State, capital and the emergence of a new power elite in South Africa: 'Black economic empowerment' at national and local levels

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Abstract

In this paper, the idea of a developmental state as a way of characterising post-apartheid South Africa is interrogated. From the point of view of definition, Peter Evans' concept of embedded autonomy is followed through. By and large, the creation of an intersecting elite that crosses the public-private sphere characterised by intense social interaction and with growing prestige has taken place and its leading members have acquired enormous paper wealth. In some respects, however, its hold on society is still fragile and could be challenged. Its relationship both with white business and with other segments of society are noted in this regard.

The developmental state model calls to mind eastern and southern Asian parallels. The New Economic Policy of Malaysia has often been cited here and the chief elements in the modern political economy of Malaysia are outlined for comparison. It is a model that has been successful in promoting the fortunes of Malays as a dominant national element in Malaysia but in some respects this success is less than total: the Chinese business elite remains very powerful and is less challenged today while Malaysia in some respects is very dependent on foreign investment and foreign decision allocation in its economic growth success. Apart from creating a large Malay middle class, the NEP has also been able to organise deep interventions that have signally improved living conditions and the transition to a modern urbanised and industrialised society for the masses. South Africa has been considerably less successful in making its growth strategies work with consequences for the success of the adaptive model generally. While the ANC is rapidly creating an African middle class, it has so far been very unsuccessful in institutional change aimed at transforming the life of a more extreme case of an unequal society in class terms.

Again, considering certain theoretical interventions in recent years, some attention is paid to the possibility of looking at the developmental state from the local level; it is concluded that this is largely irrelevant in the South African context; elite formation and social intervention is powerfully driven from the centre.

In tentative conclusion, it can be suggested that the questions raised remain somewhat open. Elite formation in the new South Africa has a parasitical and rentier character to it and is only tied to a broader social project to a limited extent. Nor is it, as in the classic Evans model, tied effectively yet to a project of re-industrialisation and economic reorientation. However there are elements in the ANC project that are relevant and may become more significant in the future.

The premise of this paper is that, while classic models of capitalist development were predicated on the assumption of the rise of a class of native entrepreneurs, particularly industrialists, completely distinct from the state although obviously functioning in an at least partially enabling environment created by the state through omission or commission, in what we could term *later industrialisation*, capitalism has often (not always) proceeded through and with, the creation of close ties between state officialdoms and business elites.

This picture of intertwined elites, educated together, interacting socially, can also be drawn for developed, industrialised economies as witness the classic sociological work of C. Wright Mills for the USA or Pierre Bourdieu for France. (Mills, 1956; Swartz, 1997, Hall, 1986 on France) for various purposes. In less developed countries, we can add the ingredient of a nationalist-minded development ideology unifying bureaucrats, politicians, businessmen and perhaps parastatal directors and military officers. At the same time, one has to add in the role of foreign firms and their representatives, sometimes powerful to the point of dominance in particular economic sectors or areas of policy. The interpenetration of the state and capital has long been analysed by students of the industrialisation of Germany and particularly Japan, as well as in more recent studies of the Asian Tigers and the Newly Industrialising Countries. It can certainly be argued that the evolution of large-scale business organisations and the multi-national firm lend themselves to this development very forcefully although there may well continue to be tensions and difficulties in shaping a uniform policy outlook within this elite.

Peter Evans, best-known for his studies of development in Brazil, believes that the question to ask about state intervention in economic and specifically industrial evolution today is not '"how much" state involvement but "what kind"?' The predatory state for Evans is one where there is plenty of involvement of the wrong kind, where private interests systematically loot a state that has systematic ability to extract wealth from natural resources. The opposite would be one, such as Korea, where there is a smooth integrated path being followed in private and public sectors.[1] The model developmental state is one where 'bureaucratic apparatuses…are embedded in a series of social ties that bind the state to society and provides institutionalised channels for the negotiation and renegotiation of goals and policies.'(Evans, 1995, 12) Obviously this implies an interpenetration and/or functional division of relatively like-minded elites.[2] In the following analysis, I hope to interrogate the South African case along these lines.

It is interesting that just as Evans is prepared to look at Western models (Austria) as well as non-Western ones, he is also considers sub-national units (Kerala State, India). In contemporary analyses, the concept of the developmental state has changed to include (and for some to be superseded by) sub-national units of study, notably provinces and cities. (Piore & Sabel, 1984) While the larger part of what follows will consider South Africa as a nation, I will also consider the case of the large port city of Durban although the conclusion will tentatively be that the national unit is overwhelmingly the more important one in this case, regardless of some contemporary globalisation theory. The original intention of this paper was in fact to put more emphasis on Durban but local elections in 2006, the period intended for

[1] Classic studies set in Asia are Amsden, 1989 and Wade, 1990.

[2] In considering one of the most economically developed African countries, Colin Leys applies this sort of approach to Kenya. In practice, the state has largely behaved in a predatory manner but Leys believes that this is not something that is structurally inherent or unalterable. Kenya can be evaluated in this sense in the same light as Brazil. Leys, 1996.

research, made fresh enquiries difficult and thus most of the Durban material is an extension of previous shared research.

