

**The role of multinational corporations in South Africa:
a political-economic perspective**

by

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Mandlenkosi S Mthombeni
Bloemfontein, May 2006.

I, Mandlenkosi Simion Mthombeni, declare that the dissertation, **The role of multinational corporations in South Africa: a political-economic perspective**, hereby submitted for the Magister Artium degree in Political Science at the University of the Free State, is my own, independent work and has not previously been submitted at another university or faculty. All the sources that I have used have been duly specified and acknowledged as complete references. I furthermore cede copyright of the dissertation in favour of the University of the Free State.

SIGNATURE:

A handwritten signature in black ink, appearing to read 'M.S. Mthombeni', written in a cursive style.

M.S. Mthombeni

May 2006.

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ABBREVIATIONS & ACRONYMS

ACP	African, Caribbean and Pacific states
AGOA	African Growth and Opportunity Act
AoA	Agreement on Agriculture
ASGISA	Accelerated & Shared Growth Initiative for South Africa
BEE	Black Economic Empowerment
BLNS	Botswana, Lesotho, Namibia and Swaziland
CAP	Common Agricultural Policy
CEO	Chief Executive Officer
COSATU	Congress of South African Trade Unions
DAC	Development Assistance Committee of the OECD
DSS	Dispute Settlement System
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution
GEIS	General Export Incentive Scheme
GNP	Gross National Product
GNU	Government of National Unity
HDC	Highly Developed Country
HDI	Human Development Index
IDC	Industrial Development Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
ISI	Import-Substitution Industrialisation
LDC	Less Developed Country
LIPW	labour-intensive public works
MDG	Millennium Development Goals

Mercosur	Mercado Commun del Sur (Southern Common Market)
MIC	Middle Income Country
MIDP	Motor Industry Development Programme
TNC	Transnational Corporation
NAFTA	North American Free Trade Agreement
NEDLAC	National Economic Development and Labour Council
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental Organisation
NICs	Newly industrialised countries
NUMSA	National Union of Metalworkers of South Africa
ODA	Official Development Assistance
PIC	Public Investment Commission
R&D	Research and Development
RDP	Reconstruction and Development Programme
SABS	South African Bureau of Standards
SACP	South African Communist Party
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programs
SDI	Spatial Development Initiative
SETA	Sectoral Education and Training Authority
SMME	Small, medium & micro enterprise
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nation Development Programme
WTO	World Trade Organisation

CHAPTER 1. INTRODUCTION: THE FRAMEWORK OF ANALYSIS

1.1 Orientation and significance of the study

Since the mid-1980s, a constant stream of literature on all aspects of globalisation has emerged arguing that the integration of national economies has proceeded to such an extent that it has begun to transform the nature of international economic relations and that this in turn, has had a huge impact on the political economy of nation states. Where the patterns of international trade and commerce before the 1980s were strongly influenced by national state divisions and territorial boundaries, the escalation in the volume of international trade, the increasing mobility of capital, and the appearance of global private firms whose business activities span nations and continents, have made the economic interconnections supraterritorial, bypassing central governments (Van de Walle 1999: 98). These global firms, also called multinational corporations (MNCs) are seen as primary actors and key agents in transforming both the national and the international political and economic landscape.

A multinational corporation (Balaam & Veseth¹, Gilpin, Spero & Hart, etc), is also known as a multinational enterprise (Ngairé Woods), or a transnational corporation (Susan Strange and UNCTAD) and by many other synonyms, (but hereafter referred to as a MNC). An MNC can be defined as a “firm that owns or controls income-generating assets in more than one country” (Fieldhouse 2000:167). A more elucidating definition of a transnational corporation would probably be achieved by linking the firm or company to the form of trade that it engages in. Thus, the MNC is a company that has established an international presence by engaging in foreign direct investment (FDI). Unlike general trade, FDI represents the physical extension of operations and the investment of equity funds and stock in several countries. Every time a company builds a factory, marketing office, or exporting warehouse, acquires control of the distributing agency, or buys out the competitor’s share of the market, it is engaging in FDI (Rugman, 2005: 264).

1 In the 3rd edition of *Introduction to International Political Economy* (2005), Balaam & Veseth decided to change the term “multinational corporations” to “transnational corporations”. The appellation “multinational corporations” was retained in this study since this term forms part of the title under which the study was originally registered.

More than ever, countries at all levels of development are trying to find new ways to channel FDI to their countries for purposes of development. The UN Conference on Trade and Development (UNCTAD) claims that FDI is the largest source of external finance for developing countries.

Foreign direct investment has the potential to generate employment, raise productivity, transfer skills and technology, enhance exports and contribute to the long-term economic development of the world's developing countries (UNCTAD.a, 2004: Online).

Modern governments have given high priority to the public policy goals of economic efficiency, growth, and improvement in the standard of living. Highly developed market economies consistently experience the globalisation of trade and modern technology as conducive to economic growth, and contributive to job creation and a general raising of the levels of income. Seen from a macro-economic perspective, multinational corporations play a key role in economic growth by adding to the pool of capital available for investment on a global basis. In 2000 alone, when the concentration of global FDI inflows was at their highest, FDI rose to US\$1,4 trillion (Sauvant et.al, 2004:1). UNCTAD estimates that at least 64,000 MNCs and foreign affiliates, representing an FDI stock of \$7 trillion, control two-thirds of global trade in goods and services and generate 53 million jobs! (UNCTAD.a. 2004: Online). According to Spero & Hart (2003:132), many empirical studies have demonstrated that a positive relationship exists between increases in foreign direct investment (FDI) flows and economic growth rates in these countries.

These multinational firms invest overseas because they possess some special advantage that they want to exploit fully and because there are benefits in locating their activities overseas. These benefits may result from avoiding barriers to imports and by employing cheaper foreign labour. However, according to Adams (1985:398), a firm will choose foreign rather than domestic production when three conditions are met:

- First, it must have some distinctive advantage that makes it worthwhile to compete in a distant and unknown environment with foreign firms familiar with their own market. The resources that give them the advantage, include

aspects such as technology, marketing skills, size, or preferred access to inputs, and must be owned by the MNC.

- Second, the MNC also prefers to utilise these advantages itself, rather than to sell or license them off to foreigners. By licensing off the marketing skills or technology that they have developed at private costs would in fact spoil the competitive advantage that they have built up. In addition, setting a market price for technology or marketing skills is difficult. The only way in which a firm can achieve a satisfactory return on its research and development (R&D) outlay is by retaining control over the production of the final goods or services itself.
- Finally, producing abroad must also be more profitable than exporting. Determinants in deciding whether to transfer abroad will include among others access to resources, transportation costs, and/or tariff barriers. (Adams 1985:398).

After the collapse of the Soviet Union and the socialist world economic order, the capitalist, neoliberal approach to the world economic order became the dominant view. The conventional wisdom advocated by the neoliberal model of development, is that with active participation, less developed countries (LDCs) would in due course experience the same kind of economic growth as the highly developed countries (HDCs).

Neoliberal theory argues that less developed countries (LDCs) typically suffer from the four “gaps” which keep these countries trapped in a state of economic backwardness. “Specifically, these include the resource gap; foreign exchange gap; skills and technology gap; and the budgetary gap” (Streeten, 1974:252-5). Accordingly, neoliberal writers maintain that by filling these gaps, LCDs are able to generate economic growth and development, and so escape the “poverty trap”. Usually to many neo-classical theorists a solution would involve foreign investment. Thus, MNCs as part of foreign direct investment (FDI) and as a “package” of financial, managerial and technological resources, constitute one of the most effective means available to fill the four gaps experienced by LDCs. In line with the above, neoliberal writers reason that, in order to promote domestic economic growth and

development, LDC governments should encourage investment by MNCs through the adoption of “appropriate” economic policies. According to Mills (1999: vi), “part of these policies is a package of measures including deregulation, privatisation, currency exchangeability and fiscal conservatism”. However, matters are by no means clear-cut because there is a lot of debate as to the kinds of effects MNCs have on LDCs.

With regard to the benefits accruing to LDCs, trade liberalisation has fallen short of the promises of growth, increased employment, higher wages, and greater welfare that are publicised by the advocates of free trade and financial flows and have been distributed unevenly among and within countries. Many political scientists, among others, Van de Walle (1999), Balaam & Veseth (2001) and Spero & Hart (2003), show that developed countries and LDCs often experience the impact of globalisation, FDI and trade liberalisation differently. The unequal strengths between the developed and less developed nations manifest themselves not only in the dominant power of the rich nations to control the pattern of international trade, but often also in their ability to dictate the terms whereby technology, foreign aid and private capital are transferred to LDCs.

Leaver & Cavanaugh (1996: Online) argue that governments of developing countries often find that they are not strong enough to regulate the easy flow of capital across national borders and are thus unable to wield enough influence over their nations’ development as they bid for MNC investment, often at great social cost to the country. Van de Walle (1999: 97; 100) reiterates this, arguing that “integrating the less developed nations into the world economy often takes away their governments’ discretionary decision-making powers. The logic of globalisation forces individual governments to accommodate market forces in the name of “national competitiveness”, even if it means erosion of wages and labour standards”. In this manner, global trade encroaches on the sovereignty of national governments to pursue socially valued objectives such as development and equity.

Developing countries, especially those in Africa, are still sceptical about the sincerity of Western assistance. Goncalves (2000: 26) is of the opinion that all the talk of ‘economic globalisation’ “is nothing more than a euphemism for ‘neo-colonialism’” — a system under which the poverty of the people of underdeveloped nations will increase, while the rich nations continue to prosper through privileged access to

assets, unequal trade practices and liberal investment policies that are most likely to push smaller, local firms into insolvency. According to Fieldhouse (2000:171), free trade means that any two countries can trade to their mutual benefit, provided that each focus on those products in which it has a comparative advantage. The question that is central to the study of MNCs in developing countries is whether the same applies to them as in the case of developed countries. The main reason for LDCs to question this is because they experience FDI as a one-directional process: they do very little investing and are mostly recipients of foreign investment. Since they are 'underdeveloped' countries, they mostly do not have access to the technology, capital, or expertise, to help them overcome these obstacles.

Thus, despite the fact that the share of developing countries in world trade has risen from approximately 24% in 1990 to 32% in 2000, increased trade has not necessarily brought more broad-based growth to LDCs. The growth in developing-country exports is extremely concentrated: East Asia produces over 75% of developing-world manufactured exports and a greater proportion of high-technology items, while South Asia and sub-Saharan Africa saw their trade share grow by only 2%, according to Oxfam (2002.b: 124-6). In most developing nations, higher exports have not translated into faster GDP growth. Especially in the poorest countries, most of which are in Africa and still depend heavily on exports of non-oil primary commodities and official development assistance (ODA), there has been little progress in economic growth and development (UNCTAD.d. 2004: Online).

