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THE DEVELOPMENTAL STATE DEBATE IN SOUTH AFRICA



The Developmental State Debate in South Africa

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The Developmental State Debate

Introduction

In the post-apartheid South African context, government's economic policy (including its trade policy) is framed within the idea of a developmental state. This seeks to offer a more development-focused approach to economic policy making. This is informed largely by the history of the country and the socio-economic challenges that are a legacy of the past apartheid policies. In academic and policy literature the idea of a developmental state is understood in reference to the 'Asian Tigers' that went through a particular form of developmental path using a combination of authoritarianism, government-business relations, industrial policy measures, and outward-orientation. This imagery of a developmental state expressed in the Asian Tigers is difficult to avoid, and will thus be reflected upon in this paper.

These 'Asian Tigers' were largely interventionist states who did not suffocate the markets for ideological reasons as was the case for example in much of Sub-Saharan Africa post-independence. The state activism dimension of the Asian developmental states seems to have attracted the attention of state elites, and this aspect has come to occupy a place of pride in policy discourse in South Africa.

Beyond vogue and euphoria it is worth probing what exactly does 'developmental state' mean in the post-1990 context and in a period characterised by increasing global integration and emergence of 'footloose' capital favouring locations that have less regulatory constraints? What are some of the crucial challenges that the prospect of a developmental state in

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South Africa comes up against? Can, indeed, South Africa become a developmental state, and what kind of a developmental state? This paper serves as an analytical and critical reflection on the ongoing discourse in South Africa. It does not need seek to offer answers or prescriptions.

The Developmental State Debate and South Africa's Socio-Economic and Growth Dilemmas

There is little doubt that the ruling elite are taking cue from the developmental state models found in Asia in the 20th Century. The ANC's economic transformation discussion document puts the case for industrial policy thus: 'In the twentieth century, the developing countries that succeeded in promoting industrialisation, sustained growth and development have all had in common developmental states that played a leading role in infrastructure programmes and which had an active industrial policy.'² It further suggests that the state must play a central and strategic role without much elaboration as to what this entail in practice.

In the post-apartheid South African context, the idea of a 'developmental state' is part of a language used to connect with the economically disempowered constituencies, especially the poor and the unemployed. This is part of making sense of the complex developmental challenges that the ANC government inherited when it assumed political power in 1994. In this respect, the 'developmental state' is more of a descriptive package of government's programmes aimed at poverty reduction, socio-economic change, and reducing inequalities in economic participation by various social groups.

There are two fundamental tensions that characterise government economic policy programme. The first is what is sometimes defined as pro-poor agenda or transformative objectives. The second is related to attracting foreign investment, ensuring economic growth and modernizing the economy. These

² ANC Policy Discussion Document, *Economic Transformation for a National Democratic Society*, Conference Paper for the ANC's 2nd National Conference, 2007, p.6.

are not naturally contradictory logics of development, but the locus of tension is in the perceived emphasis of economic policy priorities. This tension manifests itself in the balancing act of the state in managing the pressures for *equity* or socio-economic transformation and those to do with *efficiency-oriented* objectives.

While there may well be a general consensus over what the key objectives of the state should be in a broad sense, there are varied perspectives on the means (and their sequencing) to be deployed towards achieving such objectives. Because the state is, by virtue of the power at its disposal, a contested terrain and can be an expression of powerful economic interests in society, the extent to which it achieves certain developmental ends depends very much on its ability to maintain relative autonomy while creating society-wide coalitions for change. With respect to relative autonomy, Stephan Haggard and Robert Kauffman have suggested that, 'reform initiatives are more likely when political institutions insulate politicians and their technocratic allies from particular interest group constraints, at least in the short-run.'³

This is a difficult, but not an impossible, undertaking in a politically and socially polarised society. What this means is that realising transformative potential of the country may take longer to realise as the state may have to negotiate certain policy options with a broader set of economic interests. That is the nature of democratic polities. As this paper noted earlier, in less-democratic Asian states it was possible for the state to gain latitude to pursue developmental ends that were regarded as constitutive of collective interests, precisely because of the internal organisation of the state as well as the homogenised nature of civil society and absence of independent competing political interests.

In South Africa's case, which is a pluralistic democracy with a vast array of special interests, the state would have to develop capacity to manage various

³ Stephan Haggard and Robert R. Kauffman, 'Introduction: Institutions and Economic Adjustment', In Stephan Haggard and Robert R. Kauffman (eds.), *The Politics of Economic Adjustment*, (Princeton: Princeton University Press, 1992), p.19

civil society interests and nurture trust. Lack of trust among economic agents in society is said to inhibit beneficial exchange and reduce the overall stock of social capital, a critical element of a developmental state.⁴ The emphasis on the significant role of the state would have to be toned down in favour of a more diffused and shared authority and responsibility, while the state remains at the apex of society and manages intermittent social tensions as well as address collective action problems. Broader civil society participation at the local and national level-politics should be seen as part of a unique constellation that can help build trust between the governing and the governed, and contribute towards enhancing social cohesion.⁵ In this sense, owing to its unique history and the nature of challenges that the state faces today, South Africa cannot develop a developmental state along the lines that existed in Asia.

South Africa's Crisis and Outlines of a Reform Strategy

Much of the challenges that confront South Africa today arise from the legacy of the apartheid system, especially its racialised labour market policies and the economic decline that set in around the mid-1970s. When the new political incumbents ascended to power in 1994 the economy was already in a battered state, having emerged from three-and-a-half-year recession on the back of three decades of decline.⁶ The challenges that confronted South Africa were complex, and these included stunted growth in the economy, job losses, inefficient and poorly performing industries; and social challenges related to rural development, housing, health system and electrification. South Africa's economy continued to decline in the 1970s.

⁴ For an excellent discussion on the role of trust in fostering economic development, see Sylvia Maxfield and Ben Schneider, 'Business, the State and Economic Performance in Developing Countries', In Sylvia Maxfield and Ben Schneider (eds.), *Business and the State in Developing Countries*, (Ithaca: Cornell University Press, 1997), pp.12-13.

⁵ See T. Ademola Oyejide, 'Comment on the "Political Economy of High and Low Growth"', by Alberto Alesina, In Boris Pleskovic and Joseph E. Stiglitz, *Proceedings of the Annual World Bank Conference on Development Economics*, (Washington D.C: The World Bank, 1997), p.239.

⁶ Yvonne Tsikata, 'Liberalization and Trade Performance in South Africa', *World Bank Discussion Paper 13*, The World Bank Southern Africa Department, 1999, p.1.

The apartheid era growth strategy was not so much designed with the labour reserve in mind, but focused on increasing capital-intensity in production, and entrenching job privileges for the white section of the population.⁷ With the growing saturation of the white consumer market and the preoccupation of the formal sector with this segment, the ability of the manufacturing sector to benefit from economies of scale was severely curtailed⁸ – a reality which contributed to pressure for policy shift away from import-substitution industrialising and towards reducing anti-export bias in the economy.