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The historical study of the political economy of South Africa is a richly developed field of enquiry although the point has been made that the actual study of economic mechanisms, the economic history of the country, has been somewhat less well-served. (Fine & Rustomjee, 1996) The most powerfully developed aspect has been that focussing on controls over the development of a wage labour force in the modern era, hemmed in so that it has lacked many conventional aspects of free labour associated with capitalism.[3] This has led to a study of fractions of capital, for instance mining, agricultural and industrial, and the role of the state in negotiated arrangements that could suit all parties. However, there were also other important issues that had to be worked out in order to allow for the industrialisation of South Africa to proceed, particularly after the seeds had been sown in the World War I era. One challenge was to turn an economy dominated by mining into one that offered more diversity and a far broader range of autonomous activities. Tariff and fiscal policies were initiated to this end. Another related one was to enable the state to intervene where the market had refused to go. During the 1920s, the state initiated a national electric company and created an iron and steel complex, ISCOR, the latter despite a long period of objection from mining interests. Nancy Clark has demonstrated very well how the central figure in ISCOR's formation, H. J. van der Bijl, skilfully came to marry the concerns of mining capital with the development of a state metal industry that would not actually challenge the dominance of the mines in the economy at large.[4] (Clark, 1994) There were substantial attempts at forming an 'embedded' context that would retain the primacy of gold mining interests.[5] (Yudelman, 1984)

Much attention has been paid in this regard to the Pact government established between the National and Labour Parties in 1924. However, it can be argued that it was under the premiership of Jan Smuts in wartime (1939-48) that the foundations of an industrial society were laid in terms of social security, education, urbanisation-- as well as through the foundation of the Council for Scientific and Industrial Research, the Industrial Development Corporation and other bodies. Influenced by Keynes and the New Deal, Smuts was able to take the role of the state forward at a time when this was a completely conventional practice internationally. South Africa came to fit very well into the rubric of developing countries which sold valuable natural resource or agricultural goods to the world and threw a wall of protection around home industries. This encouraged foreign companies, notably major automobile manufacturers, to produce within South Africa for a local market. Later other parastatals were established, with more and more emphasis in the *apartheid* era on security concerns, such as SASOL (coal into oil) and ARMSCOR (armaments, including aircraft). A remarkable feature of this development, given the modest scale of the economy, was the relative power and importance of South African based corporations. Legislation made it difficult for the biggest of such companies, moreover, to take wing and either move or expand elsewhere. Thus the biggest corporation, Anglo American, the mining giant, was virtually obliged to become the initiator of textile mills, paper mills and chemical plants and become a major investor in urban property in South Africa by the regulatory regime.

[3] Classic studies include Wolpe, 1972, Legassick, 1974, and Johnstone, 1976.
[4] For the electricity monopoly ESKOM see Christie, 1984.
[5] Yudelman provides the metaphor of a marriage to this end.

During the pre-*apartheid* Union era (1910-48), moreover, there was intense rivalry between two ethnic groups amongst the dominant white minority who legislated virtually exclusive political power to themselves following the hegemonically established concept that a bounded white minority alone was fit to administer and develop a modern civilisation in South Africa. (Freund, forthcoming) This rivalry followed through from the violence and bitterness of the Anglo-Boer War which had established the basis for a Union of South Africa by force, strongly tilted towards British power. Despite the early hopes of the victors in that war, the electorate in the Union showed the Afrikaans speaking population to be slightly in the majority amongst the whites, a majority that gradually increased with the years and was the more influential for the overweighting of rural constituencies in the Union constitution. Here already however was a disparity between political power—which Afrikaners could and eventually did grasp constitutionally—and economic power, which remained largely in the hands of the *uitlanders* and focussed on financial control of the gold mines. In 1910, Afrikaner capital was largely focussed on pockets of modern agriculture and real estate with little purchase over finance; the civil service was dominated by Englishmen. From the 1920s however, the promotion of the interests of an Afrikaner business class of industrialists, agro-businessmen and financiers was a prime aim of Afrikaner nationalism and notably of the key social institution of the *Broederbond.* [6] (Adam & Giliomee, 1979) Supporters of Afrikaner nationalism was determined to right the balance as best it could, relatively timidly in the Hertzog years of the Pact and Fusion governments (1924-39) and then more forcefully when the Purified Nationalist dominated governments associated with *apartheid* were in charge. (1948-90). Improving the lot of Afrikaners involved a wide range of activities which included preferred hiring for the so-called poor whites, wide-ranging developments in education including higher education, an Afrikanerisation of the civil service including the parastatal sector. A remarkable feature of this process was its inclusive nature vis-à-vis Afrikaners. Over the decades, the improvements in living standard for the large majority were very dramatic. Afrikaner nationalists themselves conceptualised their vision as *volkskapitalisme*. (O'Meara, 1983)

After the crisis caused by a first wave of black insurgency in 1960, it was Anglo-American which was prepared to carve out a section of mining interests to Afrikaner interests in creating Federale Mynbou or GENCOR as it became. By the time this crisis was past, in the words of Daryl Glaser 'the interlinking of Afrikaner and Anglophone capital was part of a larger "interpenetration" of private, state and foreign capital, as well of cross-sectoral diversification, that produced a new constellation of concentrated economic power'. (Glaser, 2001, 104) This fulfils very well the Evans model where the bureaucracy …'are embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation and renegotiation of goals and policies'. (Evans, 1995, 12)

The national scene was dotted with weighty characters whose rise to wealth had certainly been at the least blessed by the Afrikaner National politicians. Some of the most eminent were Albert Wessels who ran the autonomous South African operations of Toyota, which became the most successful automobile manufacturing venture, Bill Venter, the most important figure in the development of information technology in the country, the colourful Louis Luyt ,fertiliser king and the richest of all, Anton Rupert, whose Rembrandt Corporation arose from cigarette manufacture. The web that linked bureaucrat, businessman and politician was an intricate one. In this sense, South Africa really did qualify as a developmental, late industrialising state with a particular sort of power elite that reflected the particularities of Afrikaner nationalism.