Fieldhouse (2000: 171-172) further argues that "LDCs governments may not have the sophistication (or perhaps the patriotism and concern for public welfare) which is expected of Western governments and which might enable them to judge whether the costs of providing conditions attractive to MNCs will outweigh the 'direct' economic benefits their countries might obtain, and above all, the indirect effects may be very different because the host country may not be able to respond to the stimulus of foreign enterprise in the way expected in developed countries". Thus, he concludes by saying that even if the principle of comparative costs hold good at a purely economic level, there may be other non-economic considerations specific to LDCs, which outweigh the direct benefits provided by MNCs. Nevertheless, as Van de Walle points out, "it has become increasingly difficult to generalise about LDC economies,

which are today more varied in their performance and prospects than in the past” (Van de Walle 1999: 105). There are promising signs that the larger, richer, and more integrated markets of developing countries are moving towards sustainable growth.

1.2 Problem statement

According to Habib (2003: 234-5), South Africa’s democratic transition, like so many in the so-called ‘third wave of democratisation’, has been characterised by two distinct transitional processes: political democratisation and economic liberalisation. The goal of the former is representative government, while the latter has as its aim the reintegration of South Africa into the global economy. Globalisation has impacted dramatically on South Africa’s economy. The global economy, as has been argued, has itself been transformed by a particular organisation of power in both the national and global arenas, defined largely by the fact that the influence of the domestic business community and MNCs has increased dramatically vis-à-vis national states and intergovernmental political actors over the last decade or two.

The present ruling party, the ANC, has itself been transformed. It conducted its struggle from a Marxist-based economic ideology against apartheid for 30 years, but with the collapse of the Soviet Empire in 1989, it was deprived of a practical and intellectual base for its economic ideology. The new South African government found itself in a decidedly capitalist-dominated global environment where the conventional wisdom is that competitive markets are the best way yet for efficiently organising the production and distribution of goods and services (Venter 2001: 16-17).

The ANC soon realised that South Africa is heavily dependent on international trade and direct foreign investment for economic expansion. Trade and investment stimulate the entrepreneurial activities of the private sector. They create jobs, foster vital “learning” processes and attract private capital. In addition, trade and investment increase foreign exchange earnings. Above all, they generate the resources for sustainable development and the alleviation of poverty. “Market access must therefore be seen as an integral part of the capacity building agenda of developing countries” (DAC guidelines, 2001: 17, 21).

Therefore, especially since 1996, when it became clear to the ANC that its Reconstruction and Development Programme (RDP) did not have the desired effect of attracting foreign capital, it introduced its new economic policy of Growth, Employment and Redistribution (GEAR). GEAR was clearly influenced by neoliberal economic ideas and emphasised that economic growth had to be stimulated and converted into a redistribution of incomes and opportunities through appropriate development programmes and purposeful creation of employment opportunities. The ANC government “now favours strict monetarism, privatisation of state assets, prudent fiscal policies, and an export-based economy in line with the principles of free trade”, says Venter (2001: 17).

Bond (2000:199-200) points out that the results of the liberal economic reforms of GEAR are mixed at best: economic growth has been generally sluggish, and privatisation, liberalisation, and foreign direct investment have in some cases led to a greater concentration of industry in the hands of small entrepreneurial elite. Since 1994, when the ANC came in power, its policy of reintegrating South Africa into the world economy by lowering trade barriers, scrapping import substitution and reformation the economy along neoliberal lines, has contributed to the loss of between 500 000 and 1 million jobs in the private sector of the economy (Venter 2001: 16-17).

Many of those retrenched were Africans without necessary skills to compete in the world economy; thus, this shifted the costs of old and new forms of underdevelopment to the traditional victims of capitalist growth. It is worth noting that even at the writing of this study some sectors in the economy are still retrenching, i.e. the clothing and textile and the mining industries. South Africa’s integration into the global economy has therefore produced negative effects on job creation. In addition, foreign investment, which is a primary rationale of these policies, has not poured into the country in the volumes predicted or hoped for. Although neoliberals argue that this is a necessary sacrifice, the growth of the economy has been much slower over the last decade than expected and the economic benefits of following such a policy have yet to bring material benefits to the unemployed and the poor (Venter 2001:17; Habib 2003:235). Thus, the major challenges facing South Africa

today are a high unemployment rate, formally estimated to be 41.6 percent by the Census 2001 results (Smith, 2003: 5)² and inequality in terms of the distribution of wealth due to apartheid laws.

In view of the above, the central issue that needs to be addressed is how government can create a business-friendly climate to induce FDI and a burgeoning MNC activity in South Africa, but simultaneously ensure that sufficient capital and commitment are harnessed to guarantee that resources are made available for the socio-economic needs of the country.

Without the gains from both inward and outward-bound FDI, South Africa would have less financial, technical and skills capacity to develop the economic and social infrastructure for a sustained reduction in poverty and the transformation of the South African society. According to the Development Assistance Committee (DAC) of the Paris-based Organisation for Economic Cooperation and Development, the failure of governments to stimulate FDI can undermine their capacity-building strategies, and even lead to political instability, environmental degradation, and detachment from regional and global initiatives. Therefore, it argues, “it is clearly in the interests of all developing countries to enhance their capacities to capture and exploit the benefits of [FDI and] trade for sustainable development” (DAC guidelines, 2001:17).

Dutt (et al.), referencing the World Bank’s 1991 World Development Report, says that “markets cannot function in a vacuum. They require a legal and regulatory framework that only governments can provide” (1994: 39). Moreover, markets sometimes prove to be inadequate or fail altogether. This is why governments sometimes have to initiate both economic growth and social development strategies based on coherent policies and suggests further why they must invest in infrastructure, and provide essential services to the poor. It is not a question of state or market: each has an important and unique function to fulfil.

As the 11th UNCTAD Conference Report states, creating an enabling international environment for investment is essential for developing countries and economies in

1. It is clear that the original estimates were too high. According to Statistics South Africa’s revised Labour Force Survey, the official unemployment rate in September 2001 was just below 30% and in March 2005 it was 26.5% (SSA, 2005: Online).

transition. Developing countries need to put measures in place that are responsive to market demands, promote technology development, encourage enterprise networking, increase productivity and improve the competitiveness of their enterprises. Investment plays a vital role in this endeavour, since it provides a critical link between productive capacity building and international competitiveness. As the report emphasises, the financing of productive capacity building is central to any development strategy (UNCTAD.d 2004: 16).

These aspects of trade and development are mutually strengthening. The more money and capital is invested in development, the better the chances for the country to become competitive globally and to participate in the global trade. It is a case of finding the right balance between investments in economic projects (i.e. immediately wealth-creating sectors) to generate more wealth, and investing in social projects (although, the latter will not immediately create wealth).

However, if all income and capital are invested in development projects, the entrepreneurial side of economic growth eventually impacts negatively on development. If too much is done to stimulate the free market economy, too little capital is channelled into necessary social upliftment programs, poverty remains, increases even, and the electorate becomes dissatisfied with the government. Trade and trade liberalisation are not ends in themselves. Nor are they sufficient to generate dynamic and sustainable development on their own. But they can enhance a country's access to a wider range of goods, services, technologies and knowledge. By stimulating the entrepreneurial activities of the private sector, they can create jobs, attract private capital flows, increase foreign exchange earnings, and generate resources for sustainable development and the alleviation of poverty (DAC guidelines, 2001: 13).

The study then wishes to analyse these issues in order to explain how South African firms can move into the global market to gain maximum benefits and what role FDI and inward and outward-bound MNCs can play in achieving this. Moreover, the questions arises as to how the benefits of economic growth stimulated by MNCs can also be translated into investment in social and economic infrastructure, and thus contribute to a reduction in inequality. Investing in a system that employs black

graduates in the business sector for example, may simultaneously promote economic growth and contribute to a reduction of inequality and poverty.

According to UNCTAD (2004b: Online), a careful and well-managed integration into the world economy that is appropriately sequenced and adapted to form part of an economic and institutional development programme, can support domestic investors and producers. Domestic economic policies in developing countries — especially trade, investment and technology policies are usually constrained by international trade and loan obligations. It is therefore necessary to revisit the issues of appropriate national policy space as well as policy flexibility in the developing countries and for exploring how this policy space can be used to the best advantage (UNCTAD, Ibid.).

1.3 Aims and objectives

The overall aim of the study is to describe the role of multinational corporations in the South African political economy and to analyse, and assess the role of MNCs in contributing towards national development. The approach to this study will be to go beyond the actual activities of MNCs in a normative assessment of “desirable” forms of social and economic development, seeking ways in which conflicting interests can be brought together in order to achieve a situation of mutual advantage between government and MNCs.

In terms of specific objectives the study will

- Conceptualise the role of MNCs in general, focusing on both developed and developing countries;
- Analyse the main characteristics of South Africa’s political economy; and the role of MNCs during the apartheid years; with specific focus on capital, employment and production, organisation and management, technology, state sovereignty and MNCs;
- Describe the integration of South Africa into the global economy, and lastly,
- Discuss the role of MNCs in the political economy of South Africa in the post-apartheid dispensation, examining how the character and distribution of the benefits provided by MNCs can be utilised for human development, again

with specific reference to capital, employment and productivity, organisation and management, technology, and the state sovereignty and the MNC.

1.4 Method

The study is conducted in the qualitative paradigm and will be mainly descriptive in nature. The research design nevertheless provides a conceptual framework and alternates between general (more theoretical) and more specific (empirical) evidence regarding the political economic interrelations between the South African state and multinational corporations, whereby both will be interpreted in the light of the other. The investigation is deductive in approach in that it proceeds from a conceptual framework of analysis discussing and analysing scientific sources dealing with the features of home and foreign-based MNCs, in developing countries and applying them to the South African context. The focus of the study in the latter case will be to accurately describe and interpret government policy with regard to MNCs and their implications for the specific conduct and methods adopted by MNCs for business in South Africa. In this respect, the approach can also be partly inductive to the extent that the conceptualisation of the topic through a mixture of empirical and theoretical data about South Africa will be applied to suggest specific policy solutions for the South African political economy and the role MNCs should play in this regard. It does not attempt, however, to develop formal models or new theories.

1.5 Outline of the study

Chapter one provides the framework of analysis of the topic — the problem statement, aims and objectives and methods that will apply. Chapter two provides a conceptual framework against which the role of MNCs in the global and domestic economic system can be viewed and broadly discusses the way in which they do business and are perceived to do business in developing and developed countries. It also provides a background of the concepts and theories that will be applied to the role of MNCs in South Africa. Chapter three discusses the characteristics of the political economy and economic development that took place in South Africa after World War II. The purpose of this chapter is to give a picture as to how political power and the former government allocated economic resources. This will provide a background for an

analysis of the salient features of the South African political economy that the ANC government inherited in 1994 and form the basis for a more focussed discussion in chapter four on the role played by the MNCs during the previous political dispensation. The third section of this chapter discusses sanctions and MNC disinvestment.

Chapter five provides an overview of South Africa's post-apartheid international relations. The primary purpose is to analyse the trends and characteristics of South Africa's international trade, the need to lure back foreign investors and the implications of these relations for the future. It also set out the base and perspective from which the role of MNCs within the democratic South Africa will be evaluated in the next chapter. Chapter six discusses the role of MNCs in the democratic phase of South Africa's political economy. The main focus is the analysis of the role of MNCs vis-à-vis that of the state, the approach and attitude of government and macroeconomic policies. The chapter attempts to provide a framework for assessing the role that MNCs can play with regard to the government's general growth and development strategies. Chapter seven summarises the arguments, evaluates the role of MNCs with regard to national growth and development strategies, and briefly suggests a number of recommendations to address the issue.