The import-substitution-industrialisation strategy which acted as a pillar of South Africa's growth path for many decades was no longer working, and had to be replaced with outward-oriented strategies.⁹ This transition from ISI to EOI was different from the manner in which Asian economies managed their policy shift. While these economies used their ISI phase to master and adapt foreign technology and to learn by doing, South Africa had for a long time remained in isolation from the world markets. Its growth strategy instead generated inefficiency in the manufacturing sectors which, according to Nicoli Nattrass, absorbed rather than produced foreign exchange.¹⁰

These challenges were not going to be addressed by markets alone, and thus state interventionist measures were preferred. However, there was a lack of articulation of how business-state relations were going to be calibrated in order to achieve optimal developmental outcomes. Reliance on the state alone was far from helpful. A commissioned report that was drawn up by the Macro-economic Research Group (MERG) (comprising an eclectic mix of left-leaning academics and policy experts who had close links with trade unions and the ANC), made some proposals on how to restructure the economy. The

⁷ Jeremy Seekings and Nicoli Nattrass, *Class, Race and Inequality in South Africa*, p.378.

⁸ Black Economic Empowerment Commission Report, 2003.

⁹ The import-substitution industrialisation programme dates back to the 1920s, and was crafted partly to reduce reliance on exports of agricultural produce and gold; spur industrialisation with employment creation for whites in manufacturing industries; and to assist with developing greater economic independence from Britain. For a discussion of the evolution of South Africa's trade policies, Cassim et al. (2002).

¹⁰ Nicoli Nattrass, 'Economic Restructuring in South Africa: The Debate Continues', *Journal of Southern African Studies*, Volume 20 (4), December 1994, p.521.

substance of the proposals reflected predisposition towards state-driven approach and social democratic framework.

In the transition between apartheid era and democracy, the economic reform process was managed as part of the negotiated settlement that characterised South Africa's transition into democracy. For example, a neo-corporatist mechanism in the form of a National Economic Forum (NEF) was established to act as a consensus-seeking instrument for the development of an economic pact for the future. The NEF consisted of ANC's economic mandarins, the trade union leadership, organised business and fractions of the former Nationalist Party government.

It is possible that, while there was an understanding of the magnitude of these economic challenges by the new political elite, the needed instruments to overcome these challenges were not sufficiently understood and elaborated. The social structure of the past did not simply disappear at the moment of transfer of political power. The surplus of less-skilled labour continued to increase even after apartheid, with low level of labour market participation and employment in rural areas.¹¹

The migratory impulse from areas of low economic concentration (but high social concentration) in the rural areas to high economic concentration in the urban areas began to strongly manifest when the remaining apartheid laws were finally dismantled in the 1990s. This is confirmed by the study undertaken by Seekings and Nattrass who have argued that there are continuities between the apartheid distributional regime and the post-apartheid dispensation, suggesting that while race has lost weight as the main factor of inequality, class is increasingly catching up.¹²

¹¹ Abhijit Banerjee, Sebastian Galiani, Jim Levinson and Ingrid Woolard, 'Why Has Unemployment Risen in the New South Africa?', *Centre for International Development Working Paper* No. 134, Harvard, October 2006.

¹² Jeremy Seekings and Nicoli Nattrass, *Class, Race and Inequality in South Africa*, (KwaZulu-Natal: University of KwaZulu-Natal Press, 2006), p.376.

The class advantages and disadvantages that are reproduced in the post-apartheid distributional regime are, according to Seekings and Nattrass, as emphatic as those produced by the apartheid regime along race. These class divides began towards the final phases of the apartheid system, and in their simple expression include tensions between the rich (including the middle classes) and the working class; between those with jobs ('semi-privileged') and the jobless (under-privileged).¹³

With regards to trade policy reforms in the early 1990s, one of the key challenges was to reduce the anti-export bias in the economy, ensure liberalisation on the import side through elimination of quantitative restrictions, and integrate firmly into the global economy. The economic reforms acted to gradually shift incentives away from import-substituting activities and towards export orientation.¹⁴ For example, in its liberalisation effort, South Africa's offer to the WTO sought to reduce tariff categories from close to 200 to 6 and this was to be at the rates of zero, five, ten, fifteen, twenty, and thirty percent. This has not been fulfilled, and is being re-examined as part of government's renewed effort to review the tariff book.

The exempted sectors in South Africa's GATT offer were clothing and textiles and the automotive sectors, and these were given eight years to liberalise at the same level of offer as other sectors.¹⁵ Furthermore, South Africa also made commitments to reduce domestic subsidies, and these were to be phased out by 20 percent over a six year period (based on the 1986-88 period).¹⁶

Prior to trade reforms, South Africa's trade pattern was characterised by dominance of primary products in its export basket, mainly metals and minerals, and importation of capital goods and technological products.¹⁷

¹³ Jeremy Seekings and Nicolai Nattrass, *Class, Race and Inequality in South Africa*, p.377.

¹⁴ Yvonne Tsikata, 'Liberalization and Trade Performance in South Africa', *World Bank Southern Africa Department*, Discussion Paper 13, 1997, p.9. www.worldbank.org

¹⁵ Cassim *et.al*, *op.cit.*, 2002, p.11.

¹⁶ Piritta Sorsa, 'Sub-Saharan African Own Commitments in the Uruguay Round – Myth or Reality?', *World Economy*, Volume 19, 1996 (3), p.293.

¹⁷ Macro-economic Research Group, *op.cit.*, p.235.

These trade patterns and, indeed, the nature of South Africa's growth strategy were hardly a good recipe for economic success in the 1990s. This was evident in the pace at which the formal sector was shedding jobs.

Dealing with the persistent challenges of poverty and unemployment would thus require a mix of policies that would include: government-driven public works programme, lower-wage and labour-intensive programmes and, as Dani Rodrik suggests, increasing the absorptive capacity of the informal economy.¹⁸

Furthermore, the informal sector would have to be somewhat modernized and better regulated. Such modernization should include much better targeted support at skills development, enterprise development, upgrading of standard quality, tax incentives, and nurturing of supply-chain linkages with more established business using the incentives built into the revised BEEE Codes of Codes of Good Practice.

Developmental State Conditions in South Africa post-1994?

Building a society based on the foundations of social justice, that is inclusive, and with an economy that is dynamic and internationally competitive is non-negotiable for South Africa – however difficult this is to attain. The state actors have to find the right means to achieve such a good. With macro-economic stability providing a good platform for economic growth, micro-economic efficiency (including various supply-side measures and public sector-driven infrastructure development programme) and strengthening of public sector institutions could provide a much better alignment between socio-economic development objectives and efficiency goals.

The socio-economic and structural challenges that South Africa faces are unique to it. Lessons can be drawn from around the world, but there can be no 'one-size-fits all' or a global best practice to which South Africa would need to

¹⁸ Jeremy Seekings and Nicolai Nattrass, *Class, Race and Inequality in South Africa*, p.389.

strictly conform. Moreover, the strategies that may have worked magic for the Asian Tigers in the 1960s to the 1980s may not be best instruments that countries can tap into to confront challenges associated with globalisation, relatively open international markets, rising tide of competition from other emerging economies, and the speed with which capital moves from one location to other.