[6] This subject has been very well developed from different perspectives by Adam & Giliomee, 1979 and O'Meara, 1996.

It does need to be pointed out, however, that this coherent Afrikaner elite at first sight was far less so on closer examination. Luyt made his fortune competing with the fertilizer parastatal. Wessels was contemptuous of many aspects of *apartheid* while Rupert took his distance more discreetly from it with time; by the end of his long life in 2006, the most notable obituary tribute came from Nelson Mandela.. The *Afrikaans Handels Instituut* or AHI, which distinctly represented Afrikaner business interests under the old regime was from 1948 on uncomfortable with many state policies that seemed to go against general business needs, if more loyal than its English language equivalents in the expression and openness of its criticism. (Posel, 1991) Much of the time Afrikaner businessmen said much the same thing as English businessmen. The interests of 'capital in general' were generally more important than those that had led to the emergence of an ethnic elite although Afrikaner businessmen continued to function as loyal National Party members. The relation between the state was not seamless and became ever less so. Negotiations in the later *apartheid* period (the Carlton conference, Good Hope conference and the like) to forge common policies (so-called inward industrialisation) did not come easy and did not lead to lasting results. (O'Meara, 1996, 301) In the 1970s, a successful Afrikaner businessman, Andries Wassenaar, in line with the rising world of neo-liberal thinking, wrote a book that swept the consciousness of much of the Afrikaner bourgeoisie on the need to reduce the role of the state drastically; it was as though this kind of elite bonding was no longer needed in a maturing capitalist environment. (Glaser, 2001, 105-06) Wassenaar type thinking influenced the state in the P.W. Botha era on the one hand, making the old *Broederbond* ideas very much less coherent; on the other, smaller and locally based Afrikaner businessmen often deserted the National Party for the much less flexible Conservative Party which became the main parliamentary opposition in the final days of the regime. The participation of Afrikaner capitalists in illegal talks with the exiled ANC from the middle of the 1980s showed that they had big problems with the recalcitrance of the P.W. Botha government to negotiate an end to *apartheid.*

In this sense, the Evans model is however predictive: he sees the embedded autonomy of state-business co-operation tending towards restructuring and intensifying contradictions requiring, at the least, the establishment of new alliances when nationally-based industrialisation is no longer in question as the central issue. (Evans, 1995)

This then brings us to the post-*apartheid* problematique: Up to a point, the Evans model is again predictive. The relationship between state and capital, the *alliances* that underlined the dominant policy trends, needed to be altered in significant ways to bring South African business in line with the changing patterns that we generally refer to as globalisation. The state was required to come into play in new ways as a regulator, there were pressures to privatise, to invite more foreign capital in and to allow South African capital out. However, in the South African case, these pressures went together with a mounting political crisis. The failure of the state to cope with the needs evoked by the proletarianisation of large number of black people and the sheer force of black nationalism combined to make modernisation and further development of the economy difficult to undertake. The regime lacked legitimacy, attracted little new investment and suffered from a collapse of the currency value. A militant trade union movement challenged corporate control of the workplace while civic organisations made black urban communities (townships) 'ungovernable' except by constant exertion of force. This situation was characterised by John Saul and Stephen Gelb as an 'organic crisis' of South African capital. (Saul & Gelb, 1981, see also Gelb, 1991).

When the ANC came to power in 1994, it had very little direct business representation at all, no Establishment voice within its direct ranks. The Reconstruction and

Development document which served as a kind of election manifesto had little to offer business except for very small-scale entrepreneurs. (Hirsch, 2005) The party was 'allied' with the South African Communist Party and Communist Party members were prominent amongst new cabinet members and other prominent new government appointees. The discourse of the ANC largely derived from an international left normally very remote from the corridors of power in the age of globalisation.

From the perspective of 2006, while the marginalisation of the mass of poor black South Africans remains as marked as before, this situation is no longer obviously an 'organic crisis' or perhaps a crisis at all from the perspective of capital. I would argue that the social crisis, which remains acute but is in large part depoliticised, has been severed from the crisis of capital which has largely gotten what it desired and is relatively contented with the current situation within limits to be discussed very shortly. Generally speaking, the African National Congress in power since 1994 has taken measures to make business profitable and stabilised through the regularisation of a labour regime, through agreeing to various strictures of the World Trade Organisation and through accepting the advice of the Washington Consensus institutions by encouraging privatisation and lowering tariff barriers, through the fiscal regime which made transfers of capital in and out of South Africa much easier and through the vigorous promotion of international trade agreements. The rapprochement with business began when the ANC was still in exile through the visit of various leading business figures and strongly promoted by the future president Thabo Mbeki. (Adams et al, 1997; Gumede, 2005)