CHAPTER 2. THE THEORETICAL FRAMEWORK: CONCEPTUALISING THE ROLE OF MULTINATIONAL CORPORATIONS

2.1 Introduction

This chapter forms the key point of departure for the study. It provides a conceptual framework against which the role of multinational corporations in the global and domestic economic system can be viewed, and describes and analyses the concepts and theories that will be applied and that are relevant to the role of multinational corporations in South Africa.

Concepts have been described as the tools of scientific analysis. In this chapter, conceptual definitions, the relation between a number of key concepts and the way in which they are interwoven into a theoretical framework of analysis dealing with the different roles and functions of multinational corporations in a new global environment, will be depicted in order to determine their significant dimensions. In the following chapters, these theoretical concepts will be applied within the South African context and the role of multinational corporations will be analysed and described against this background.

Key themes that provide coherence to this chapter are:

- The shifting balance between states and markets in the changing global environment
- Foreign direct investment and MNCs
- The relationship between growth, development and trade
- The role of multinationals in developed countries
- The role of multinationals in developing countries

2.2 The shifting balance between states and markets

The study of multinational corporations and foreign direct investment falls within the ambit of political economy. Frieden & Lake (2000: 1), describe international political economy as

.... the study of the interplay of economics and politics in the world arena. Political economy on the one hand, is the study of the political basis of economic actions and the ways in which government policies affect market operations. On the other hand, it is the study of the economic basis of political action and the ways in which economic forces mould government policies.

To a large extent, the study of political economy focuses on the dynamic interchange of two very important social institutions, states and markets, and on the nature of their interaction. Balaam and Veseth provide an elucidating exposition of the relationship between states and markets (2001: 14). They point out that economists like to say that markets “allocate and distribute scarce resources.” Markets are shown to be a highly decentralised and individualistic way of deciding how scarce resources are used (allocation) and who gets them (distribution). Markets allow the “invisible hand” of individual action to make decisions on resource allocation and distribution. Decisions that affect resource allocation also influence the creation of wealth and its distribution, both within and among nations.

Juxtaposing economists against political scientists, Balaam & Veseth point out that the latter often say that states “allocate and distribute power”. In its sphere of influence, a state chooses where the power of collective action is used (allocation) and who gets to use it (distribution). Elections are all about the allocation and distribution of power, since elections are one of the ways in which the state determines who has power and how it is based (Balaam and Veseth, 2001:14). They sum it up as follows:

Since the exercise of power generally affects the allocation and distribution of resources, politics (power) and economics (wealth) are thoroughly intertwined. States and markets interact because the boundary between what happens to wealth (the sphere of the market) and what happens to power (the sphere of the state), is sometimes ambiguous and constantly shifting.

People with wealth are often also people who command power in society and since power influences the allocation and the distribution of resources, the clear distinction between states and markets on this count tend to become somewhat blurred and artificial. However, Strange (1996: 44) and Gilpin (2001: 290) note that there is a

change in the production structure of the world economy (what goods and services are produced, how, where and by whom), which has affected politics at the highest interstate level as well as the lives of individuals throughout the world.

2.3 Foreign direct investment and MNCs

One of the most controversial topics in global political economy deals with the question whether the expansion of global markets in a “borderless global economy” is eroding the sovereignty of the state and the capability of governments to act effectively against international trade regimes and the trade business of multinational enterprises within their state borders. Susan Strange is one of the authors who maintains that the power of the state has been diminished by the globalisation of world markets. “Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states” (Strange, 1996: 4).

Historically, states had the political power and the economic resources to structure the international trade system regarding the flow of goods, the introduction of protective trade barriers and international payments. Globalisation has changed all of this. One of the prime factors for the change in global trade patterns and relations is the increase in the power and influence of MNCs. Since the United Nations Conference on Trade and Development (UNCTAD) brought out its *World Investment Report on Transnational Corporations as Engines of Growth* (1992), it has become generally acknowledged that MNCs are the ‘central organisers’ and the ‘engines of growth’ in the world economy.

Strange argues that the shift from states to markets has in reality made political players of the MNCs. Besides the fact that MNCs influence the foreign policies of states, she argues that they themselves are political institutions, having political relations with civil society. MNCs are important at every stage of production acting as technical or organisational pacesetters, as consumers of others’ goods and services, as producers and sellers, and as employers (Strange, 1996: 44).

MNCs range from companies that extract raw materials to those that offer services such as insurance or banking. A firm is not transnational if it just engages in overseas trade or serves as a contractor to foreign firms. The degree of multinationality of a specific firm can be assessed in a number of ways. Following Spero and Hart (2003:117), one can say that firms are considered to be more multinational if:

- they have many foreign affiliates or subsidiaries in foreign countries;
- they operate in a wide variety of countries around the globe;
- the proportion of assets, revenues, or profits accounted for by overseas operations relative to total assets, revenues, or profits is high;
- their employees, stockholders, owners, and managers are from many different countries; and
- they are involved in much more than merely establishing sales offices, but incorporate a full range of manufacturing, research and development activities.

Grunberg (2001: 347) describes MNCs as economic firms that have their head offices in their country of origin (their home country) and produce or distribute products or services in foreign countries (the host country) where they establish a branch or affiliate. They finance some portion of their overseas operations by transferring funds from the parent firm in the home country to the branch or affiliate in the host country. This transfer of funds is referred to as foreign direct investment (FDI) because it involves engagement in directly productive activities overseas with the purpose of owning or controlling overseas assets. FDI is very much a key feature of MNCs. It involves the establishment of foreign production facilities or the purchase of an existing foreign business and of acquiring ownership control of such a domestic firm.

The control over operations immediately suggests that more than mere flows of financial capital is involved, since capital is often accompanied by, *inter alia*, technological knowledge and increased leverage and management of foreign markets. As Lumby (1988: 104) points out, this characteristic of FDI as a “package” of resources stems primarily from the fact that FDI has historically served as the “backbone of the MNC.”

Neoliberal proponents are of the view that MNCs contribute to economic development and see FDI as a mechanism for increasing productivity and stimulating growth. By transferring capital, technology, and know-how and by mobilising underutilised domestic resources, MNCs increase productivity, foster growth, and thereby improve welfare. Following Spero & Hart's (2003: 132-134) discussion, the potential gains from FDI fall into three main categories. First, FDI may facilitate trade in goods and services by allowing firms to compensate for market imperfections by engaging in international intrafirm trade. Second, FDI may increase productivity of firms that are directly engaged in FDI, especially those that are the recipients of FDI inflows. Third, FDI may generate positive external economies that benefit firms and other economic actors that are not directly engaged in FDI.

The central question concerning the modern MNC is why its character and activities should be regarded as a special problem with regard to the sovereignty of the state. At one level, of course, the MNC is liable to the same criticism as any capitalist enterprise, namely that it exists to make profits on its investment and is thus capable of exploiting the working class. Its two special features are that, in common with all forms of foreign direct investment (FDI), it operates across national frontiers and that control is retained by one global centre, which reduces its accountability to states.

Multinational corporations view the world, not any given nation, as the pitch for their actions. As has been mentioned previously, they invest overseas because they possess some particular advantage they want to exploit fully and because there are special benefits in locating their activities overseas. These benefits may include aspects such as avoiding barriers to imports, employing cheaper foreign labour, borrowing in many capital markets and keeping their financial assets in many banking systems. They produce and export goods; exploit and import natural resources and transfer intermediate goods and partially assembled components. Some of this trade takes place within subsidiaries or divisions of the parent corporation (i.e. intrafirm trade). Adams (1985: 393) avers that in making decisions about plant location on a global basis, assessing the investment climate and potential rate of profit in different nations, evaluating risks, costs, and other locational advantages and disadvantages, multinational corporations "alter the world pattern of production including the location and mix of employment."

Two central features of MNCs are their magnitude and the fact that their worldwide operations and performance tend to be centrally controlled by parent companies. Many MNCs have annual sales volumes in excess of the entire Gross National Product (GNP) of the developing nations in which they operate. Because MNCs are usually large, they have market power vis-à-vis the countries in which they operate. They can, therefore obtain finance capital relatively easily and on favourable terms.

According to Gilpin (2001: 281), the decision to export a product from its home market or to invest abroad will be strongly influenced by the location of economic activities, and thus affect the rates of economic growth in different areas of the world. MNCs in this manner indeed attempt to expand their economic influence (and as has been argued) also political power and control over foreign economies:

It is clear that multinational firms desire not only to earn immediate profits, but also to change and influence the rules or regimes governing trade and international competition in order to change their long-term position.

In the case of developing countries, this power is further strengthened by the fact that they tend to operate in product markets dominated by a few sellers and buyers (i.e. they are oligopolistic). “This situation”, says Todaro, “gives them the ability to manipulate prices and profits, to conspire with other firms in determining areas of control and to restrict the entry of potential competition by means of their dominating influences over new technologies, special skills, and through product differentiation, advertising and, consumer tastes” (2003: 636-638).

Concern that MNCs can gain undue foreign economic and political influence is one of the main reasons why some developing countries try to contain foreign direct investment. The sentiment that foreign direct investment may serve as “a modern form of economic colonialism” in which foreign companies exploit the resources of the host country stems directly from the colonial experience.

But as the Economics Resource Center (Online) observes, restrictions on FDI in many developing economies have in recent years been substantially reduced as a result of international treaties, and external economic regulatory processes imposed

by the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank. One of the conditions for economic development is to enlarge the nation's capital reserves. Many governments of developing countries have now come to realise that foreign direct investment increases the amount of capital in the domestic economy which in turn stimulates economic growth. In the long run, the increase in the stock of capital raises the productivity of labour and leads to higher incomes (as well as increases in aggregate demand). The Economics Resource Center also points out that the transfer of technology from industrial to developing economies is often regarded by economists as the primary benefit of foreign direct investment.

The bulk of FDI originates in rich, developed countries and much of their foreign investment still goes to the rich nations. Multinational corporations, as one component of economic globalisation, are the main focus for many hopes and fears about globalisation. Waters (1995:75) expresses it pithily:

For critics of capitalism they are the vehicles by which intolerable and inhuman practices of exploitation are spread around the globe, and for their friends they are the virtuous sources of investment, technology transfer and the upgrading of the labour force.

The triangular interaction that exists between trade expansion, economic growth and human development is central to our understanding of the changing boundaries between states and markets, and the role of multinational corporations in this regard. Global trade can expand markets, raise productivity and increase exposure to and utilisation of new technologies — all aspects which constitute or stimulate economic growth. But as the United Nations report on development, *Making global trade work for people* has pointed out, “trade expansion neither guarantees immediate economic growth nor longer-run economic or human development” (UNDP.a, 2003:21). It is possible for a country to have economic growth, without simultaneously experiencing economic development. “Economic growth” in this respect merely points to an increase in average wealth but does not mean that its benefits are distributed to the population as a whole.

The 2003 UNDP Report expands the concept of economic development into human development. Economic development takes place when the whole or the majority of the population experiences sustained improvement in its standard of living, whereas sustained human development occurs when the basic choices, freedom and rights of today's generation are advanced without reducing those of future generations (UNDP.a, 2003:22).