On the public service institutions, an efficient, well-organised, and insulated bureaucracy that is characterised by meritocracy can be a crucial element in achieving the goals of a transformative (developmental) state. At issue here is the need to professionalise public services, which would require abandoning the unproductive rent-seeking approach of ‘deployment’ of party cadres. As Peter Evans has pointed out, a state that is endowed with technocratic and administrative capacity has more latitude for policy options than those with weaker bureaucracy.¹⁹

At the top echelons of its public service, and in key ministries that are at the nexus between the domestic and the global economy, South Africa has a semblance of a solid bureaucratic class that has a well-developed understanding of policy challenges and what needs to be done in addressing these. But this is a much smaller elite corps relative to the magnitude of prevailing developmental challenges.

It is often the lower layers of bureaucracy that determine effectiveness of policy implementation, yet this is where inefficiencies loom large. Furthermore, there is a need for better coordination if the objectives of a developmental state, especially those that are set out in the Accelerated and Shared Growth Initiative (ASGISA) and National Industrial Policy Framework (NIPF) are to be attained.

¹⁹ See Peter Evans, ‘The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change’, In Stephan Haggard and Robert R. Kauffman (eds.), *The Politics of Economic Adjustment*, (Princeton: Princeton University Press, 1992), p.22.

Developmental State Debates within the Ruling Party

In its earlier policy document, *Ready to Govern 1992*, the ANC set out policy guidelines on the future developmental state. It asserted that the developmental state would ‘...have ultimate responsibility – in cooperation with the trade union movement, business and other organs of civil society – for coordinating, planning and guiding the development of the economy towards a sustainable economic growth pattern. Emphasis will be placed on macro-economic balance, including price stability and balance of payments equilibrium.’²⁰

It stressed a consultative and participatory approach to governance, placing the civil society broadly, and community-based initiatives in particular, as key agents working alongside the state in social service delivery. The role of the state was defined in terms of infrastructure development projects and managing utilities such as energy and communications. Although the document is vague on the role of the private sector as an engine for growth and development, nevertheless it alluded to the contribution of a ‘dynamic private sector’ to the economy.

It is apparent in this document that there existed little understanding of the role the private sector could potentially play in a future democratic South Africa. The role of the developmental state was seen very much in interventionist terms, albeit, in a less absolutist sense than, for example, Asian developmental states. This ANC policy document – ‘Ready to Govern’ - envisaged the state as intervening in the economy in a ‘flexible way’, and in a manner that ‘...strengthen the ability of the economy to respond to the massive inequalities in the country, relieve the material hardship of the people, and to stimulate economic growth and competitiveness’.²¹

²⁰ African National Congress, *ANC Policy Guidelines for a Democratic South Africa Adopted at the National Conference*, 28-31 May 1992.

²¹ African National Congress, *Ready to Govern*, *op.cit.*

As to how exactly this would be undertaken or operationalised – especially in relation to other societal institutions such as the markets and civil society - was not spelled out in precise terms, except to highlight broad areas of intervention by the state: increasing public sector in strategic areas through, for example, nationalisation, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector; reducing the public sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged. The ANC's thinking on these matters was still at a formative stage, and was less encumbered by the burdens of governance.

Since the late 1990s, government's strategies regarding restructuring of state-owned enterprises have foundered. A new role for them as drivers of public infrastructure development programme has been identified. Furthermore, the ANC's policy document envisaged, vaguely, a mixed economy that is driven through structured consensus between various societal actors such as the state, the trade unions, the private sector and the civil society. Nothing much has changed in the ANC's economic policy thinking, although this is continually evolving to reflect both the external (global) and internal dynamics related to growing social tensions. Current ANC pronouncements on economic transformation still reflect tensions between statism and market-based approaches.

In the formative stages of ANC rule, the ruling party's approach continued to favour a strong state model that is capable of acting in the collective interests, and geared towards improving the quality of life, and ensure balance between democratisation and considerations of equity and justice.²² It was not to be very long before the realities of governing in a pluralistic political landscape set in. This factor was compounded by the backdrop of an increasingly globalising world economy and pressures for South Africa to integrate closely with the global economy. This pressure, coupled with the domestic structural

²² See The African National Congress Discussion Document, *The State, Property Relations and Social Transformation*, A Discussion Paper Towards the Alliance Summit, 1998; and Joel Netshitenze, 'Understanding the tasks of the moment', Input at the COSATU Summer School, November 2005, reprinted in Umrabulo Journal of the ANC, 2006. www.anc.org.za

difficulties, pushed the incumbent state to introduce major reforms in the economy that somewhat acted to shift the ideological orientation of the state towards market accommodation.

To give effect to this liberal reform agenda, a discussion document widely believed to have been authored by Thabo Mbeki (then deputy president), presented at the Alliance Summit in 1996, set out some of the outlines of a developmental state (more favourable to business than previous ANC positions). In this document there was recognition that large-scale and over-extended state that is driven by ideology and economic nationalism would not be an ideal one, and that to send the right signals to foreign investors the government would have to express a clear intention for reforms.

For the first time, the governing elite elaborated a modernising agenda and articulated a policy position that was less state-centric and friendlier to the private sector. Curiously, this paper was never adopted as the official ANC or alliance policy paper, yet its main ideas underpinned the government's economic policies between 1996 and 2002 (more interesting, Mbeki quoted extensively from this paper during his opening address at the ANC's National General Council in June 2007).

Possibly, this paper created a chasm between the two centres of power – the ruling party (ANC) and its left-leaning allies, and the state. Significantly, the paper did not directly refer to the notion of *developmental state*, but stressed the concept of *democratic state*. Similarly, not once did Mbeki refer to the notion of 'developmental state' at the National General Council in 2007. It could well be that he is more aware of the uncomfortable relationship between a *developmental state* (whose lineage is authoritarian) and a *democratic state*, a concept he is more comfortable using.

The thrust of this discussion document was on balancing various contending interests in South Africa, while privileging the interests of the marginalised sectors of society. This balancing act also extended to economic relations

between the state, capital and labour: It contended that *social stability* and *economic progress* hinged on this golden triangle.²³

Harnessing the positive dimensions of globalisation through ensuring openness of the economy and attraction of Foreign Direct Investment as a critical source of, and a partner to, economic development was one of the objectives that the document highlighted.²⁴ It was partly this language, and, presumably, its less-friendlier tone towards labour (calling for labour to show restraint on wage demands and focus on long-term transformation goals than on narrow sectoral interests) that failed to win it acceptance in the broader governing alliance (ANC-COSATU-SACP).²⁵

Lack of trust between the state representatives and the labour movement comes out strongly in this document, and this continues to play itself out in the relationship between the COSATU and the ANC (especially the fraction of the ANC in the Union Building). This lack of trust erodes the platform for elaboration of shared legitimacy of social purpose and erodes the scope for societal coalitional base that lends the ruling party the authority to construct a broadly acceptable version of a developmental state.²⁶ This lack of trust is also salient in the state-business relationship, partly due to historical affinities of white business with the apartheid regime and the predisposition of the ANC regime towards cultivating a new crop of black big business.