With some justification, the ANC considers that it has created a national economic system that is highly business-friendly although rewards for this in terms of growth have been slow in coming.[7] Its focus is now on the creation of a new national elite intended to be the bearers of the new regulatory system that is being put into place, a factor which does not fit the Evans model. Why a new elite? Firstly, the old elite has been far too disconnected from the political changes that have taken place. Its habits have been shaped by well-established practice and by the powerful influence of business custom in the United Kingdom in particular. This is a mature capitalist class, inclined to invest in speculative and leisure activity, new technology and property, very unlike Evans' type of potential industrial investors. There is a mistrust of black politicians and a shared discourse of what we might politely be called Afro-pessimism. Disinvestment and emigration (particularly of the families of top figures in business) are very typical; only a small proportion of the established capitalists in South Africa vigorously engage in the new business environment.(Interview, McCarthy and Gumede, 2005, 215)). On the contrary, the new regime has permitted (and perhaps encouraged) the shifting of headquarters of some of the big corporate empires in South Africa—Old Mutual, South African Breweries, Rembrandt and—above all-Anglo-American to stock exchanges in the North, especially London. (Southall, 2005, 182) The negative perceptions about South African prospects are occasionally aired openly, to the anger of the South African government whose relationship to Anglo-American, for instance, has not been very warm.

The movement of foreign companies into South Africa by contrast has been slow. At first it was characterised largely by paper investment on the Johannesburg Stock Exchange or residential property purchases taking advantage of South African discount prices. Much of the former vanished quickly with the so-called emerging markets crisis of 1998-9, ending short-term growth prospects for a while. It is, however, becoming more significant with the renewal and advance of prosperous

[7] The nature and timing of this transition is highly debatable. In this article, that question is best left aside beyond asserting that this change certainly has taken place.

times since 2002. New automobile sellers such as Hyundai and Tata have arrived and Tata now plans steel manufacture and export in Richards Bay on the east coast. Tata's big Indian steel rival, Mittal, has bought ISCOR. British interests are important in cell phones (Vodaphone) and Finns are beginning to make a play for the timber industry giant Mondi. One of the three chemical industry giants is in foreign hands. The big German car manufacturers, Daimler-Benz, BMW and Volkswagen are developing a level of integration with South African plants that permit an important export component, by far South Africa's most significant industrial export element (although equally with a very high import component) dependent on relations with support from the South African government. Barclays Bank of Britain is currently negotiating its return to South Africa through the purchase of ABSA, the private bank once associated with Afrikaner capital and the closest perhaps to government interests today. At this rate, South African capital will have a far larger—and very diverse--international component than in the past in coming years while the traditional dominance of a handful of oligopolies is being diffused, if not coming towards an end..

A second point, however: The ANC has a strong nationalist component and strong roots in black nationalism in particular. In South Africa, race and nation continue to be tightly linked in popular consciousness. Indeed its focus on black solidarity and black uplift is crucial to the ANC's remarkable continued electoral success. There is a discomfort and a sense of political unsustainability at the strange marriage of white business and black politics, especially given the limits of trickle-down style redistribution. (Marais, 1998) However, the ANC also does not want South Africa simply to become a clearing-house for foreign capitalist interests although it may prefer foreign partners to local white capitalists as partners much of the time. If there is an 'elite pact' which determined the form of the new South Africa in 1994, a critical component was needed—capitalists from the ranks of what in local discourse are called 'the previously disadvantaged'. William Gumede argues that a key meeting, held in1993 at Mopane Lodge, Kruger National Park not long before the first democratic election, was the real turning point here. (Gumede, 2005, 222) If such a class can be firmly established and integrated into an embedded *modus operandi*, it can be an anchor for stabilisation and further growth of a 'developmental state'. (MacDonald, 2005) But can the 'developmental state' dance be performed with a new cast a second time around on a different and more up-to-date stage?[8]

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Before looking at what I see as the main feature of this performance so far, it might be useful to turn one's eyes overseas. The search for a developmental state model at the start of the twenty-first century has to be directed to Asia. A serious study of the factors behind the rapid present economic growth of China and India and the trajectories of the more successful industrialising economies of South-East Asia in fact shows a variety of factors and much less unity than one might hope for in the interest of intellectual clarity. In our case, one model has stood out as the most influential precisely because of the example it sets in terms of social engineering to change the personnel and ethnic background of the elite—Malaysia.

British Malaya had been a very wealthy and economically successful colony.[9] Its chief exports were rubber, mainly grown on British-owned plantations and tin mines owned by British and, sometimes, ethnic Chinese, business, in a location that stood astride the main sea-route between South and East Asia. A lightly peopled territory, it attracted few British settlers but large numbers of Indian, Indonesian and, particularly,

[8] This continues an argument that I have begun to develop in Freund, 2004 and Freund, 2005.
[9] For a classic radical analysis, see the contributions in Amin & Caldwell, 1977.

Chinese immigrants. Indeed, at the time of independence if one included the Straits Settlements, notably Singapore with Malaya, the Chinese formed the largest element in the population, an unacceptable political fact for Malays. Thus Malaysia had been structured after independence through the extrusion of Singapore and the inclusion of the British territories on the northern and western coast of the island of Borneo, where the Chinese minority was smaller and the Indian minority very small, so as to have a Muslim Malay majority population. But the large Chinese minority continued to appear dominant in business and the urban environment generally. Discourse about the nation oscillated between colonially-derived concepts of an ethnically-defined plural society with little but the market holding ethnic groups together and the championing of the formation of a Malay/Muslim dominated national state. (Wah, 23ff) 'Both Malaysia and South Africa share a potential for racial violence and strife that is Bosnian in complexity and ugliness' to use the words of a Eurasian Malaysian businessman very familiar with South Africa and a family beneficiary of Malaysian state policies.[10] Urban 'race' riots largely aimed at the Chinese in Malaysian cities on the part of 'indigenous' Malays in 1969 revealed the depth of tensions in this former British colony.

