summary, they are:

- 1 **Legal framework:** a functioning, reliable and democratically legitimate legal system.
- 2 **Property ownership and employment:** an efficient economic structure geared to sustainability must be based on a system of private property ownership.
- 3 **Competition:** a competitive economic system, domestically and globally, based on the free determination of prices [is necessary].
- 4 **Principle of liability:** freedom of competition requires the application of the principle of liability by which competitive performance is tied to the responsible conduct of each participant, and participants accept the liability for losses incurred.
- 5 **Stability of the economic environment:** a market economy needs a long term economic policy and the greatest possible macroeconomic stability that eschews short-term national economic and growth targets, applying particularly to financial markets and avoidance of protectionism.
- 6 **Provision of public goods by the state:** the state must ensure the provision of public goods if the market is unable to provide them.
- 7 **Solidarity and social security:** a market economy needs effective, broad-based social security systems functioning in line with market conditions.
- 8 **Incentive compatibility:** a market system needs an incentive-orientated system of levies to finance state tasks, and which is neutral in its effects on market participants.
- 9 **Sustainability:** every economic system must be judged ... by its long-term results, particularly its effects on inter-generational justice.
- 10 **Open markets:** a coordinated policy of open markets and respect for the rules of fair play is crucial.

ENDNOTES

- 1 Draper P, 'Towards a framework of principles for the G-20: Assessing the Konrad Adenauer Stiftung Guidelines', SAIIA (South African Institute of International Affairs), Occasional Paper 109, 2011.
- 2 Ruggie JG, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', *International Organisation*, 36, 2, International Regimes Spring 1982, pp. 379–415.
- 3 Williamson J, 'Where have we come from? Reflecting on the Washington Consensus', paper delivered at 'Globalisation and Economic Success: Policy options for Africa' conference, the Brenthurst Foundation, Singapore, 7–8 November 2005.
- 4 KAS (Konrad Adenauer Stiftung), *Guidelines for Prosperity, Social Justice, and Sustainable Economic Activity*, Cologne 2010. <http://www.kas.de/soziale-marktwirtschaft>.
- 5 The ANC (African National Congress); South African Communist Party and the Congress of South African Trade Unions.
- 6 ANC, 'The Second Transition? Building a national democratic society and the balance of forces in 2012', version 7.0 2012, <http://www.anc.org.za/docs/discus/2012/transition.pdf>. It is important to note that this argument failed at the ANC's June 2012 policy conference, apparently because the notion is 'theoretically unsound'. Pietersen M & M Letsoalo 'Zuma's second transition rejected by ANC commissions', *Mail and Guardian*, 27 June 2012, <http://mg.co.za/article/2012-06-27-zumas-second-transition-rejected-by-anc-strategy-commissions>.
- 7 The classic text on this subject is Chabal P & Daloz JP, *Africa Works: Disorder as Political Instrument*. Oxford: James Currey, 1999.
- 8 President Zuma reportedly recently described this as a choice between traditional African justice and 'the white man's way'. Basson A *et. al.*, 'Zuma scolds "clever blacks"', *City Press*, 8 November 2012, available at <http://www.citypress.co.za/Politics/News/Zuma-scolds-clever-blacks-20121103>.
- 9 Claasens A, 'Unaccountable chiefs are a recipe for a new Marikana', *Business Day*, 18 September 2012.
- 10 Makinana M, 'Dissent over traditional courts bill', *Mail and Guardian*, 14 September 2012. <http://mg.co.za/print/2012-09-14-00-dissent-over-traditional-courts-bill>.
- 11 The author is grateful to a reviewer of an earlier draft of this paper for this insight.
- 12 Draper 2011, *op. cit.*
- 13 Carothers T & R Youngs, 'Looking for Help: Will Rising Democracies Become International Democracy Supporters?', *The Carnegie Papers: Democracy and Rule of Law*, Washington DC, July 2001.
- 14 See for example the statements in the ANC's policy conference resolutions on international relations, available at <http://www.safpi.org/print/2291>. For example 'The Movement has appreciated the impact of the continued ideological contest between a generally reactionary perspective of the world ... and a generally liberal-progressive (*sic*) on the other'. (Paragraph 7) Or 'The emergence of ... China, India, and Brazil have a perspective (*sic*) that is informed by their struggles against colonialism ... thus share our commitment to rebuilding and transforming the institutions of global governance'. (Paragraph 10) The reference to Brazil as a post-colonial power is particularly interesting because Brazil, in this author's estimation is still governed by descendants of colonists. Finally consider this statement: 'Africa has also seen a growing scramble for economic power between the West and the emerging markets. It