In the ANC discussion document highlighted above, much of the trust is placed on the emerging black middle class, and imploring white capital to enter into structured relations with the former as part of de-racialising the economy and offering the means for 'economic empowerment of the black majority'.²⁷ The document prefers benign parasitism where black bourgeoisie

²³ ANC Discussion Document, *The State and Social Transformation*, November 1996. www.anc.org.za

²⁴ ANC Discussion Document, *The State and Social Transformation*, p.7.

²⁵ ANC Discussion Document, *The State and Social Transformation*, p.11.

²⁶ See discussion by T.J. Pempel, 'The Developmental Regime in a Changing World Economy', In Meredith Woo-Cumings (ed.), *The Developmental State*, (Ithaca: Cornell University Press, 1999).

²⁷ *ibid.*, p.12.

grows, principally, on the back of the resources of white capital rather than through a malign form where it could emerge from the loot of public resources.²⁸ There is no doubt that this is justifiable on the basis of historical injustices and the reformist imperative to deracialise asset ownership in the post-apartheid era.

The instrument of Black Economic Empowerment (BEE) seeks to enlarge the black middle-class. Ironically, it is potentially this sector that could present a strong independent voice against the ruling party in future, acting as its grave diggers – especially if the ruling party veers towards a more populist character *a la* ZANU-PF. The type of developmental state that this discussion document (*State and Social Transformation*) outlined is a *regulatory* state that conforms broadly to modern liberal states, largely found in Western societies.²⁹ It makes no reference to Asian developmental models. Indeed, there is a fundamental difference between these types of regimes (see below).

According to Pempel, developmental states ‘...define their missions primarily in terms of long-term national economic enhancement’, and that ‘...they actively and regularly intervene in economic activities with the goal of improving the international competitiveness of their domestic economies.’³⁰ However, competitiveness for its own sake, without a credible agenda that seeks to address socio-economic inequalities is a non-starter. The relationship between the two should be seen as reciprocal: competitiveness helps to generate resources to enhance social inclusion, which in turn facilitates higher levels of competitiveness.³¹

Developmental states are distinguishable from the ‘regulatory states’ which have the hallmarks of most developed economies, with their primarily responsibility being to set regulatory mechanisms for the benefit of market

²⁸ *ibid.*, p.13.

²⁹ The paper alludes to the regulatory role of the state through legislation, fiscal and monetary policy, and adherence to international agreements and conventions. ANC Discussion Document, *The State and Social Transformation*, *ibid.*

³⁰ T.J. Pempel, *op.cit.*, p.139.

³¹ Department of Taoiseach, (Irish Economic Development Strategy), ‘Opportunities, Challenges and Capacities for Choice’, *NESC Report 104*, Department of Taoiseach, 1999.

agents, and often manage tensions arising in the market place. This is also different to the plan-ideological state that was ubiquitous during the Stalinist era.³² South Africa's developmental model would have to cast itself somewhere between the developmental state and regulatory state. Given the duality of South Africa's economy – having both 'First' and 'Third World' characteristic, this would seem a probable path.

A later ANC document, the *State, Property and Social Relations* document, drafted by Joel Netshitenze (regarded as the government's chief strategist), highlighted a number of responsibilities of the state. These included de-racialisation in the manner that serves the interests of the poor; promoting the emergence and empowerment of black capitalist class via white capital (rather than via the public sector as this could entrench rent-seeking); fostering a mutually beneficial relationship between the state and capital for the purpose of expanding the economy, creation of jobs, and increasing supply-side performance; playing a regulatory role in the areas, for example, of competition policy, labour market legislative framework, equity policies, and improving tax collection for redistributive purpose; and to use media resources for 'social transformation' objectives.³³

The current ANC Economic Transformation document (and one of the most contentious in the run up to the 2007 National General Council) is replete with ambiguities. Consider for example its position on the character of the economy. It envisages a 'mixed economy characterised by cooperative and other forms of social ownership alongside private capital in a constructive relationship and where democracy and participation lead to growing economic empowerment.'³⁴

This is compounded by difficulties in delineating the relationship between the state and the private sector. It asserts that 'Whilst the state plays a decisive

³² See Chalmers Johnson, 'The Developmental State: Odyssey of a Concept'.

³³ The African National Congress Discussion Document, *The State, Property Relations and Social Transformation*, A Discussion Paper Towards the Alliance Summit, 1998.

³⁴ ANC Policy Discussion Document, *Economic Transformation for a National Democratic Society*, Conference Paper for the ANC's 2nd National Conference, 2007.

role in shaping economic development, the private sector is the main engine of investment, growth and employment creation.³⁵

Much of the document is a repackaging of previous ANC pronouncements on economic transformation as well as detailed reference to the ASGI-SA and industrial policy process. This ambivalent attitude towards the market explains the increasing importance placed by the Department of Trade and Industry on industrial policy from early 2000 onwards, and the developmental role parastatals are expected to play through infrastructure investment programme, which is at the heart of ASGI-SA. (See discussion below). It would be worth making allusions to the Asian developmental states to accentuate the unique realities that South Africa exists under, and to highlight areas where possible lessons could be drawn under different circumstances.

The Character of Asia's Developmental States

Asia's post-War development trajectory has always been pointed to as prototype of what a developmental state should be, and an example of how developing countries can manage their transition from economic backwardness to becoming new centres of economic growth in the South. Even though there are representative countries that are held up as developmental models – Taiwan and Korea – there is no precise definition as to what is exactly meant by the concept 'developmental state' or a clear view on the methods that states can undertake to fully express developmental state characteristics.

The East Asian countries exhibited a combination of market mechanism and activist role of the state in driving industrial development. The degree to which state activism was responsible for creating economic prosperity in these countries *vis-à-vis* the role of private agents acting independently is still a matter of contention in political economy literature. At the heart of the issue is whether the economic development of these states can be credited to

³⁵ *Ibid.*, p.10.

industrial policy measures or their economic take-off happened in spite of industrial policy. It is difficult to know the counter-factual, that is, what these states would have been like without the involvement of the state. In any case such speculation is unfruitful for understanding the drivers of economic growth and development in different contexts.

Indeed the state was active in nurturing the conditions for economic development, but the impulse was towards creating a market-based and an internationally competitive economy. As Peter Evans suggests, the involvement of the state in economic development is given, but the important consideration for economic policy is the method or the how of state's involvement relative to other societal actors.³⁶ How the state intervenes in the economy is conditioned by factors that are beyond its immediate control, including global structural change, the bargain between states and multinational corporations, the flow of investible resources globally, following a particular set of policies that are regarded as conforming to 'global best practices', and the commitments already made at the multilateral trade negotiations.

Although the global context that state elites find themselves in today is different from what prevailed during the height of Asia's developmental project, defining a developmental state requires some reference to its Asian lineage. This brings with it all the complexities of having to determine the manner in which the state was involved in providing strategic guidance in the economy, the particular socio-political context under which it was possible to undertake certain economic policy programmes, as well as the external environment that conditioned their success. This does not mean state actors should be backward-looking, except to learn what not to do. In spite of the nature of global transformations, there is still latitude for crafting creative policies that are cast on market-based mechanism while at the same time dealing with the complex issues of socio-economic development.