In response, the state adopted the New Economic Policy deliberately aimed at uplifting Malays—characterised as the *bumiputera,* the sons of the soil, and disrupting the ethnic-economic order that had characterised colonial development. Malays were favoured to various degrees in terms of state procurement, tendering processes and the licensing of businesses and targets were set in terms of the Malay share of ownership on the Stock Exchange. There were many aspects of policy-making that were intended to privilege Malays, some of them not really traceable in hard figures. Thus the state-influenced and controlled financial sector was able to give preference and direct loans to Malay-run businesses. (Chin & Jomo, 2000) While Malays had long become established in the state bureaucracy, the result of NEP was the creation of a very wealthy ethnic Malay business elite. In this sense, the closeness of the model to the aspirations of the ANC and the policies it has pursued is remarkable. Jomo K.S., the well-known radical Malaysian critic, has called this 'crony rentierism', most strikingly manifest in the way the Malaysian state made life easy for close friends in the private sector during the 1998 crisis.[11] (Jomo, 1998) This key aspect of the NEP has been attacked as nepotistic and the arrival of Washington Consensus anti-statism as international ideology meant that state intervention of this type was easy to caricature and denounce.

However, the adoption of NEP in Malaysia went together with a shift in overall economic strategy: the typical Import Substitution Industrialisation model buttressed by large traditional exports, notably tin and rubber, diminished in importance. Economic emphasis now shifted to the courting of new foreign investment with an emphasis on export-orientated industrialisation. This policy has been marked by dramatic success (punctuated with downturns in the mid 1980s and 1990s) especially with regard to investment from East Asia. At least in some sectors, where established British capital was unwilling to adjust to new conditions and disinvested, new foreign partners effectively emerged.[12] Stock market expansion has included massive foreign portfolio investment as well more recently. This feature has been a major part of

[10] From the introduction to Emsley, 1996, 1.
[11] I am very grateful to Jomo K. Sundaram for going through these pages critically for me.
[12] This is the conclusion of Susan Martin with regard to the expanding palm oil sector, 'European Plantation Firms and Malaysian NEP since 1970', unpublished paper, International Economic History Conference, Helsinki, 2006.

overall investment figures far higher than in South Africa[13] and also contributed to consistently high economic growth figures, rapid urbanisation, an expansion of wage employment and a remarkable decline in poverty indicators. The NEP has stood effectively for the creation of a large Malay middle class of civil servants and professionals, the backbone of the regime. Despite the favouring of Malays, this has created an environment which has offered enough opportunity for ethnic Indians (at least those who are not part of the traditional plantation workforce) and especially Chinese to prosper.

The main Chinese and Indian political parties were part of the government alliance and accepted the NEP but it is also noticeable that the majority of Chinese voters gradually shifted to the opposition over the 1970s and 1980s largely in response to the feelings of being disfavoured. Chinese businessmen at first tended to disinvest in Malaysia. However, given the generally favourable business environment, this never had a crippling effect. Most ethnic Chinese have retained their commitment to Malaysia and most of their youth studying abroad in large numbers have returned to practice professions and careers in Malaysia.

This is the road that the Mbeki government seeks to take. Here again the parallel is close in South Africa by aspiration In South Africa, there is an under-studied but increasingly apparent expanding class of skilled and office workers, of subordinate managers, who are black Africans that owe their new status and opportunities to the 1994 regime change. As a hypothesis one could estimate their numbers at 5-10% of the black population. Economic and institutional stagnation have limited these figures however; only recently and briefly have the growth figures even begun to approach Malaysian levels. High growth figures would probably make white and Indian South Africans more readily accept a place in the new South Africa.

However, before returning to the South African narrative, it is important to point out that there are also certain features of the Malaysian experience which make it quite unlike South African circumstances. In fact, these are precisely the features which are the most important in binding Malaysia to an Asian developmental state story beyond the parallel in bourgeois class formation. This involves the role of the Malaysian state in promoting agrarian reform, urbanisation and institutional educational reform. The NEP was always intended to attack poverty in Malaysia. (Wah, 25) According to official national definitions, 49% of the population was considered poor in the l970 census; this figure has fallen by 1995 to just above 11% (Wah, 41) Outside the plantation sector, there remains in Malaysia a significant small farmer sector which remains viable. The state has poured money into credit and input facilities to support this sector. At the same time, urbanisation has been far easier a process than in South Africa; Malaysian cities are not characterised by massive shantytowns lacking in basic amenities despite rapid growth. Finally, not only does Malaysia support education generously but it promotes technical education strongly. It has also imposed Malay as a national language, compulsory in the university system. In striking contrast to South Africa, state education policies in Malaysia are considered to have produced high material returns. (Emsley, 2005, 45) Health indicators are even more positive. The Malaysian project is in the end not about eliminating or marginalising the Asian minorities but about *incorporating* them, at least in theory, and this factor has been intensified in the past decade. In more recent years, emphasis has been placed on for instance creating a national youth service project embracing the whole population to counter the involuted ethnic character of the country. The Chinese youth must become good Malaysians, not permanently subordinated ethnic Chinese. By contrast,

[13] Emsley, 1996, 73, refers to more than a 27% investment rate over ‘the NEP period’ where post-apartheid South Africa’s figure has barely crept up to 17% at peak so far.