Hence, although economic growth has the potential to advance development, it does not automatically translate into human development. Economic growth then, is a means to an end (i.e. development) rather than a final objective in itself. Growth can contribute to human development in two ways. Firstly, employment-led growth raises household income. Depending on how it is spent, the additional income can be used to improve nutrition, enhance children's education or increase skills—all of which expand human capabilities. Seen in this manner, economic growth and human development are mutually reinforcing — while economic growth and higher incomes expand the material base for fulfilling human needs, development is focused on people, and the equitable distribution of state benefits to all (UNDP.a, 2003: 22, 26).

The third factor in the triangular relationship is trade. There is little doubt that trade can be a powerful source of economic growth. The UN report, *Making trade work for people*, notes that in 22 of the 39 least developed countries of the world (for which data was available) international trade accounted for more than half of their GDP. The report further states that no country has developed successfully by eschewing international trade and long-term capital flows (UNDP.a, 2003:30; 34). Similarly, few have grown over long periods without experiencing an increase in the share of foreign trade in their national product. Ideally, international trade can contribute to the expansion of markets, improved competition and the distribution of knowledge, creating opportunities for growth and human development. But liberalising trade does not guarantee human development, and expanding trade does not always have a positive effect on human development. "Trade expansion guarantees neither immediate economic growth nor longer-run economic or human development" (UNDP.a, 2003: 21). Rather, as has been pointed out, internal and external institutional and social pre-conditions largely determine whether and to what extent a country or population group benefits from trade.

The extent to which the development needs are met, depends on the nature and degree of state intervention, i.e. how a government introduces development policies and allocates resources so that development is ideally spread out to benefit all sectors of society within the borders of the state. Economic growth then contributes to human development through government policies and application of government funds. Samuelson & Nordhaus (1998:35) list three main functions of government in a market economy that contribute to development generally. These functions are (1) increasing efficiency by promoting competition and providing public services; (2) using tax revenue to redistribute income towards a reduction of income inequality and poverty alleviation; (3) fostering macroeconomic stability and growth by reducing unemployment and inflation through fiscal policy and monetary regulation.

As noted by Gelb (1991:37), the case of the South-East Asian new industrialising countries (NICs), is an example, where the state acted persistently, in a persuasive and co-ordinating manner (e.g. directing investment into specific channels), to bring about a radical restructuring of manufacturing capital and in ensuring its (i.e. the state's) international competitiveness.

These arguments naturally raise the question where multinational corporations fit into the scheme of things. During the past number of years, UNCTAD has done much research on the relation between trade and development, but very little information in cutting edge academic literature exists on how trade relates to MNCs and foreign investment. It is nevertheless fairly widely accepted that multinational corporations are prime movers and sponsors of global trade and that MNCs and FDI have a crucial role to play in opening up the possibilities for trade expansion and industrial growth. Political economists have argued that FDI and MNCs can be forged into tools of economic growth and trade expansion. By injecting capital into the market through foreign direct investment, MNCs can help to create jobs, raise incomes, stimulate competition, provide exposure to new technologies, increase aggregate productivity, facilitate international trade and thus contribute to overall economic growth. Since the maximisation of profit is the primary goal of business, the benefits that are thus accrued, are shared and distributed among the company's management, workers and affiliates only, and is not necessarily carried over to society as a whole.

In many developing countries, however, large parts of the population do not participate in the formal economy and markets. Without mechanisms to distribute the gains from trade and industry, poor and vulnerable people are unlikely to benefit. One can thus conclude that regulative state policies in host countries are crucial if these countries firstly, wish to lure and retain MNC investment in industry and trade for further growth, and secondly, to channel the state benefits derived from FDI towards human development. Watkins cautions that despite the potential of international trade to act as a powerful means for poverty reduction, this potential is seldom realised, because "...world trade relations are governed by rules, policies, and practices that systematically skew the benefits of trade towards the wealthy" (2002:1). Similarly, one could probably infer that production by MNCs relocating to host countries are primarily focused on profit-making and not social development. Although trade and industry markets are not naturally "anti-poor" they are often being managed to produce anti-poor outcomes in the absence of adequate policy and legislative intervention by government.

The impact of MNCs on trade and development is therefore very uneven, and in many instances, MNC activities support dualistic economic structures and exacerbate income inequalities. They tend to promote the welfare of the well-paid modern-sector workers against the interests of the rest by widening the wage gap. They divert resources away from essential food production to the manufacture of sophisticated and sometimes inappropriate products (demanded by local elites and a small rich minority), stimulate inappropriate consumption patterns through aggressive advertising and their monopolistic market power, and do this all with improper (capital-intensive) technologies of production. Consequently, local resources tend to be allocated for socially undesirable projects. This in turn tends to aggravate the disproportion between the rich and poor, and the serious imbalance between urban and rural economic opportunities (Spero & Hart, 2003: 273-277).

Some critics believe that foreign investment in developing countries actually leads to an outflow of capital, through manipulation of import and export prices, profits, debt service, royalties, fees, and such return flows are unjustifiably high. According to Papandreou (2001:158), "a regional breakdown of FDI from the United States of

America reveals that the 'Development Decade' of the 1960s witnessed a substantial transfer of income from poorer to richer areas through the system of multinational corporations". He argues that in the period 1960-67, the U.S. subsidiaries took \$8.8 billion out of Latin America in remitted profits while investing only \$1.7 billion. Similarly, from the Middle East, Africa, Asia and Far East, they extracted \$11.3 billion while investing \$3.9 billion (See also Spero & Hart 2003:274).

Papandreou (2001:158) further notes that "the funds extracted from the poorer areas of the world were, in effect, transferred to the rich and growing markets of Europe, where US direct investment-inflows of \$9.6 billion exceeded the payment of profits of \$7.3 billion." This evident transfer of "surplus" from the Third World to the industrially advanced capitalist countries is what Andre Gunder Frank called the "underdevelopment" in the Third World. Capital accumulation, Papandreou concludes, does not happen all the time, but "trade has always been and will continue to be one of the main determinants of the unequal growth of productive resources in different nations". Todaro (2003:533) notes that this happens with respect to resources most important to growth and development, such as physical capital, entrepreneurial abilities, scientific capabilities, the ability to carry out technological research and development and the upgrading of technical skills in the labour force.

However, Fieldhouse (2000:178) argues that in terms of the tension between the power of the MNC and that of the sovereign host state is concerned, "it is the state that now holds most of the cards and can determine the rules of the game". He believes that at the macroeconomic level the state can adjust its policies in such a way that it is no longer possible for MNCs to make "excessive" profits or is no longer even attractive for them to import specific production factors into a host country. At the administrative level, it is possible for the state to use anti-trust laws against excessive concentration, to impose quotas, limit prices. Above all the state can insist on a minimal level of local contribution to obtain a greater degree of fair play in the business environment and of employment of nationals. It is also important to note that LDCs cannot afford to be isolated in a global economy where an increasing proportion of the world's trade is taking place within and between regional blocs such as the European Union (EU) and North American Free Trade Agreement (NAFTA).

To meet this challenge demands attention both to the regional blocs, and to relations with the world's major trade blocs.

This captures the main arguments of the debate surrounding the impact of MNCs on host economies, and how MNCs have the potential to simultaneously impose costs and confer benefits on host economies. Against this background, the next section investigates the role of MNCs in developed and developing countries.

2.4 The role of MNCs in developed countries.

It is generally acknowledged that developed and developing countries experience the role of MNCs differently.

Modern governments have given high priority to the public policy goals of economic competence, growth, and enhancement in the standard of living. In assessing the role of MNCs on developed market economies and examining the governance problems raised by multinationals, one must study the effects of those firms on economic performance. For most macroeconomists, capital investment is capital investment no matter who owns it, or where it comes from. "It is clear that FDI flows add to the pool of capital available for investment on a global scale and many empirical studies have established that a positive relationship exists between increases in FDI flows, rising levels of trade and economic growth rates in a wide variety of countries" (Spero & Hart 2003:132). In most of these studies FDI proves not to be a substitute for trade but as a means that helps to generate trade. Usually similar factors that create incentives for FDI also create incentives for intrafirm trade.

A misconception about FDI is that most of it flows from rich and developed countries to the poor developing ones, when in fact it is an activity conducted primarily between rich countries. According to Grunberg (2001: 348), "the United Nations Centre for Multinational Corporations, estimates that for much of the post-war period, developed economies were not only the home (source) of over 95 percent of recent FDI flows, but also the recipient of over 80 percent of such flows. He goes on to argue that as early as 1985, just five rich nations (the United States, the U.K.,

Germany, Japan, and France) were the home of almost 70 percent and the recipient of 57 percent of all FDI flows” (see also Kiely & Marfleet, 1998: 49-50). The obvious conclusion is that international markets benefit the industries of rich nations’ more than it benefits the developing nations because only the former have the resources and managerial experience to take advantage of it.

Most studies of the economic impact of MNCs on their host developed market economies conclude that their overall effect is positive. These studies have found that the proportion of sales in the home region of MNCs in the ‘advanced’ countries remains very high, or has increased in recent (or past) years. According to Spero & Hart (2003:134), the 1981 Caborn report adopted by the parliament of the European Community³ found that multinational enterprises raise the level of world economic activity and have favourable impacts on productivity, growth rates and the overall level of employment, the dissemination of new products as well as managerial expertise. Other benefits cited in studies of individual European economies include improvements in balance of payments, research and development, the level of technology, and increased dynamism.

Against this background, Fieldhouse (2000:171) argues that “on any principle of comparative advantage, and in a free trade world, any two countries can trade to their mutual advantage, provided that each concentrate on those products in which it has a relative (though not necessarily absolute) advantage”. The theory of comparative advantage underpins arguments in favour of trade liberalisation as a means of promoting growth and economic welfare. The premise is that all countries can benefit from trade by specialising in the production and export of those commodities that they can produce most efficiently, and by importing from other countries those goods they find too expensive to produce themselves. Thus, in theory globalisation will promote an efficient allocation of domestic resources through specialisation and/or MNC investment in those sectors in which the country has a comparative advantage, and will maximise output to the benefit of all.

3 This refers to the Report on Enterprises and Governments in Economic Activity (May 15, 1981). This document is unofficially called the Carbon Report.

Not all political economists share this optimistic viewpoint. According to observers from the radical school like Oxfam (2001: 17), several studies claim that the benefits of integration into world markets are not automatic and have been consistently overstated. Even where trade liberalisation and FDI have contributed to economic growth, it has often not been the broad-based, equitable growth that is necessary to reduce poverty and promote sustainable development. Fieldhouse (2000:171) notes that FDI in less developed countries is almost entirely a one-directional process, since these countries are mostly recipients of foreign investment, rather than themselves being investors. As “underdeveloped” countries, they mostly do not have the technology, capital, or expertise that enables them to change their circumstances.