³⁶ Peter Evans, 'States and Industrial Transformation', In C.Roe Goddard, Patrick Cronin and Kishore C. Dash, *International Political Economy: State-Market Relations in a Changing Global Order*, (London: Palgrave Macmillan, 2003), p.126.

There is no doubt that drawing lessons from the Asian economies is an extremely difficult undertaking for a number of reasons that have to do with context and capacities. This partly explains why the bigger project looking at case studies on economic reforms to which this paper contributes has eschewed a narrow focus on Asian economies, and instead draws on a broad set of countries from both the developed and the developing countries to understand the determinants of successful reforms. However, for the purpose of this paper we would make a cursory reference to Asian economies since, as it would seem, South Africa is drawing lessons from their experiences.

What exactly was the character of Asia's developmental states? There was no singular character that bound these states together. They were, in many respects, different from each other. This difference was particularly stark between the North East-Asian states of Japan, Korea and Taiwan and the second-generation developmental states of South East Asian developmental states – Malaysia, Indonesia and Thailand. However, some common threads could be identified from how these states sought to manage structural transformation and the particular relationships that were structured between the state and business.

Linda Weiss highlights three essential ingredients that were present in most of the Asian states: preoccupation with enhancing productive capacities, closing technologic gap and with the West and fostering capital accumulation; existence of a bureaucratic agency that was insulated and in charge of transformative projects, and endowed with best managerial talent; and strong institutional linkages with government.³⁷ South Africa has a considerable lack of human capital, a reality that hits public service the hardest. There was however, much more that these states exhibited that was peculiar, and this includes an authoritarian form of internal organisation and a political culture that fostered docility in the face of big and paternalistic state.

³⁷ Linda Weiss, 'Developmental States in Transition: Adapting, dismantling, innovating, not "normalizing"', *The Pacific Review*, Volume 13 (1), 2000, p.23.

Chalmers Johnson, who is widely credited for coining the concept, observed that: 'The source of authority in the developmental state is not one of Weber's "holy trinity" of traditional, rational-legal, and charismatic source of authority. It is rather revolutionary authority: the authority of a people committed to the transformation of social, political, or economic order.'³⁸ This conjures an image of an imposed order along the lines of the military apparatus. Johnson further suggests that there is little that differentiates the leaders of a developmental state to those leading mass movements.³⁹

This imagery is resonant with the character of the ruling party – the ANC – which is pulled between a mass movement character and a modern political party, and struggles to fuse the two contradictory tendencies. The impulse of the 'developmental state' is nestled on the former and less so on the latter – which seeks to construct a more outward-oriented democratic country.

When Japan's developmental state was given birth in the 1930s, it was fully authoritarian; similarly, the nature of the state in Korea, especially during the high industrialisation phase in the 1970s was authoritarian; and Taiwan was under a martial law from 1947 until 1989.⁴⁰ These states undertook their industrial development and economic reform processes under paternalistic circumstances, where there was a considerable unity between the state and society, and the individual had no place.⁴¹

The state-society nexus was essentially positive in respect of industrial capital, and other societal actors, for example, labour were excluded and fettered. However one looks at it, it is difficult to escape the historicism of the developmental state as rooted in authoritarians and, by implication, democracy is incompatible with developmental state image. Historically,

³⁸ Chalmers Johnson, 'The Developmental State: Odyssey of a Concept', In Meredith Woo-Cumings (ed.), *The Developmental State*, (Cornell: Cornell University Press, 1999), p.53.

³⁹ *ibid.*

⁴⁰ Bruce Cumings, 'Webs with no Spiders, Spiders with no Webs', In Meredith Woo-Cumings (ed.), *The Developmental State*, (Cornell: Cornell University Press, 1999), p.69.

⁴¹ This draws on the Aristotlean critique of the fusion between the state and society, arguing that when this is the case, the state becomes more like a household. Essentially, the state takes on a more paternalistic character. See, Aristotle, *The Politics*, (London: Penguin Books, 1992).

economic development could best be achieved under the tutelage of an authoritarian state.⁴²

Although Johnson has denied the charge that his seminal work on the developmental state has served as an apologetic for a certain type of authoritarianism, he concedes that, ‘...authoritarianism can sometimes inadvertently solve the main political problem of economic development using market forces – namely how to mobilise the majority of the population to work and sacrifice for development projects.’⁴³ It is implied in his work that it would be impossible to conceive of a developmental state outside of a non-Western political culture, and an environment whose state-society relations reflect an Anglo-Saxon paradigm.

From the above, it is clear that South Africa – a fledgling liberal democracy – would find it hard to evolve a developmental state along the lines of Asian examples. South Africa, as a constitutional democracy, guarantees political freedoms, has institutions that are independent, and critical of, the state in the form of free media, and there is plurality of political parties.

The fact that South Africa has a different socio-political context to the one that prevailed in Asia during developmental take-off does not mean that it cannot aspire to the same ends – national economic competitiveness or build state-society nexus under foundations of pluralistic democracy.⁴⁴ Neither does it mean that the state cannot be actively involved in promoting economic development - either as a regulator of activities of private agents or as a creator of propitious conditions for economic success. That the state needs to

⁴² Mark Robinson and Gordon White, ‘Introduction’, In Mark Robinson and Gordon White (eds.), *The Democratic Developmental State: Political and Institutional Design*, (Oxford: Oxford University Press, 2002).

⁴³ Chalmers Johnson, ‘The Developmental State: Odyssey of a Concept’, *op.cit.*, 52.

⁴⁴ Peter Evans argues that a broadly defined embeddedness (built around ties to multiple social groups) offers a better platform for social transformation. See Peter Evans, ‘States and Industrial Transformation’, In C.Roe Goddard, Patrick Cronin and Kishore C. Dash (eds), *International Political Economy: State-Market Relations in a Changing Global Order*, (Basingstoke: Palgrave Macmillan, 2003), p.133. It is not clear what provisions this has for managing tensions around similar set of policy programmes by competing interests.

combine the programme of modernisation (market efficiency) and developmental interventionism lies at the heart of this paper.

The conditions for success mentioned in the forgoing could, for example, be in the form of investment in education, infrastructure development, human capital upgrading or R&D investment.⁴⁵ This form of intervention seeks to address 'collective action' problems that the market would not have incentive to address. As indeed is the case there are low levels of private sector investment in these areas. This is a less overbearing and an unassuming activist role. Yet it can establish a solid platform for economic growth and industrial success.

However, the pressure on the state is greatest because of the developmental challenges that go beyond the general structure of the economy, but have a strong bearing on the socio-economic tensions – and this presents the state with stark choices. One of the tensions that South Africa faces, post-apartheid, is that existing between the need to build a growing and competitive economy while at the same time contending with pressures from its main constituency base for redistributive policies. This plays itself out in an environment where the authority of the ruling elite is under challenge from within, and the state is still in many ways fragile, with only 13 years of existence since democracy set in.