most of the rural population in South Africa remains bitterly poor and ambiguous urbanisation policies promote conflict and shantytown expansion despite the state's construction of up to two million minimum facility houses. In South Africa, English has been adopted as the national language: the African languages have certainly not advanced since 1994 and Afrikaans, promoted by the National government and the only possibility for a coherent uniquely South African language, was associated with the previous racist state project of the past and has been pushed back as a medium of expression and governance very substantially. While South African educational budgets are substantial, much of the money remains spent on the salaries of teachers of very dubious quality, particularly deficient in capacity to impart any scientific or technical skills and South African schools rank very low in international comparative tables. In the health sphere despite some important positive initiatives, basic indicators in South Africa are negative especially given the devastation caused by HIV-AIDS. 'Delivery' in South Africa has consisted largely of hand-outs—pensions, disability grants, child support grants, dispersal of electricity and water reticulation as well as houses in the face of stagnant or worsening unemployment levels and extreme income inequality. The South African state has so far shrunk back from social intervention of equivalent efficacy and in general, there is a social depth to the Malaysian model which has promoted a richer kind of transformation process and done far more for the poorer half of the population than is manifest in South Africa.

At the same time, there are real limits that constrain the emergence of a Malaysian 'tiger' despite the hype that reappears in certain boom years. There remain some striking structural problems-- Malaysia's dependence on impetus from beyond its borders, a high national debt, lack of investment in key non-export productive activities and low research & development capacity. More than 60% of industry, an increasing proportion, is foreign-owned. (Emsley, 2005, 81) With the successes {and also so far insoluble problems) of the Malaysian model, the tendency has been to relax the demands for pursuing Malay predominance somewhat and promoting a more aggressively national model during the era of Prime Minister Mohamad Mahathir (himself of mixed Indian and Malay origin but Muslim). The pressure for using Malay at Malaysian universities has gradually subsided and English has been given new emphasis, notably in the Education Act of 1996. (Wah, 22ff) . NEP policies in state-business relations have also become far more loosely applied and the non-Malay vote has gradually swung again in the government's favour. It remains questionable how dynamic and effective are the community of state-endowed Malay tycoons. Even some of the inner sanctum members of the business elite favoured by the state in 1998 were non-Malays. The targets for corporate ownership have, however, never been met and perhaps never will be met despite significant change. According to official figures, Malays held 1,5% of corporate equity in 1969 and 20,6% in 1995, a considerable but not spectacular increase which was largely accounted for early in the process. (Wah, 41) The fronting of Chinese owned firms by Malays remains common. (Emsley, 1996, 54, who calls these Ali-Baba firms, the common term in Malaysia) Clearly the government supports big Malay business and the links have resulted in scandal (i.e. Renong) at times but if the relationship between different sectors of capital and the state has far from entirely stabilised, it has also been effective in a developmental sense in important respects. (Jomo & Gomez, 2000) Figures show that there is now a very large community of post-1969 Malay trained professionals and managers. Indeed national policy has shifted towards promoting this tendency rather than being so concerned with ownership. (*The Economist,* internet selections, 2005/06*)* It has also been hypothesized that, as Malaysia has become more affluent, a nationalist outlook on life charged with ethnicity is tending to give way to a growing ideology of consumerism and individuation where ethnic competition is of far less importance. (Wah, 45ff). This of course fits much of the contemporary literature on globalisation. In the Mahathir era, moreover, the government has chosen to talk in terms of a *common* heritage of 'Asian values' [in part to devalue conventional democratic forms] rather than a Malayness by which others should be judged. (Teik, 2002) In what follows, we shall look at how South Africa compares.

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The South African equivalent of the New Economic Policy is known as BEE—Black Economic Empowerment. It is the subject of daily attention in the South African press and virtually dominates the financial pages but thus far it has only begun to receive scholarly attention. (but see Hirsch, 2005; Southall, 2004, 2005a). The beginnings of this story come from the initiatives not of the ANC but from established corporate business where the once Afrikaner insurance giant SANLAM and Anglo-American hived off space specifically designed to cater to a new class of black businessmen and women.[14] It is an interesting and cautionary tale that these early projects, NAIL and JOHNNIC, ultimately proved to be failures. NAIL faltered as the executive directors appropriated its assets for their personal fortunes. By 2004, NAIL was 'limping along the path to dissolution' (Hirsch, 2005, 218) while JOHNNIC, which had largely shifted into the media business, came under the dominant control of white ex-trade unionist John Copelyn in early 2006. Model BEE ex-politico and tycoon Cyril Ramaphosa was effectively forced to abandon his leading interest in the company. Copelyn, however, leads a firm, HCI, built on union pension funds and thus with empowerment credentials of its own, if virtually independent from the new state-generated elite.

Reports of the continued small percentage of JSE shares held by firms owned by blacks, especially after the mini-crash of 1998-99 which ruined NAIL, clothed early BEE in the cloak of imputed failure. The early form of black corporate empowerment was considered to be unsuccessful. In 1998, a body known as the Black Business Council was appointed to formulate BEE legislation and the state instituted a Black Economic Empowerment Commission to get policies on track. The commission reported in 2001 and in 2003 BEE legislation was promulgated in the form of the Broad-Based Black Economic Empowerment law. (Hirsch, 2005, 221) This is now the legislative basis of BEE.