Their governments may not have the political refinement (or the dedication and concern for public interest) that is expected of Western governments, and which might make it possible for them to decide under what circumstances the costs of providing investment incentives to MNCs will outweigh the “direct” economic benefits their countries might acquire from these inducements. Most of all, the indirect outcomes and prospects in LDC’s may be quite dissimilar from the expectations of governments and MNCs in developed countries because of a different response to the stimulus of foreign enterprise. Thus, Fieldhouse concludes, that although the principle of comparative costs still applies at a purely economic level, there may be other non-economic concerns in the case of LDCs that might be more important than the direct benefits provided by MNCs (Fieldhouse 2000: 172).

It is also important to note, that developed countries such as the United States, generally have low barriers to trade. This has the effect that firms locating to developed countries such as the United States have better prospects to become internationally competitive than those firms locating to countries with higher barriers to trade. Thus, one can expect FDI inflows into the latter countries to have negative effects on the locating firms’ international competitiveness. Similarly, one can also expect that externally-based benefits of FDI inflows in countries with relatively high levels of human capital such as the United States to be better than would be the case in countries with relatively low levels of human capital development. This suggests that there may be a stronger basis for concern about the possible negative effects of

FDI inflows in developing countries than in industrialised countries. This is an argument that will be explored further in the next section.

Papandreou (2001:155) sees multinationals as another dimension of the role of MNCs in the equation. He argues that MNCs' pre-emption of markets and the consolidation of dominant positions in them is as characteristic of the overall expansion of multinationals as is their attempt to control vital raw materials on a global scale. Their aim is clearly for an extension and consolidation of a power network across the world economy. Undeniably, it is as much related with the search for the highest practicable profits, as it is linked with growth. Alternatively, the growth-profit-growth nexus is intimately and inextricably associated with power. An extension of the network of power is the immediate driving force. According to Papandreou's contention, "power begets profits — just as profits beget power. The extension of power presupposes power. Those who already have it are more likely to succeed than those who do not" (Papandreou 2001:155). And this, according to Papandreou, is of course the basis for the global dominance of the multinational companies.

Papandreou's argument may be partly true with regard to MNCs' economic influence — they do wield great influence in global markets. Most global trade and investment, for example, is controlled by fewer than five hundred giant corporations that are larger economically than most nations. For example, General Motors' sales in 1995 were greater than the gross national product (GNP) of 169 countries, including Saudi Arabia, South Africa, Malaysia, and Norway (Leaver & Cavanagh, 1996: Online). Nothing represents the concentration of private economic power in the hands of MNCs as dramatically as this example. However, they are not necessarily the most powerful actors in the world today and do not generally brandish their power politically.

2.5 The role of MNCs in developing countries.

Most authors argue that very little FDI originates or goes to developing countries in comparison to developed countries, and that multinational corporations have thus tended to concentrate their investments in a few and favoured developing countries.

According to Grunberg (2001:350) and Van de Walle (1999:101-102), the very poorest countries, many of them in Africa, are essentially bystanders in this global activity, attracting less than one percent of all FDI flows. African trade today represents an exceedingly small proportion of the total world trade, with sub-Saharan Africa's share of world trade, according to World Bank estimates, at well under 2.0 percent in 1993. Most of the FDI that goes to developing countries, heads for just ten countries in Asia and Latin America (primarily China, Malaysia, Hong Kong, Singapore, Brazil and Mexico). These countries either have very large internal markets or have developed a fairly sophisticated infrastructure (e.g. ports, banking, education).

Conventional neo-classical theory suggests that LDCs typically suffer from four "gaps" which keep these countries trapped in a low-growth scenario. Streeten (1974: 252-5), identifies these four gaps as:

- the resource gap, which arises from the shortfall between the level of locally mobilized savings and the desired level of investment;
- the foreign exchange or trade gap, which is the result of a difference between the level of foreign exchange earned by the LDC from exports and the level of foreign exchange required to finance (capital equipment) imports necessary for development;
- the skills and technology gap, which refers to the difference between the level of domestic (labour and management) skill and technology as opposed to the level of skills and technology extant in more developed countries (MDCs);and
- the budgetary gap or budget deficit, which arises out of government expenditure exceeding revenue

A commonly offered solution for LDCs to break out of their "vicious circle of poverty" involves foreign investment. The neo-classical theory argues that countries are poor because they are lacking in capital and need large injections of foreign capital to overcome this restriction. In this regard, MNCs have a potentially significant role to play. This potential is recognized by Streeten (1974:255), who argues that MNCs contribute to filling the four gaps in LDCs by bringing in scarce capital; generating exports and substituting for imports; contributing to local taxes; enhancing local skills by training labour and hiring skilled expatriate managers; and

importing foreign technology. Moreover, Streeten (1974: 256), goes on to identify a number of other advantages the MNC may confer on the host economy, such as the creation of jobs, the promotion of more competitive markets and the generation of opportunities for local entrepreneurs.

Whereas FDI, and in particular the MNC, offers a host of potential benefits to the LDC, they may, as noted by Dunning (1974:164), simultaneously have an adverse impact on the host LDC since:

...the behaviour of its affiliates [subsidiaries] will be geared to the goals of the parent company; this may mean, in some cases, their operations will be deliberately limited in scope and potential, or simply be a replica of those of the parent company, the social cost of which to host countries may be considerable.

Spero & Hart (2003: 271) note that some of the power of MNCs grows out of their structural position within the relatively small and underdeveloped economies of many Southern states. Foreign firms often represent a significant percentage of the largest and most powerful firms in Southern economies. This is specifically true with regard to foreign investment found in such highly concentrated industries as petroleum, chemicals, transportation, insurance, food products, electronics, and machinery. The large firms that dominate such industries have more power to control supply and price than do firms in more competitive industries. Thus the oligopolistic structure of many MNC markets means that significant economic power is concentrated in the hands of a few large foreign firms (see also Todaro 2003: 637-638).

In addition, a significant criticism of MNCs commonly raised by developing countries is usually conducted on more fundamental levels. These are basic assertions made by a large number of critics of MNCs who do not seriously question their utility in the developed world but argue, from a very diverse standpoint, that MNCs are of dubious benefit in fostering social development to LDCs. In fact, the controversy over the role and impact of foreign private investment often has as its basis a deep-seated disagreement about the nature, style and character of a desirable development process. The basic arguments against the developmental impact of MNCs in terms of the type of development they tend to foster is normally raised in the following objections:

Multinationals use their economic power to persuade government policies in directions adverse to development. They are able to engender competition among governments to gain more favourable regulatory environments. This process goes with the relative disempowerment of labour. As a result, the private profits of MNCs may exceed social benefits. In some cases, the social returns to host countries may even be negative. Alternatively, trade can be another mechanism of capital outflow in which MNCs disguise profits and evade taxes. MNCs can avoid much of local taxation by falsely inflating the price they pay for intermediate products bought from overseas affiliates so as to lower their stated local profits (i.e. transfer pricing) (Todaro 2003:641).

This principle was utilised by Wind River Systems, an American based MNC that achieved a successful global tax rate of 36 per cent, compared to a possible 50 per cent. Governments are aware that they could be hoodwinked by these so-called faceless taxpayers, especially in the light of increased electronic trading. American president Bill Clinton aired these fears in 1992 by accusing MNCs of divesting the USA's tax authorities of a possible \$45 billion of taxes during the period 1992 to 1995 "as a direct result of orchestrated international transfer pricing policy" (Human 1997:7).

Multinationals may damage host economies by suppressing domestic entrepreneurship and drive out local competitors by inhibiting the emergence of small-scale local enterprises. On the other hand, doubts have also been raised about the benefits of the transferred technology. According to Oxfam (2002.b:182), "the vast bulk of the research and development (R&D) capability of MNCs remain with the parent company and very little is carried out in developing countries". Therefore MNCs do not help develop an independent capacity to generate new technology in the host countries. Consequently, "...subsidiaries in developing countries pay an unjustifiably high price for technology and bear an unjustifiably high share of the research and development costs", suspected to be part of price transfers too (Spero & Hart 2003:275).

Todaro (2003:641) argues that “multinationals normally produce inappropriate products (those demanded by a small rich, elite minority of the local population), stimulate inappropriate consumption patterns through advertising and their monopolistic market power, and do all this with inappropriate (capital-intensive) technologies of production”. This is perhaps the major area of criticism given the high unemployment rates in developing countries. Questions raised in this case are, whether a product or process developed in a rich country like the United States, to meet its particular circumstances, is appropriate for poor countries. Similarly, is it appropriate for MNCs to introduce products primarily produced for sale in developed nations into poor countries that have massive unmet basic needs?

Turner (2001:73-74) provides the following relevant examples: the Swiss company, Nestle, introduced powdered milk as a baby food into West Africa as an alternative to breast-feeding. Emulating Western fashion, local mothers adopted bottle-feeding wholeheartedly. The result was increased infant mortality. To combat their extreme poverty, mothers were diluting the milk to the point that a bottle had virtually no nutrition. In addition, the new fashion involved the use of bottles in societies with inevitably primitive hygiene, thus exposing the children to a range of germs they would not have faced if they had been breast-fed in the traditional manner. Similarly, the Zambian government banned the glowing advertisements for Fanta after learning that ever-enthusiastic mothers were weaning their children on this ostensibly exhilarating, but not particularly nutritious drink (Turner, *ibid.*).

As a result of the above-mentioned facts, local resources tend to be allocated for socially undesirable business. This in turn tends to exacerbate the already sizable inequality between rich and poor and the serious disparity between urban and rural economic opportunities.

Suspensions are that the obvious economic benefits of the types of industrial activity normally associated with MNCs may be outweighed for LDCs, either in terms of the economic costs included in the “package” in which they are imported or, alternatively, by the fact that they are “inappropriate” in terms of other, non-economic measures. In either case, the benchmark is that it is up to the host government to decide and control. But in the same vein, most of the radical critics of MNCs tend to

question whether the state in most LDCs can match up to its assigned role. If the state is too weak, or class-dominated or its bureaucracy is too ignorant or corrupt to uphold sound policies for good governance, then sovereignty provides no shield against the power of MNCs (Fieldhouse 2003:175). These reasons necessitate the examination of the capacity of the state in terms of its effectiveness to use and control the potential of MNCs for development, which is addressed later in chapter six.

Finally, because of MNCs monopolistic structure and economic power, the possibility has often been considered that influential multinational corporations can increase control over local assets and occupations and can then exercise substantial influence on political decisions at all levels. In extreme cases, they may undermine the very political process of the host nations – directly by payoffs of corrupt public officials at the highest levels or indirectly by contributing to “friendly” political parties (Todaro 2003:641).

Spero & Hart (2003:278) cite the International Telephone & Telegraph Company’s intervention in Chile’s domestic political policies during the early 1970s as one of the most infamous examples of MNC interference in state politics. From 1970-1972, ITT actively sought, first, to stop the election of Salvador Allende as the president of Chile and, once Allende was elected, to bring about his downfall. In the process, ITT also tried to employ the US government in both open and clandestine activities against Allende and the US government in its turn solicited ITT to serve as an agent of its policy.