This is not helped by the fact that the historical lineage of the present day ruling elite is rooted in mass mobilisation: its largest constituency is made up of the unemployed, the poor and the working class, while also maintaining an appeal to the middle-classes and big business. It cannot simply impose its will on the civil society; it can only negotiate its options for economic change. Policy positions that are aimed at benefiting one constituency at the expense of the others are likely to have a polarising effect and generate a backlash

⁴⁵ As Dani Rodrik argues, policies that are socially oriented can enhance the productive capacities of the economy. See, Dani Rodrik, 'The Global Governance of Trade as if Development Really Mattered', *Paper Prepared for the United Nations Development Programme*, www.harvard.edu

from those who are perceived to be excluded or relatively deprived (either in the form of a limited political voice or economic marginalisation).

Hence, the notion of a developmental state inspired by Asian models is unlikely to meet with much success in the South African context. Yet there are no other living examples of what a successful developmental state is other than those offered by the Asian models. When these states pursued their developmental objectives they subordinated means to the near-transcendental ideal of development - something which may not be easily achieved in a pluralistic society such as South Africa.

Preoccupation with the Asian model has the danger of foreclosing the space for creatively theorising new forms of developmental states, something which could help to advance a better understanding this concept. Indeed, this is one of the major obstacles to the development of a richer analytic view of the developmental state. President Mbeki's special adviser, Anver Saloojee, has pointed out that. 'The developmental state in SA [South Africa] does not and cannot seek to emulate developmental states in other parts of the world.'⁴⁶

In the South Africa debates, the concept of a 'developmental state' sometimes obfuscates more than it provides clarity on what the state seeks to achieve, and how. This difficulty is compounded by the fact that the concept is appropriated with different understandings by the alliance partners of the ruling party, and provides a tenuous means of solidifying consensus within the ruling alliance. The language is the same, but the meanings are varied.

For those who are outside of the ruling party, this could give an impression that there is a predisposition towards entrenching a narrow, party-ideology rule that is beholden to populist sentiments than embarking on modernisation and economic reforms that are key in ensuring long-term competitiveness.

⁴⁶ Anver Saloojee, 'Role of the State: Developing After Our Own Fashion', *Business Day*, 01 August 2007. www.bday.co.za

It needs pointing out though that while authoritarianism played a big part in shaping the evolution of developmental states in Asia it was not the only variable that explained their successes. There was a pragmatic commitment to achieving developmental outcomes. Population control was one of the policies that were carefully undertaken in some of these states, especially in Taiwan. This brings us to an important area concerning what lessons can be drawn from the Asian models.

What Lessons can be drawn from the Asian Developmental State Model(s) and the Past Decade of Democracy in South Africa?

The four Asian tigers (Hong Kong, Singapore, Taiwan and), exhibited relatively high levels of protection for specific manufacturing sectors especially transport equipment, machinery and consumer durables.⁴⁷ They started with simple manufactures and, unlike the import-substitution industrialisation that was to be pervasive in Sub-Saharan Africa post-independence, did not discourage export growth.

Furthermore, an array of policies aimed at encouraging investment over consumption, injecting targeted financing, and protecting domestic producers from foreign competition were put in place.⁴⁸ Building a manufactured-base export-oriented growth path became the next deliberate step undertaken on the back of import-substitution industrialisation. The initial phase of growth eschewed the more Anglo-Saxon preoccupation with ‘getting the prices right’ at all cost and at the expense of developing productive capacities through the use of micro-economic interventions.

Other practices included enhancing entrepreneurship growth to enlarge the national pie; a carefully planned land reform programme to enrich poor farmers (and thereby containing potential social discontent); implementation of short-term *import-substitution industrialisation* (later followed by export-

⁴⁷ Jon Weiss, *Industrialisation and Globalisation: Theory and Evidence from Developing Countries*, (London: Routledge, 2002), p.22.

⁴⁸ Stephen S. Cohen and John Zysman, ‘Puncture the myths that keep American managers from competing’, *Harvard Business Review*, November-December 1988, p.100.

promotion strategy); selling off of state-owned enterprises to small and medium-sized entrepreneurs; encouraging savings through tax incentives; and establishing export processing zones from the mid-1960s onwards to attract foreign direct investment; public financial prudence; and keeping the public sector at the right size.⁴⁹

As is clear from the above, in some instances efficiency objectives were subjected to developmental goals.⁵⁰ Markets were disciplined in the short-run in order to ensure long-term optimal outcomes for national economic competitiveness. It is worth emphasising that the main dominant trait of the proto-type developmental states was their passionate commitment to fostering a culture of enterprise, and government interventions also sought to reduce barriers for business development and growth.

Given the different realities obtaining in South Africa, and the global context within which the fairly new South African state is evolving, it will be impossible to transplant the template of developmental state experience of Asian Tigers. Apart from the limitations cited earlier, there is the obvious, and often cited, issue regarding the context in which these economies prospered: they enjoyed unparalleled preferential access to the US market, and were most favoured because of their geo-strategic importance to the US during the Cold War.

This was an era when high politics had seized the centre-stage in Western countries, in particular in the US. This is not to suggest that no lessons can be drawn. Indeed, much can be learned, especially in respect of sequencing policy reforms; managing industrial change and building national economic competitiveness; balancing efficiency and equity considerations, maintaining a broadly outward-oriented posture; and effecting horizontal interventions in

⁴⁹ K.T. Li's interview (widely credited as Principal Architect of Taiwan's economic miracle) given to Larry C. Farrell, *Searching for the Spirit of Enterprise*, (London: Penguin Books, 1993), pp.254-259; For a strongly interventionist perspective, see Ha-Joon Chang, 'The East Asian Model of Economic Policy', In Evelyne Huber (ed.), *Models of Capitalism*, (Pennsylvania: Pennsylvania State University Press, 2002), pp.204-211.

⁵⁰ See Alice Amsden, *The Rise of the Rest: Challenges to the West from Late Industrializing Economies*, (Oxford: Oxford University Press, 2001), p.18.

areas such R&D support, human capital formation, infrastructure development.

Roger Southall suggests that there are three imperatives that South Africa would have to address if it is to transform into a developmental state. These are related to its human resource capacity constraints; limits posed by globalisation; the combination of low levels of social coherence and low levels of development – both inherited from the apartheid era.⁵¹ In this respect, he argues, South Africa has to ‘combine development and democracy.’ It is difficult to point to any example in the developing world outside of Asia that has achieved this feat, especially in the era of contemporary globalisation and interdependence in which South Africa has to navigate its economic policy choices.

While a case can be made that pursuing development as a priority is not a choice but a necessity for a country whose society is acutely torn along racial and class lines, there is no simple answer as to what character and form such a developmental strategy should assume. A look at South Africa’s journey since it attained democracy in 1994 reveals not only the complexities of managing political and socio-economic change in the era of globalisation, but also sheds some light on the possible paths or linkages between various options that South African explore towards its developmental destiny.