Well before this, emphasis has been laid first and foremost on targets for particular sectors of the economy. The first such set of targets was established for the liquid fuels industry in 2000. (Hirsch, 2005, 223)The Mining Charter, watered down from initially quite extravagant demands for change, eventually required that companies be under black ownership to the extent of 26% in ten years, to be financed by the industry.[15] (Gumede, 2005, 226; Southall, 2004, 323-24) Non-compliant sectors cannot be criminalised but the pressure to BEE oneself is clearly intense and the targets are very likely to be filled at least nominally. A myriad of 'empowerment' companies have emerged in order to attract the kind of business that will fulfil targets and please the state; at the same time, the state has effectively itself been prepared to make the introductions and initiate company formation to this end. Moreover, it has to some extent turned the very important parastatals (at first considered scheduled for privatisation but in fact always with a strong element of state financial ownership and now defended as economically essential in present form) have been turned into BEE state corporations (often with 'strategic partners' involved). Tendering is a major part of the process and large-scale projects involving mineral extraction and construction particularly. 'The annual R120b.state procurement budget is an important tool in the

[14] Although the parastatal Industrial Development Corporation was involved with the Sanlam deal, Hirsch, 2005, 213.
[15] The commercial property sector is the latest to enter the lists as of early 2006.

quest to establish a black bourgeoisie.' (Gumede, 227) By the late 1990s, apparently black companies were receiving the majority of national and provincial tendering contracts although the genuineness of their blackness was not easy to ascertain.

In fact, here the new set of alliances is particularly evident. Here is a current example: a huge contract currently going forward will serve the Gautrain, a new express train service to be created between Johannesburg and Pretoria at the behest of the Gauteng provincial government at very high cost. The contract has gone to a company with the fetchingly African name of Bombela but which consists of a major established South African multi-national, a British branch of a Canadian company and a completely inexperienced black empowerment company called Loliwe created for the purpose. A French company will manage the service. (*Sunday Independent,* 30 October 2005). It seems very likely that the state has played a role in these partners meeting one another; it has become ever more involved in informal mid-wifing of such partnerships.

The pressure to change the face of South African capitalism is in fact not easy to squeeze into juridically defined categories. In practice, the state has done everything to make it clear that it prefers to do business with firms that fall in line with empowerment. In my view, Seekings & Nattrass (2005) are correct in seeing state legislation rather as constantly mounting pressure on substantial existing business entities to conform rather than in enacting definitive punitive measures. On the one hand, there continue to be questions about how successfully BEE is actually transforming ownership of wealth in South Africa. The more optimistic figures are those that count pension funds and the like within the BEE camp. On the other hand, there can be no doubt that the state is doing much to create a class of closely aligned capitalists. This includes share-holding members of government, former politicians who have become wealthy and successful as members of corporate boards and those closely related to top figures in government.

Increasingly the emphasis has shifted from the role of financial vehicles that involved indebting new entrepreneurs to existing sources of finance from the banks, insurance companies and mining/industrial firms to outright state creation of black capitalists. Probably the three wealthiest figures in Johannesburg financial circles of this type are 'Tokyo' Sexwale, the former premier of Gauteng Province (which includes Pretoria and Johannesburg), Cyril Ramaphosa and once Thabo Mbeki's principal rival for the succession to Nelson Mandela, and Patrice Motsepe, brother-in-law both to Ramaphosa and to more than one Mbeki cabinet minister. Sexwale arrived in business via the Thebe Investment Corporation, founded in the transition years to provide a funding source for the newly legal African National Congress, which still survives as a business. (Southall, 2004a, 317) Motsepe has perhaps had the most of this trio to do with the building of his own fortune through successful financial manoeuvres. (Southall, 2004a, 324) It can be taken for granted that resignations from top civil service or cabinet positions are followed by individuals being taken up in the BEE world but today the deed is done before and without resignation.

A striking feature of the ANC political constellation, particularly in the Mbeki administration, has been the prominence of women in plum political jobs. The husbands and wives of ANC cabinet members and top bureaucrats are frequently important figures in the business world. Light on this was shed recently when Deputy President Phumzile Mlambo-Ngcuka was caught having used an official plane to make a supposed holiday trip to Dubai. Her husband Bulelani Ngcuka, was a prominent former exile and then State Prosecutor who is now a major business figure was present. Mlambo-Ngcuka was also accompanied by Thuthukile Mazibuko-Skweyiya, a member of a number of corporate boards and involved in deals with Brett

Kebble to be mentioned below. Her husband is the Minister of Social Development. Mazibuko-Skweyiya and Ngcuka 'both were part of separate consortiums included in the same empowerment deals'. (*Business Day*, 19 January 2006) The seams are hardly visible.

One can perhaps categorise the new world of top black business figures into four categories with varying degrees of relationship to the BEE legal framework.

First, there are firms established by blacks, frequently recently created ones that are aimed at attracting the attention of anyone wishing to meet the wishes of the state. Often, however, the state and/or existing business has directly and purposively generated their existence. Sometimes however they do represent extant independent and genuinely entrepreneurial activities.