Spero & Hart (2003:279) admit that the intervention of ITT into Chilean politics is not an example of the typical behaviour of MNCs. In a revised chapter on MNCs in the 2005 edition of their book, *Introduction to International Political Economy*, Balaam & Veseth bring much needed sobriety in their discussion on MNCs’ power and influence on states (2005: 387-88). Many people assume that MNCs, given their large numbers and their combined capital, must be very powerful politically. Balaam & Veseth question this and reject attempts to compare the power and influence of states and MNCs based mainly on financial indicators and technology. States, they argue, are fundamentally different from MNCs. States have power because they possess territory, sovereignty, armies and navies and make laws that citizens must

abide by. Their legitimacy to make important political and social decisions nationally and internationally are accepted by the citizens and the international community alike, while MNCs do not possess this range of powers.

On the other hand, as Sunter (1987:50-52) has argued MNCs of world stature that are truly global in scope and obtain top rankings in world investment indices do so precisely on the basis of their focused excellence — excellence in management, product quality and business ethics. They usually have very little concern with politics and are focused on increasing their market share in world trade through foreign investment. In this respect, there is probably less difference in the principles according to which most MNCs do business in their home countries or in host countries irrespective of whether these countries are developed or less developed.

2.6 Conclusion

The aim of this chapter was to explain the characteristics of MNCs and to analyse MNCs' influence on global political and economic processes of development with a view to understanding their impact on South Africa. One of the observations that one can make with regard to the analysis of MNCs in this chapter is an awareness of the complexity and diversity of MNC involvement in developing states.

Given the above discussion, the general observation is one of qualified optimism. Economic globalisation and MNC investment do offer opportunities for African countries, including more open markets and new technology. However, it also presents risks, especially the danger of continued marginalisation (by foreign investment), and of falling further behind in more dynamic sectors, and extended dependence on aid rather than private savings and investment. On the other hand, global hierarchies still exist and have actually intensified in the global era. MNCs do indeed influence development according to their own purposes because their primary concern is increasing their profits. The economic leaders of industry form an international elite class of capitalists that wield significant power in the world, weakening the power and authority of national governments to regulate their economies.

Realistically speaking, however, it should be accepted that the globalisation of trade relations is here to stay. Therefore, the solution is not to reject the global trade system and FDI. Despite the ways in which MNCs can manipulate governments, foreign investment and global trade are crucial if LDCs wish to develop and not be sidelined out of the new global economy.

It is necessary in this regard to note that South Africa, despite its status as a developing nation, is, in comparison to other African countries, probably the most advanced, most integrated into the world economy and the most globalised of all African states. Nations that have open and transparent democracies and vibrant, transitional economies like South Africa, have substantial bargaining powers, because they can regulate trade relations and MNC activities through preferred trade relations, and even curtail manipulative MNC conduct by introducing trade and industrial legislation.

Therefore, developing countries, while calling for a more equitable distribution of resources, need to take advantage of those aspects of globalisation from which they stand to derive benefits. Capital must be channelled to where it has the greatest chance of producing income and growth and where the original investment generates the best chance for subsidiary investments (e.g., the fuelling stations and vehicle repair shops, which follow as subsidiary investments flowing from the initial investment in vehicle assembly and manufacturing plants).

CHAPTER 3. THE CHARACTERISTICS OF THE POLITICAL ECONOMY OF THE APARTHEID SYSTEM.

3.1 Introduction

Having provided a background to the role of MNCs in a changing global environment, it is now necessary to turn to a discussion of the characteristics of the political economy and economic development that took place in South Africa after World War II. The purpose of this chapter is to give a picture of how political power and the former government allocated economic resources. This will provide the background for an analysis of the salient features of the South African political economy that the ANC government inherited from the National Party in 1994 and will form the basis for a discussion in the next chapter on the role played by the MNCs during the previous political dispensation.

The discovery of gold and diamonds during the late 19th century, and the subsequent discovery of coal, marked a shift in history in South Africa, and related changes in the economic structure as well as the political economy of the whole Southern African region. Nothing was more important in South Africa's economic and social history than the mineral wealth discovered first in the diamond fields of Kimberly and then in the vast gold deposits of the Witwatersrand in 1881. To support the mineral industry, many other economic sectors burgeoned: transport, communications agriculture, stock farming, trade and finance. The banking sector developed rapidly, and it is largely due to the emergence of bankers that networking between towns became a reality. The presence of great mineral wealth fostered the development labour relations, class formation and the emergence of the phenomenon of corporate power. Thus, key to the development of South Africa's capitalism was the dependency of capital accumulation in mining, agriculture and industry on a guaranteed supply of cheap labour – African migratory labour. Business and industries were established in mainly “White” areas.

Legislation to enable job reservation was introduced by the Hertzog government in 1924 and subsequently strengthened by successive National Party (NP) governments since 1948. The edifice of laws, rules and regulations made by the NP government

effectively promoted the economic interests of whites, whilst restricting the opportunities of blacks. Economic growth burgeoned, especially in the 1960s and despite the restrictions on blacks, they participated vigorously in this wealth-creation process. This is the source of the dual economy (i.e. the first and the second world economies in one country) inherited by the democratic South Africa.

3.2 Restructuring under the National Party

The National Party favoured Afrikaner employment hopes and opportunities through a system of 'state controlled private enterprise', which involved a high degree of racism. Afrikaner 'volkskapitalisme' combined more brutal control of black labour and high prices for farmers with government support for emerging Afrikaner financiers (especially Volkskas bank and Sanlam), on top of increased national economic control. Apartheid introduced a series of state interventions throughout the decade, which resulted in a stable form of racial domination and economic growth. According to Gelb (1991:2), this was based on a restricted Fordist growth model that organised the expansion of mass production and consumption on the basis of racial division and discrimination (racial Fordism⁴). Its concrete implementation was historically founded on an accumulation strategy with two critical aspects, i.e. import-substitution industrialisation (ISI) and the reproduction and exploitation of cheap black labour

Gelb (1991:36) thus argues that local industrialisation policy was based on protective tariffs, exchange and import controls governing finance and trade, parastatal corporations in a number of industries (e.g. Iscor, Sasol), production of consumer durables for the mainly white home market, and the export of primary commodities. While these measures increased living standards for the white population (also to a more limited extent for coloureds and Indians), it mainly excluded blacks because of the state-regulated wage bargaining system. According to Country Studies (Online), the movement towards protest against discrimination and unfair labour practice pervades South Africa's industrial history. In order to suppress this trend, the

⁴ Refers to the system of mass production (e.g. the assembly line) pioneered by Henry Ford to meet the needs of a mass market.

industrial Conciliation Act of 1924 provided a definition of the term “employee” which excluded most blacks and thereby depriving them of any labour law protection.

According to Davenport (1991:506), some economists (like F. A. Johnstone) have projected the job colour bar against the wider screen of a more general ‘exploitation colour bar’. Johnstone uses this phrase as an umbrella term to encompass all those laws that in fact stripped blacks of their power — the constitutional measures that destroyed their political influence, industrial laws that paralysed their ability to negotiate for better conditions of employment, the disparity in educational opportunities, as well as all the restrictive measures that curtailed their residential and property rights and their freedom of movement. According to Johnstone, it was precisely because black people were ultra-exploitable that they threatened the job security of better-paid white people, who were therefore “compelled in self-defence to protect [themselves] in one of two ways: either by insisting on job reservation, or by demanding an equitable ‘rate for the job,’” (Johnstone in Davenport 1991: 506).

Thus, for centuries, South African industrial development had relied on an abundant supply of low wage labour in order to ensure profits. In the private sector the Afrikaner capitalists were pushed into the upper reaches of the economy and integrated into the steadily evolving web of conglomerates that would dominate the economy by the 1970s. Following Marais’ (2001:20-21) argument, there were significant joint ventures launched by English monopolies with Afrikaner corporations: in one instance the Anglo American Corporation practically handed over its General Mining and Finance Corporation to a subsidiary of the Afrikaner-owned insurance giant, Sanlam. Through a concerted affirmative action programme the state elevated the Afrikaner capitalist class and advanced Afrikaners in all spheres of life. Government bank accounts were lodged with Afrikaner-controlled banks and this tendentious practice was evident in business where Afrikaner-controlled firms enjoyed government preference. Afrikaners were appointed to serve in and head scores of state departments, top bureaucratic and military posts, official boards and commissions.

In the thirty-year period from 1946 to 1975, growth averaged 7 percent annually. Manufacturing employment grew more quickly than any other sector at 4 percent

annually from 855,00 in 1951 to 1,6 million in 1976 (Nattrass, in Beinart 1994:165). Profits, size of firm, and productivity all increased. South African manufactures produced largely for the internal market, substituting locally made goods for imports in very diverse spheres. According to Beinart (1994), loans from the state's Industrial Development Corporation (1940) and foreign investment fuelled this expansion. According to Bond (1991: 24), the 1950s was a period that heralded the trend of foreign investment provided by foreign banks and companies in the manufacturing sector. Small-scale entrepreneurs, some of the Jewish immigrants became major industrialists with thousands of employees. Britain's biggest textile company, the Lancashire Cotton Corporation, established a plant in Natal with local tycoon Philip Frame (Beinart 1994:165-166).

The Anglo-American Corporation emerged as a giant which was responsible for the expansion of the Orange Free State and Far West Rand goldfields. In raising large sums for the Orange Free State goldfield developments, Anglo-American remained a major interlocutor between London's City and South Africa. It also controlled over 80 percent of world diamond production and had a major stake in uranium, coal, Zambian copper, and mining operations world wide. Anglo's growth into South Africa's largest corporation helps to illustrate the links between mining and manufacturing, together with other successful mining groups it diversified energetically. When Anglo took over De Beers, it had acquired AE and CI, the biggest explosives, fertiliser, and later plastics producer in South Africa (Beinart 1994:168-171). South Africa's ability to control foreign investment reflected the power of the mining houses, led by the giant Anglo American group. It enthusiastically pursued local development opportunities – resisting fund transfers abroad – following the disruptions of global depression in the wake of World War II (Bond 1991:24).

The labour aspect (supply, production and control) of apartheid's accumulation strategy was different in tone and content. The state regulated the relations of production, with the clear aim of ensuring the dominance of capitalist relations of production within society. Labour was based on the premise of controlling an unskilled migrant black labour force, whose social relations were duplicated via precapitalist social relations, and the local network of Bantustan. Africans constituted

over 70 per cent of the population of South Africa, and provided over 77 per cent of the nation's workforce. Africans were allowed to think of themselves as "citizens" of the fragmented Bantustan areas. The only function in the "white areas" was to provide labour for wages they required to survive. The divisions between blacks and whites were geographically entrenched, and this permitted the state to deflect the burden of social and economic remuneration. Unemployment was a problem consigned to the periphery (Seidman, 1977: 26).

The Bantustans had another function, besides serving as a labour reserve. By requiring unemployed Africans to return to their 'homelands', the government hoped to remove unemployed Africans and consequent unrest from the vulnerable cities where the whites live. To avoid the danger of large concentrations of Africans so near the white centres, the government initiated a programme of decentralisation by encouraging firms to build new plants in the border areas near the Bantustans as growth points. This allowed the state to combine its political goals with a manufacturing export strategy based on the familiar themes of cheap labour plus subsidies. They were not encouraged to invest inside the Bantustans, although the Tomlinson Report (1956) had specifically declared that investment there would be necessary to enable the homelands to become truly independent. In the decade from 1963 to 1973 the Industrial Development Corporation spent \$242 million to foster industrial development in or near the Bantustans (Davenport 1991:503).