From macro- to micro-economic reforms: new competitive threats and the changing face of globalisation

The first phase of South Africa’s political transition and economic policy processes devoted much of its attention to macroeconomic reforms and adjusting the domestic policy environment to the global economic landscape. There was a discernible shift towards trade openness and active promotion of a liberal and rules-based global trading system. The offer to the GATT in 1993

⁵¹ Roger Southall, ‘Introduction: can South Africa be a developmental state’, In Sakhela Buhlungu, John Daniel, Roger Southall and Jesicca Lutchman (eds) (2006), *South Africa 2005 – 2006: State of the Nation*, (Human Science Research Council: Pretoria, 2006), p.xvii.

attested to South Africa's quest for openness and global integration. In the June 1994 budget, tariff cuts were proposed: intermediate and capital goods were freed from the 5 percent import surcharges – which range from 5 percent to 40 percent of import value, and covering 60 percent of tariff lines.⁵²

During this phase, microeconomic reforms were given less attention. Policies directed at firm-level competitiveness, small business development and industrial policy framework did not emerge, except as broad pronouncements, until early 2000. The Growth, Employment and Redistribution (GEAR) framework that was the clearest indication of government's commitment to liberal reforms emerged during this period.

There was a real pressure, given the ailing state of the economy, to stabilise macroeconomic aggregates and stem the tide of deficit if social spending was to be sustainable in the future. Macroeconomic stability was also viewed as important from government's perspective to ground an outward-oriented strategy. The liberal reform agenda was highly oversold, and it raised unrealistic expectations about what was possible within a short period of time.

For example, it was hoped that massive job opportunities would be generated; and that South Africa's new found commitment to liberalisation would be sufficient to attract new productive investment that would serve to as an engine of growth. The failure for this to take off generated bitter disappointment among the ANC's core constituencies and in its left alliance partners, and further sharpening the tensions between the modernisers and populists.

The premium placed on the stabilization programme was on correcting the macro-economic environment, and as such it toned down the 'basic needs' approach advocated in the Reconstruction and Development Programme (RDP) which was the ANC election manifesto launched in 1994, and derived a popular support amongst the workers, the unemployed, and the poor in

⁵² Yvonne Tsikata, 'Liberalization and Trade Performance in South Africa', *World Bank Discussion Paper 13*, The World Bank Southern Africa Department, 1999.

general.⁵³ In hindsight, this ‘constrained discretion’⁵⁴ would later help the Minister of Finance in increasing public expenditure envelope, especially directed towards infrastructure development, education, health system, housing and other basic social services – a reality that the ANC’s alliance partners on the left find uncomfortable to admit.

The GEAR strategy launched in June 1996 eclipsed the RDP. Unlike the RDP, it was more specific and systematic, and set ambitious targets. It was essentially designed to build confidence for increased private sector investment and output expansion. Some of its basic outlines and targets included improving the competitive profile of the economy; expanding the private sector for capital formation; ensuring infrastructure development and service delivery; introducing some flexibility in the labour market; ensuring fiscal deficit reduction; achieving growth rates of 6 percent by 2000, and employment rate of 400 000 jobs per annum during this period.

This project may have been implemented with insufficient consultation with broader societal stakeholders – something that earned it severe criticism by ANC’s left partners – however it helped to establish a solid base for economic growth. What it failed to do was to ensure social inclusion through targeted interventions in historically marginalised communities. Aside from the fact that some of its targets were quite short-term and it was overly obsessed with attracting foreign investment as an answer to growth challenges, it made some achievements, especially viewed from the counterfactual if such a framework was not in place during the global economic strain of the mid- and late 1990s.

Macro-economic planning always takes place in conditions where the future is uncertain and difficult decisions have to be made over choices that do not guarantee success. Between 1996 and 2000 the deficit was reduced from 5.1 percent to 3 percent, with further reductions in the next six years. Currently

⁵³ The key programmes of the RDP included: meeting the basic needs, developing human resources, building the economy, democratising the state and society and implementation.

⁵⁴ This is borrowed from Robert Preston, *Brown’s Britain*, (London: Short Books, 2006), p.160.

the budget is in surplus, giving more flexibility for future redistributive policies and programmes. While this is positive on the surface, it exposes government to capture by particularistic interests who may push for more extreme redistributive measures or inflationary wage increases.

The Second Phase of Reform

The GEAR framework fell short of its target of stemming unemployment, creating new jobs and raising the rate of growth by 2000. This accentuated the tensions within the ruling party, with increased calls for more pro-poor social interventions and protection of existing jobs. This heralded a new phase in South Africa's economic reform agenda – a phase that witnessed a loss of trade liberalisation momentum and the re-emergence of the industrial policy debate. This also coincided with the moment of confusion in the global trading system, with the prospect of concluding the Doha round appearing dimmer than ever, as developed countries resisted pressure to liberalise their agricultural markets (and middle-income developing countries preoccupied with industrial policy resisting deep cuts in their industrial tariffs).

Within the government in general, and the Department of Trade and Industry in particular, there was a sense of disappointment not only with the lack progress at the multilateral trade negotiations front, but also with the persistence of domestic developmental challenges. Lack of positive response of Foreign Direct Investment to South Africa's stabilisation programme dampened the liberalisation mood among the policy makers.

The second phase of South Africa's reforms (post-2000) also coincided with the development of the intensification of globalisation with competitive pressures driven by second generation of Asia's reformers - China and India. The ruling elite made very strong linkages between this phase of economic reforms and the urgency of making interventions in the sluggish parts of the economy through supply-side measures and sustained growth. These challenges are also alluded to in the National Industrial Policy Framework.

As pointed out by the Mckinsey Global Institute, China's economic surge and its entry into the World Trade Organization have sent shivers across the developing world, and for middle-income countries, including South Africa, this renders their position as low-wage producers and exporters increasingly tenuous.⁵⁵ Given these global realities, and against the backdrop of commitments that are being negotiated at the World Trade Organisation which would force developing countries to cut their industrial tariffs, countries such as South Africa focusing on building comparative advantage in labour-intensive manufacturing may hit a wall.

In Mbeki's second term of office, commencing in 2004, the economic reform agenda, with micro-economic strategy as a cornerstone, was most preferred. More emphasis was placed on integrating the 'Second Economy' to its more developed counterpart. This era also witnessed change of political leadership in the Department of Trade and Industry (DTI), with Alec Erwin who, during his tenure, was heavily engaged in international trade diplomacy, replaced by Mandisi Mpahlwa, previously a Deputy Finance Minister. This clearly reflected a shift of emphasis away from the international trade arena to domestic realities; or, at least, to re-balance the two in a manner that shifts weight to the home front and to emphasise strategic trade approach.

This is also consistent with the tone of the National Industrial Policy Framework. The strategy seeks to support ASGISA objectives of achieving GDP growth of over 6 percent by 2010, halving poverty and building a knowledge economy beyond 2014; building an industrial economy in the short-to-medium-term and medium-to-long-term; building a more labour-absorbing and value-adding economy; and privileging certain sectors of the economy. The prioritized sectors include capital and transport equipment and metals; automotives and components; chemicals, plastic fabrication and pharmaceuticals; and forestry, pulp and paper, and furniture.

⁵⁵ Diana Farrell, Antonio Puron, and Jaana Remes, 'Beyond Cheap Labour: Lessons for Developing Economies', *Mckensey Quarterly*, 2005 Issue 1.