Second are firms which represent partnerships between whites and blacks but are sufficiently black in ownership to qualify as BEE. Firms such as these are certainly desired by the government as partners but they have not been so easy to structure as pure empowerment firms. Still, there have been remarkable instances where white entrepreneurs, typically new entrepreneurs such as John Copelyn, formerly a trade unionist, have been able to insert themselves very successfully into this world. This of course can shade into varieties of fronting which goes against the wishes of the state but is difficult to control. The violent death of Brett Kebble in 2005, a youthful mining finance magnate who had his hands in many pies, unveiled this world to some extent.[16] Kebble had learnt to cultivate many ambitious and greedy figures in the ANC and in particular had become a partner and mentor figure to members of the ANC Youth League, helping them to set up BEE vehicles from which he of course benefited very largely. Two young and ambitious Youth League political activists, Lunga Lcwana and Andile Nkhulu were for instance made the heads of Itsuseng, one of his many companies accused today of fraudulent operations.[17] Very recently, it has been claimed that he contributed at least R25m. in known funds to different arms of the ruling party.[18] A South African emigrant businessmen, Julian Treger, with not dissimilar ambitions, was reported to wish to start setting up 'foreign entities' prepared to work in line with BEE partners perhaps along similar lines in the *Weekly Mail & Guardian.* When the broad indebtedness of the black executives are toted up, perhaps it will eventually seem correct, as black nationalist lawyer and journalist Christine Qunta has suggested, that 'the major beneficiaries of BEE deals are likely to be white'. (cited in Southall, 2005, 178)[19]

However, some of the existence of partnerships is due to the limited capacity and experience of companies in the first category. Existing white generated corporations also remain important as parents of black empowerment companies. Wiphold is dominated by several well-known black women, notably Wendy Luhabe, the wife of an ex-trade union leader currently premier of Gauteng Province. As its CEO, Gloria Serobe, recently informed the public, Wiphold is 'the BEE partner to Old Mutual, Nedbank and Mutual & Federal', a set of major powers in the world of finance and insurance. (*Weekly Mail & Guardian*, 17-23 March 2006). And the big corporate

[16] For Kebble's amazing empire, see for instance Sam Sole in the *Weekly Mail & Guardian*, 3-9 March 2006. This empire included many dummy companies and patronage relationships were central to their activities.
[17] Rob Rose in *Business Day,*
[18] *Weekly Mail and Guardian*, 4 August 2006.
[19] Thus the Department of Minerals and Energy deputy director-general "said the department had seen an increase in fronting by some mining houses and a systematic dilution of BEE shareholdings once mineral rights had been granted." (Mzwandile Jacks in *Business Day,* 7 May 2006).

players serve as the models for smaller and more variegated forms of business. Thus a major law firm announced in March 2006 that 'our target is to have 25% of the economic benefit and control of the firm in black hands by late 2007. We are well on our way to achieving that.' (in an article by Sanchia Temkin, *Business Day,* 20 March 2006). In my Durban research, I noted that the historically leading city law firm, Shepstone & Wiley, is pursuing the same path. A poll of 300 owners of medium sized businesses showed an increase from 51% to 70% between 2003 and 2005 in those who felt empowerment status would be a powerful factor in their finding new clients. (*Idem.)*

<u>Third</u> comes the BEE-related world of the parastatals, almost all led by black ANC appointees on very large salaries.[20] Parastatals have been partially turned into 'partnerships'. Thus the telecommunications monopoly TELKOM has been partially sold both to foreign investors and to black empowerment owners. The monopoly was breached in 2005 but again the chief beneficiaries will certainly have a big black empowerment stake and this is true very significantly for the owners of the three cell phone companies, an immensely profitable undertaking (which also involves interlocking TELKOM!) as well as the state franchised system of gambling casinos which exist nationwide.

A <u>fourth</u> category would be black managers and executives in the big industrial, commercial and financial companies, some of them nurtured since well before 1990. It is obviously particularly difficult to identify whether or not they are becoming effective generators of policy in economically important activities; some do not have strong ANC backgrounds. They would in any event be to some extent intermediaries between white businessmen and the state/BEE world rather than directly of it.[21]

Looking at this new array of figures, a few observations can be made. There are certainly some successful black business figures who emerged before 1990 in interstices allowed by the reforming *apartheid* state. The corporate sector began to head-hunt and identify future black executives in this era often via the medium of creating management positions in the personnel and later sales sections of their organisations. Dr. Nthatho Motlana, a Soweto physician strongly identified with promoting black capitalism, was originally the chief figure in NAIL (Hirsch, 2005, 214ff) while the National African Federated Chambers of Commerce (NAFCOC) became a prominent organisation favouring these interests. However, NAFCOC has not survived too successfully, bedevilled by splits and weaknesses and those associated with these circles have been overshadowed by those with party, if not state, linkages. NAFCOC and successor organisations overshadowed and rendered unneeded by the multifold ties generated by state intervention. [cf the influential Presidential Black Business Working Group, forever impatient with the pace of "empowerment"]

While prominent BEE beneficiaries do include individuals such as the former ambassador to Britain Cheryl Carolus or the Minister of Environmental Affairs Valli

[20] Thus electricity giant ESKOM has a black CEO trained as a town planner; from a list of published names, nine out of ten major division executives are now African.

[21] Southall, 2005, provides a table where the *Financial Mail* claims to assess the twenty most important individuals in 2003 in South African business. Of these no less than nine were black: apart from Sexwale, Ramaphosa and Motsepe, three came from the parastatal sector, one from Anglo American and one from one of the cell phone giants. The remaining individual, Saki Macozoma, became notorious in the struggle over the succession to Mbeki when it came out that state intelligence was illegally monitoring his telephone in the interests, most likely, of one faction. Thebe Mabanga's list of 100 most important South Africans of the future—the 'hot 100'-- at the start of 2006 included 28 business figures of whom no less than 22 had names suggesting black African backgrounds, *Mail & Guardian*, 23 December 2005 -5 January 2006, 15