The South African state presented itself in an ambiguous light: for the privileged whites, it was viewed as a capitalist democracy. For the disenfranchised blacks, it was seen as a vehicle of repression and exclusion. Thus, as Gelb so aptly puts it, "the state most closely resembled an amalgam of a racially exclusive form of democracy dependent upon a highly developed battery of repressive powers directed at the excluded majority" (Gelb 1991: 39). Although the state had many of the trappings of a typical bourgeois democratic state, it remained a highly qualified form of democracy. Power was structurally consolidated in the hands of a white electorate and continued to rotate within typically flexible capitalist institutional structures such as parliamentary forms, elected political parties, and the separation of the executive from the parliament; yet black popular classes were legislatively debarred from participating in government.

Gelb further (1991:38) argues that within the terms of apartheid, the South African 'nation' was narrowly defined in racial terms (as white) and incorporated into a racially defined social welfare state. The state provided social services on a differential basis and along racial lines. A social welfare state existed for the benefit of whites, providing protection and subsidisation in the areas of education, health, housing and unemployment benefits. Although differentially applied, many of the benefits of this racially defined social welfarism were also available to those classified as coloured Asian. The extent to which they were applicable to Africans was so insignificant as not to be relevant.

According to Davenport (1991:505-506), however, there were cultural and economic arguments advanced both for and against the migrant labour system. Support for it was general during the first twenty years of the union, among both white supremacists and white liberals. Supremacists feared black numbers, and wanted workers who had completed their stints under white employers to return to the reserves and leave the white areas to the white minority. Liberals felt that if the blacks returned to their homeland and their native culture in the reserve, they would not be contaminated by alien ways, and thus remain true to themselves. On the other hand advocates of migrant labour from the economic angle preferred contract labour from the reserves because they claimed it was cheaper to maintain because their families were cared for in the reserve economy, which made it possible to pay them a single man's wage and house them cheaply in the compounds. Overall this means that apartheid, as 'separate development', aimed at making sure that blacks developed on their own separately as independent states.

Popular resistance to apartheid measures quickly revived. This took the form of sporadic strikes and consumer boycotts across the country. The rural areas displayed a more militant approach. The first major resistance action organised by the ANC was the Defiance Campaign of 1952, in which African women, led by the example of figures like Dorothy Nyembe, Lilian Ngoyi and Annie Silinga played a central role. The campaign also generated joint actions with other political groups, a move that led to the formation of the multiracial Congress Alliance in 1955, and the drafting of the Freedom Charter. This was a landmark attempt to launch a co-ordinated challenge

against the apartheid state. The Charter was an instrument in the ANC's efforts to establish hegemony amongst the anti-apartheid opposition. The state, meanwhile, regarded the Freedom Charter as a form of treason, and used it to prosecute leaders of the Congress Alliance (Marais 2001: 22).

The banning of the ANC forced the organisation underground and created a dramatic shift away from its strategy of non-violent resistance to an armed struggle. An armed wing, Umkhonto we Sizwe (Spear of the Nation), or MK, was set up under a National High Command, comprising ANC and SACP leaders. During the early 1960s, most of the ANC leadership that had not been imprisoned, moved into exile and guerrilla training camps were set up in Tanzania. It is necessary to point out here that most of the political activists joined the Anti-Apartheid Movement in exile and called for sanctions as pressure for political change. The ANC was cut off from its support base inside South Africa and turned its attention to mustering international support for its struggle (Marais 2001: 22-29). The Sharpeville massacre and the suppression of the Soweto uprising were condemned throughout the world and there were increasing demands from foreign countries that South Africa should abandon its policy of apartheid and give black people a share in government.

3.3 The main characteristics of South Africa's political economy

The most prominent characteristic of the South African political economy is that of inequality in terms of the distribution of wealth, and at least up to the late 1980s, inequalities relating to opportunities for participating in the economy, due to apartheid laws. The organisation of the economy during the apartheid era, which dated back to the late 19th century with the discovery of gold and diamonds, saw the introduction of numerous laws, rules, regulations, and practices that benefited the white population. These included the establishment of new businesses and industries in mainly "white" areas. The National Party (NP) regime then introduced two key sets of interventions. The influx control of African labour and the pass law system were expanded with the aim of restricting the African population to nothing more than a type of "labour army" used to serve capitalist industries and the agriculture sector. Trade unions, representing the interests of the African majority, came under sustained

attack and as a result African wages were dramatically driven down and continued to fall in real terms until 1958/9 (Marais 2001: 20; See also Bond 2000:18-21).

The Land Acts of 1913 and 1936 resulted in black people being restricted to overpopulated, poverty-stricken rural areas, except where their labour was needed in the urban economy, particularly in mining and industry. These practices, coupled with the country's international economic position, resulted in a double duality in the South African economy. The country developed a dual political economy in which the distribution of wealth was (and still is) skewed in favour of the white minority. This means that the economy is divided along racial lines, with its wealth benefiting mainly the white population. According to figures of 1997, cited by Schoeman (2001: 232), the richest 10 per cent of the country's population earn 50 per cent of the national income, the poorest 20 per cent only 1,5 per cent. Some 85 per cent of the poor are black. Available data according to Nattrass & Seekings (2001:472), suggests that the overall level of inequality has changed little with the dismantling of apartheid. The limited publicly available data on income distribution since 1994 indicates that income inequality may even have worsened since the ANC assumed office (see also Keller, 2005: Online).

A closer examination of the South African Human Development Index (HDI) shows the depth of these inequalities. Income levels are calculated according to the Gini coefficient, which is a complicated statistical calculation to determine the comparative incomes of different individuals. According to Todaro (2003), the Gini computation indicates that the whites' score on the HDI is roughly equivalent to that of Spain, while that of the black majority is similar to that of Congo-Brazzaville. If 'white' South Africa were a separate country, it would rank 24th out of 180 countries, while 'black' South Africa would rank 123rd (Todaro 2003: 771). South Africa possesses a society which is marked by conspicuous inequalities: on the one hand there is a highly developed, 'first world' sector comprising mainly whites, whilst on the other hand there is an underdeveloped, 'third world' sector comprising mainly blacks. Over half of all the black population lives below the poverty line, and 40 percent of rural black children are stunted by malnutrition. In 1994 illiteracy rate stood at 33 percent and over three quarters of black teachers were unqualified for their jobs which perpetuated a vicious cycle of deprivation and discrimination (Cheru

2001:505; Keller (2005: Online). The South African HDI shows that the number of households that are considered deprived of access to 'good' quality basic services increased from 5.68 million to 7.24 million between 1996 and 2001 (UNDP.b. 2003: xvi).

The other duality within the economy is reflected by the rural/urban divide. Economic activities are largely restricted to urban areas, with "islands" of economic development concentrated in Gauteng, the Durban-Pietermaritzburg area in KwaZulu Natal, the Port Elizabeth area in the Eastern Cape, and the Western Cape. This means that rural poverty and deprivation are rife and that urbanisation grows at a rate that makes it difficult to prevent dysfunctional urban development (Schoeman 2001:323). In order to ensure that poor people benefit from economic growth, government will have to strengthen the investment climate throughout the country, rather than concentrate on the high income generating areas only.

South Africa also struggles with the problem of high unemployment. Following Smith (2003: 5), formal unemployment according to census 2001 is 41.6%. Of the formally employed, approximately 50% are engaged in the informal sector, in often marginal economic activities that do not necessarily eliminate material poverty. The unemployment rate among rural women is 59.6%. Unemployment and the failure of the formal economy to absorb new entrants are coupled to a population growth rate of 10%, which still outstrips real economic growth. High unemployment, together with the dependency ratio, the proportion of youths (under the age of 15) to economically active adults (ages 15 to 64) places a heavy burden on government spending and also makes for a relative small revenue for government (Smith 2003: 5; in Daily News, Jul. 09.). The higher the level of unemployment and the bigger the dependency ratio, the less revenue government has at its disposal to create or encourage the creation of employment and to provide social security nets for the poor. This makes South Africa dependent on foreign investment for economic development and economic growth strategies (Schoeman 2001: 324; see also UNDP.b. 2003: xvii).

In fact, unemployment in South Africa is not a recent phenomenon. Net employment has been stagnant or falling since the early 1980s. The structural characteristics of falling employment have been caused by a number of factors related to the apartheid

government's policies aimed at promoting 'separate development'. For example, the supply of labour suitable to a middle-income economy was constrained by a complementary set of repressive measures: adverse education, population control and labour market measures. These measures produced the adverse effect of diminishing household incomes and therefore hampering and stunting the development of a nation's greatest resource: its people. At the same time, markets were constrained by a closed economy and legal constraints to black entrepreneurship among others. The direction which development has taken further limited labour absorption by putting the economy on a firmly capital-using path (Daniel et. al. 2003:158).

It is worth noting here that during the 1960s mining and mineral processing made a significant contribution to the strong economic growth of an annual average of 5.9 per cent. However, the emphasis and continued dependence on this sector, together with political and economic policies of racial exclusion in a changing international political and economic order proved to be highly damaging to the South African economy in the 1970s and beyond. According to Schoeman (2001:325-326), one of the crucial failures of economic policy during the period of 'economic boom' was that the fruits of the boom never benefited the majority of the population, i.e. the benefits accruing from a vigorous economy were not used to efficiently diversify the economic base of South Africa. In this respect, we need to distinguish between the notion of 'economic development' and 'economic growth' as these aspects appear to be severely discrepant in terms of the South African economy. Economic development takes place when the whole or the majority of the population experiences sustained improvement in its standard of living. "Economic growth" merely points to an increase in average wealth but does not mean that its distribution or benefits accrue to the population as a whole. Thus, according to Schoeman (2001), South Africa experienced economic growth, but not economic development – the majority of its population remained poor, while the distribution of new wealth was limited to the white population.

Thus, Schoeman (2001: 326) argues that lack of economic development, has left South Africa, at the start of the 21st century with the following features:

- Ownership of economic assets (i.e. land and big business) is still largely in the hands of a white minority.
- Whites still has the benefit of better health, education, social services and general living standards that exceed by far those of the vast majority of the black population.
- The growth of a black middle-class is the outcome of employment created by the public rather than the private sector.
- The country is increasingly subjected to region-wide problems such as the abundance of small arms, crime, illegal immigration, and those related to widespread poverty and deprivation, such as HIV/AIDS and other health risks.
- Insufficient attention to human resource development, especially in terms of formal education, leads to a shortage of labour and management skills needed for the development of productivity and competitiveness in the economy, while at the same time unemployment is increasing.
- Cost of labour in South Africa remains high despite the high rate of unemployment. These factors, together with low production efficiency further curtail South Africa's international competitiveness.

3.4 South Africa's MIC status

Whereas the majority of African states can be classified as lesser-developed countries (LDCs), South Africa is regarded as a middle-income country (MIC). During the apartheid years, South Africa was and still is, by far the largest economy in Africa. Today it is the hub of private sector activity in Southern Africa, providing a gateway for FDI outflows to neighbouring countries and other international markets. South Africa accounted for 41 per cent of sub-Saharan Africa's GDP in 1996. South Africans produce almost as much on their own as the 560 million inhabitants of other sub-Saharan African countries. It is the only country with research and development potential of an international standard at its disposal, and that owns high-tech industries. Its GDP is three times higher than that of all the other countries combined (Cling, 2001: 135 – 141).