With respect to the trade reform agenda, the NIPF suggests that Industrial policy must lead trade policy more explicitly, and this is to be determined through the customized sector programme and more effective engagement between industry and government. Quite clearly, the intention is to define South Africa's trade policy, including its external trade strategies through the lenses of domestic developmental challenges, including the desire to build value-added manufacturing economy.

This means that strategic considerations – defined through the industrial policy – would be preeminent in South Africa trade policy and trade negotiations agenda. This conceptualisation is perfectly sound in the context of South Africa's developmental challenges; however, the specific details of policy and how these are implemented may undermine the very objectives that this seeks to achieve. Hence this would need to be managed more carefully.

The industrial policy is itself a composite aspect of the new growth strategy (ASGI-SA). At the core of ASGI-SA is to ensure sustainable growth at around 6 percent by 2009, and to halve poverty by 2014. It also seeks to remove constraints to doing business; create more labour-intensive employment through the Expanded Public Works Programme (EPWP); and expand infrastructure development.

The additional sectors that are prioritized in ASGI-SA include business process outsourcing, tourism and biofuels, as well as agriculture, mining, cultural industries, clothing and textiles, vehicle manufacturing, and aerospace sector. The focus of the strategy at the domestic level is to ensure greater value-add in production as well as gaining competitive advantage in the services sectors. There is a need for South Africa to identify and articulate its comparative advantage – and where it seeks to locate itself in the future - more clearly.

In particular, South has to evolve a more credible approach to dealing with the abundance of low-skilled labour, in a country whose general profile is that of a

middle-income economy with relatively higher wages, without seeking to go head-to-head with China. It is in this respect that harnessing the potential of the services economy and regulating the informal sector could be crucial for labour absorption.

As Mckinsey Global Institute suggests, instead of focusing on labour-intensive manufacturing developing countries should undertake three essential steps to further their economic development: a) encourage the transition to higher-value-added activities; b) identify and exploit their comparative advantage; c) and push forward with reforms that create more competition, entrepreneurship, and flexibility.⁵⁶ As the NIPF seem to suggest, relying on labour-intensity in certain sectors may only be a short-term strategy, but in the long-term a knowledge-based approach should be preferred.

Building a strong services capacity would require heavy investment in human capital development. Skills shortage in the economy is one of the five binding constraints to economic growth that are identified in ASGI-SA. ASGI-SA highlights the need for skilled professionals, managers and artisans. There is also a need to focus on developing softer skills for the lower-end of the services industry (tourism and business process outsourcing), for example in customer interface and etiquette.

A clear determination of the inter-linkages between various sectors – agriculture, manufacturing, and services (as well as output and employment potential of these) is required. It is also important to understand how much of the services accounted for in the GDP serve as inputs for manufacturing? To what extent should such linkages matter to industrial policy? What is the extent of employment depends upon agriculture production in the economy? Cohen and Zysman argue that the economy should be understood as an ‘interdependent system of industries’, and that that, ‘Analytically, linkages

⁵⁶ *ibid.*

must be categorised by the degree of dependence – tight, medium, weak – and by the direction of dependence.⁵⁷

From the capacity point of view, it is doubtful if the government has sufficient resources at its disposal to drive a sectoral-based industrial policy process. This, however, can be developed by designing a proper institutional setting for industrial policy, with competent bureaucratic machinery that draws expertise from other relevant government agencies. In essence, better coordination, building more capacity and proper resource mobilization can help address some of the capacity constraints and lend weight to policy effectiveness.

Conclusion

South Africa is still in a suspensive mode with regards to the economic reform project that entails further liberalisation of trade. The momentum that was generated in the early years of democracy waned in the face of lack of anticipated results. This proved that 'Washington Consensus' measures alone are insufficient in generating the necessary drivers of change in societies plagued by deep-seated structural and socio-economic challenges. Economic reform or trade liberalisation cannot be seen as an end itself, but a means to addressing socio-economic challenges and ensuring national economic competitiveness. Trade policy has thus been viewed by South Africa as part of a broad set of strategies that have a developmental thrust. If the developmental framework, undergirded by industrial policy objectives, is not implemented in a manner that strengthens market mechanism it could produce disappointing outcomes.

In search of a developmental model South Africa has cast its eyes on the practices of developmental states in East Asia. This is despite the mixed outcomes that government's interventionist measures produced, the socio-political context that was authoritarian, and an international environment that was significantly different from the one that obtains in the 21st Century. The

⁵⁷ Stephen S. Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-Industrial Economy*, (Washington D.C: Basic Books, 1987), p.20.

policy makers are caught between maintaining a bigger role for the state in the economy and creating a space for private sector agents, including foreign direct investment. While there is no doubt about the importance for the role to play an activist role in the economy, it is how this role is expressed that is important.

Depending on their nature, and the management of the relationship between various social actors, interventionist policies can act either to stifle growth or nurture an environment that could generate economic prosperity. The picture that is emerging within South Africa is that of a ruling elite that is caught in a tangle of having to satisfy increasingly divergent interests. In such an environment the scope for engaging in far-reaching reforms that could enhance the growth prospects of the country is narrow. Trade policy reforms and other reforms that could have a negative bearing on particularistic interests who are motivated by short-term considerations could be stalled indefinitely.

Various ANC discussion documents from *Ready to Govern* in the early 1990s to the current one – Economic Transformation - have failed to articulate a clear economic agenda. This is explained by sensitivities and tensions within the tripartite governing alliance. In essence, the ANC has multiple economic transformation agendas that are divergent, but forcibly welded to preserve the coherence of the alliance. Sometimes there is constructive ambiguity in ANC economic pronouncement in order to placate the radical strands of the alliance. This is unsustainable in the long-run, and may significantly erode prospects for bold economic reforms in future.

The ruling elite would have to build broader coalitions for reforms, especially focusing on the poor who are not only socially excluded but are also outside of the bargaining consensus between the state, labour and business. Developing effective channels of engagement with these sectors is certainly not going to be easy given their lack of organisation and the fact that they do not hold a particular coherent view about reform. The challenge for the state is to clearly demonstrate the benefits for reforms, as well as to effectively communicate

registered achievements so far – of which there are plenty. Fostering a sense of shared responsibility and diffused authority rather than projecting an omnipotent and omniscient image of the state is a much better approach to economic governance.

The other area that this paper has alluded to is with respect to the importance of restructuring and modernising the public service, and giving greater policy autonomy to bureaucrats. In the present juncture there simply is limited authority and capacity to carry out detailed and complex industrial policy process. A more flexible, economy-wide, and incremental approach to industrial policy could be better suited for South Africa.

Elements of this are already contained in the ASGI-SA document – for example, reducing barriers to business, infrastructure development, reducing the cost of national logistics (especially telecommunications), encouraging new investment, human capital development, and R&D support. Moreover, the state would have to build trust with business, and encourage strategic collaborations that could provide a better indication for South Africa's comparative advantage and how this could be nurtured. There is also more that still needs to be done in targeted liberalisation of trade: South Africa's tariff structure remains cumbersome with slow movement towards tariff liberalisation. Trade policy reform cannot be for its own sake; it will have to contribute significantly to addressing South Africa's developmental challenges and enhancing national economic competitiveness.