- is therefore imperative for the ANC/South Africa to forge strategic partnerships with emerging markets that is beneficiating (*sic*) to both the ANC/South Africa and the emerging markets'. (Paragraph 11) It should be noted that these are party pronouncements and not official state policy. In practice official policy seems more pragmatic than party statements would suggest.
- 15 And presumably other Asian societies, which draw on Confucian traditions.
 - 16 Bell DA & D Metz, 'Confucianism and ubuntu: Reflections on a dialogue between Chinese and African traditions', *Journal of Chinese Philosophy*, 38 (supp): 78-95, 2011.
 - 17 There are reasons to be optimistic. South Africa has a strongly independent print media and judiciary; the architects of democratic reform in the ANC while apparently not in the ascendancy remain a significant force and oppose the 'securocrat' agenda; business is a powerful force in society and significantly internationalised, a black middle class with putative democratic values has grown; and strong international pressures are on whomever is governing South Africa owing to its political gateway role (see endnote 26).
 - 18 Schoeman M, 'South Africa as an emerging middle power: 1994–2003', in Daniel J, Habib A & R Southall (eds), *State of the Nation: South Africa 2003–2004*. Cape Town, HSRC Press, pp. 349–367. She argues that middle powers play a facilitating role, whereas emerging middle powers are norm setters. In her view South Africa does not possess the power to be a norm setter.
 - 19 Some reasons to be pessimistic are: that securocrats in the ANC seem determined to narrow the space for civil society activism, most notoriously through Ministry of State Security sponsorship of the so-called 'secrecy bill'; corruption has grown alarmingly in recent years; annual reports of the auditor general show local and provincial governments in particular suffer from pervasive accountability and accounting challenges; the current approach to the powers of traditional leaders threatens the civil rights of up to a third of South African citizens (see endnotes 8, 9 and 10); South Africa's support for disbanding the SADC tribunal after Zimbabwean pressure which suggests the South African government interprets the rule of law flexibly (see endnote 31).
 - 20 Brazil, Russia, India, China, South Africa.
 - 21 WEF (World Economic Forum), *The Global Competitiveness Report: 2012–2013*, Geneva. South Africa ranked third out of 144 in the financial market development indicator.
 - 22 See Draper P, 'Will South Africa continue to be a good international citizen?', *Business Day*, 3 October 2012, for a brief review of South Africa's crisis-era trade measures, <http://www.bdlive.co.za/opinion/2012/10/03/will-south-africa-continue-to-be-a-good-international-citizen>.
 - 23 Dube M & M Qobo, 'The burdens of multilateral engagement and club diplomacy for middle-income countries: the case of South Africa in the BRICS and the G-20', SAIIA, forthcoming.
 - 24 Remark reportedly made by Winston Churchill, 26 June 1954,
 - 25 Ismail F, 'Narratives and myths in the WTO Doha round', *Economic and Political Weekly*, XLVII, 4 August 2012. <http://www.epw.in/perspectives/narratives-and-myths-wto-doha-round.html> (subscription required).
 - 26 Draper P & S Scholvin, 'The economic gateway to Africa? Geography, strategy and South Africa's Regional economic relations', SAIIA, Occasional Paper 121, September 2012. In the paper a distinction is drawn between economic and political gateways.
 - 27 The author has personal experience of this in the context of debates within the South African government over South Africa's relations with the OECD. To simplify, the Treasury and several technical departments such as science and technology and agriculture, favour closer relations with the OECD. The Department of International Relations does not, as it fears this would

compromise South Africa's broader relations with G-77 nations, the OECD being regarded as a rich, 'Western' club.

- 28 India, Brazil, South Africa.
- 29 This paragraph is based on Draper 2011, *op. cit.*, pp. 15–16.
- 30 A general discussion of each principle is contained in Draper 2011, *ibid.* pp. 17–18.
- 31 Fritz N, 'South Africa's role in global promotion of rule of law: "Neither here nor there"', *South African Foreign Policy Initiative*, 25 September 2012. <http://www.safpi.org/print/2259>.
- 32 WEF *op. cit.*
- 33 For a review see Draper P, 'Trade, industrial policy, and exchange rates in South Africa', SAIIA, Occasional Paper 66, August 2010.
- 34 Most recently, most board members, the CEO and two senior managers of South African Airways resigned, citing or hinting at a lack of support from the Department of Public Enterprises. Smith, N 'SAA leadership must persuade treasury sceptics', *Business Day*, 10 October 2010, <http://www.bdlive.co.za/national/2012/10/10/news-analysis-saa-leadership-must-persuade-treasury-sceptics>.
- 35 Ismail F & B Vickers, 'Mandela's way: Reflections on South Africa's role in the multilateral trading system', in Wilkinson R & J Scott, *Trade, Poverty, Development: Getting Beyond the WTO's Doha Deadlock*. London: Routledge, 2012.

SAIIA'S FUNDING PROFILE

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being funded by, among others, the Bradlow Foundation, the United Kingdom's Department for International Development, the European Commission, the British High Commission of South Africa, the Finnish Ministry for Foreign Affairs, the International Institute for Sustainable Development, INWENT, the Konrad Adenauer Foundation, the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the Canadian International Development Agency, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Economic Commission for Africa, the African Development Bank, and the Open Society Foundation for South Africa. SAIIA's corporate membership is drawn from the South African private sector and international businesses with an interest in Africa. In addition, SAIIA has a substantial number of international diplomatic and mainly South African institutional members.

South African Institute of International Affairs
Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339-2021 • Fax +27 (0)11 339-2154
www.saiia.org.za • info@saiia.org.za