Yet, despite these distinctive advantages, if South Africa is measured according to the OECD's Human Development Index, it is classified as a middle-income country. With an annual GDP value of \$10 000.30 per person, South Africa shares its ranking position with other MICs such as Argentina, Chile, Mexico, Poland, Russia and Saudi Arabia (Nation Master, 2005: Online). According to a report of the British Government's Department for International Development (DFID, 2004: Online), MICs make up 10 out of 20 countries with the highest level of social inequality in the world, which explains why countries like South Africa and Saudi Arabia for instance, have high economic growth but rank as fairly average on the Human Development Index. This analysis elucidates the fact that high levels of economic growth are not necessarily synonymous with economic development.

3.5 Challenges facing the South African political economy.

Schoeman (2001:327) identifies three major characteristics in the South African political economy:

- An acutely skewed distribution of wealth based on racial distinctions
- A developing economy with the typical problems of poverty and an oversupply of unskilled labour
- A broadly diversified first world economy benefiting a small upper middle class and entrepreneurial elite, and a narrowly restrictive third world economy constraining the masses of low-skilled and unskilled workers..

Following Schoeman (2001:327-328), one can identify the main political and economic challenges facing the country in the late 1990s in relation to these characteristics. The first overarching challenge is twofold. According to Schoeman, South Africa will have to frame a definition of the notion of 'development'. In the light of this need for definitional revision, South Africa will have to analyse critically the adequacy and relevance of current economic policies and programmes such as the RDP and GEAR. The crucial question here is whether these programmes are compatible and consistent with development objectives. The viability of these objectives also needs to be addressed in terms of the global economy. Development entails more than economic growth and development; it also encompasses dimensions such as the social and political, at the individual, collective, national and international

levels. In essence these concern philosophical and normative issues or “first-order” questions, but also some tough practical ones, such as the role (if any) of the defence industry in the economy.

At the theoretical level she notes that it is also important to distinguish between *policy instruments and objectives*, as confusion between the two may inhibit economic growth for purposes of development. An example is privatisation. Is it an objective or a policy instrument? If the former, the distribution of wealth created by implementing a privatisation strategy is not necessarily taken into account and there is therefore no guarantee that such wealth will “trickle down” to benefit the broad population or those previously excluded from full access to the market. If the latter, it means that privatisation is linked to specific objectives and the way in which such a strategy is implemented offers a potential for redistribution through access to possible wealth creation (Schoeman 2001: Ibid).

A further challenge, closely linked to the above, is for South Africa (and with other countries in the region) to overcome the vicious cycle of poverty normally presented as four variables continuously impacting on and reinforcing one another: low savings and investment, low capital accumulation, low productivity and low average income. Meier (1989:66 in Schoeman 2001: 327) foresees the vicious cycle heightening over time, and attributes this situation to the restricting, constraining effects of inappropriate policies. This means that finding an escape from the vicious circle of poverty, with its concomitant dangers to domestic and regional order, stability, peace and security is fundamentally a political issue. The role of the state, the approach and attitude of government and macroeconomic policies become critical in formulating policies and measures to alleviate poverty and inequality and in implementing sustainable growth and development strategies.

In order to escape the poverty cycle, it is crucial to consider aspects such as the political will of the country, its material capability and means, and the level of skill in formulating and implementing judicious policies. Again, the relationship between government, the business sector, organised labour and the “fourth chamber” will largely determine what is to be done. The “fourth chamber” is made up of the vast number of people, rural and urban, male and particularly female. More than 70 per

cent of the world's poorest people are women, who have little if any access to the economic sphere. Their lives are characterised by a constant struggle for mere physical survival (Todaro 1997:159-160 in Schoeman 2001: 328). Until mid-2000, the National Economic Development and Labour Council (Nedlac) — a forum created to facilitate the relationship between business and labour — has concentrated disproportionately on labour legislation and labour relations, with this issue dominating the economic development agenda. The role of business as a stimulus to development became more pronounced with the formulation of government's broad-based black economic empowerment programme launched in 2003. Understandably, it also included business with international affiliations, i.e. MNCs. These issues will be broadly analysed in chapter six.

Although this debate is of great relevance to the future performance of the South African economy, it is but one part of the much larger and long-term challenge of encourage economic growth that can be used in developing human resources with a view to genuine human development as is formulated by the UN. However it remains to be seen whether government can shift the focus of the economic debate from one between business and labour, with hypocrisy being paid to the fourth chamber, to one that will take the latter fully into account.

3.6 Conclusion

The historically influenced conditions set up a platform for South Africa's burgeoning manufacturing industry after World War II. On this foundation, an alliance of white mining and agricultural interests, built a state capitalist regime, which despite surface conflicts and disagreements, stimulated and protected the emerging domestic manufacturing industries. The rapid growth of South Africa's manufacturing sector occurred in the context of a racist system that compelled the African majority to provide labour at less than subsistence wages. The segregationist policies of the government and the migrant labour system forced Africans into a captive unskilled labour market. Their position left them without any choice, but to work for low wages in order to survive. This alliance excluded the black majority from any meaningful participation in the government of the country. It also reinforced

their inability to participate in the benefits of economic growth that reached impressive heights up to the late 1960s, even as their participation in the creation of wealth increased and became of growing importance.

Apartheid or its euphemism ‘separate development,’ thus became the lever which consolidated whites around a policy of racial domination and economic privilege. The modern South African state thus involved itself very profoundly in securing and promoting the interests of a privileged minority. Because of the apartheid ideology of “separate development” and separate statehood, blacks had a historical economic handicap, and were politically disempowered with the result that they did not share in the wealth generated by economic growth in the industrial and corporate sector. This development eventually resulted in a dual economy comprising those that were more rich, in this case white, and those that were poor, and happened to be black — a legacy which still haunts South Africa today and remains a challenge for the new democratic state. The political and socio-economic plight of blacks in South Africa prompted ongoing resistance to the existing order, taking the form of violent protest, bombings, and increasing militancy, especially among the black youth. The prominent events in the 60s and 70s were the Sharpeville massacre and the Soweto riots. The state’s brutal suppression of both these uprisings led to global condemnation of the state’s policies. There was increased pressure on the state to abolish apartheid policy and to liberate and empower blacks.

In the traditional practice of economic statecraft, the state regulates corporate behaviour to promote a conception of public interest defined by policy makers. The contribution made by non-state actors with regard to bringing about political change cannot be underestimated. In South Africa, the disinvestment movement challenged the relationship between the state and corporate structures. This was done through the attempt to alter corporate policy, by means of exerting pressure on firms. Their successes came not from limiting the autonomy of firms to act as profit-maximisers but by redefining what firms calculated to be profitable. A declining economy and unstable political conditions also played a major role. Anti-apartheid pressures magnified the corporate response to these adverse conditions and made them more difficult to reverse. In the case of the private credit boycott, they contributed to a retrenchment, which imposed severe costs on the South African economy. While they

succeeded in changing the incentive structure for their corporate targets, those targets remained autonomous actors, which necessitated engagement of public authority.

Thus, the degree of success which nonstate actors have had in changing corporate decisions was due almost entirely to the exercise of public authority. As long as corporate managers believed that the U.S. government would support IMF arrangements or oppose economic sanctions, they felt little pressure to disengage. But once it became clear that the United States would no longer play a supportive economic role and that punitive sanctions were possible, if not likely, disengagement became a self-interested option for risk-averse managers. What is noteworthy about this is that most effective public policies did not come through the direct exercise of public authority over business. As with nonstate actors, there were those measures, which induced corporate retrenchment through increasing the cost and risk of continued lending and investment. Indeed, divestment of MNCs in South Africa eventually had positive impact in favour of a transition to a democratic state.

This chapter has outlined the state of affairs under which MNCs operated for the sake of making profit at the expense of black labour. The implication here is that MNCs indirectly supported and perpetuated the apartheid system in South Africa.

CHAPTER 4: THE ROLE OF MNCS IN THE POLITICAL ECONOMY OF THE APARTHEID GOVERNMENT

4.1. Introduction

In the previous chapter, it was argued that there was no real opposition between the apartheid system and capitalism. This was one of the reasons why local and foreign industry flourished in South Africa during this period. The 1960s, commonly considered as the “boom period” in South Africa, were characterised by a great deal of new investment, which was labour saving in nature and derived from international sources. Although Britain continued to be the largest source of investment and trade, the US interest proved to be the fastest growing during this era, with above-average profits. The Post World War II period was marked by an increase in direct foreign investment, especially in the mining industry, and the existence of substantial amounts of white capital. The co-existence of these factors resulted in South Africa obviating the economic deficits experienced by the rest of Africa.

The South African economy depended on international trade and direct foreign investment. The National Party government, however, followed a divisive policy that denied the notion of equal citizenship within a unified nation. Economic growth was not channelled into constructive measures for the promotion of socio-economic development and equity across the board, and for all South Africans. This discrepancy contributed to the creation of the dual economic system that eventually rent society apart. Although it would be unfair to impute the devastating effects of Apartheid to the operation of the MNCs, it is fair to observe that they can be considered to be partially responsible for scaffolding the system economically.

The key aspects of this chapter focus on:

- The socio-economic impact of the apartheid system
- An analysis of MNC involvement in the South African political economy
- Sanctions and MNC disinvestment

4.2 The socio-economic impact of Apartheid

It is axiomatic that the political, economic and social systems of a society are inextricably linked. Consequently, MNCs functioning in South Africa must inevitably take cognisance of the way political decisions impact on their economic activity. According to Rogers (2001:66), the commitment of American business to South Africa remained constant during the difficult years following the Sharpeville massacre. This commitment persisted during a time when oppressive measures were exercised against black opposition parties, the black press and black leadership. Detention without trial was the order of the day, and the police arrogated virtually absolute power in their persecution of Africans. Urban Africans were stripped of their residential rights, and many were deported to rural areas. Despite the ever more vocal expressions of abhorrence and opposition from most countries, including the United States, American corporations became increasingly involved in the South African economy.

In Mangaliso's (1997:221) view, international criticism of South Africa's policies intensified when it was revealed many MNC facilities in the country could be utilised for the manufacture of pro-government machinery and armaments. The US National Key Points Act drew attention to this disturbing reality. The MNCs defended their continued existence and function in South Africa by claiming that their presence was a collectively "progressive" force which could stimulate change through increased foreign investment. The logic behind this claim seemed to be that as the South African economy strengthened, job-creation would be facilitated, and the beneficial effects of these improvements would "trickle" down to the entire population. Some sources, notably Omond (1986) and Schmidt (1985) in Mangaliso refuted the "trickle-down" theory by noting that in 1980, the Black people living below the poverty line in rural areas amounted to a staggering 81 per cent. It was patently clear that the minority government was not particularly engaged by the necessity of establishing equality between Whites and Blacks. Mangaliso (1997) refers to two crucial spheres of government involvement, which expose the fundamental unwillingness to establish parity in the services rendered to Blacks – public education and health care.

4.2.1 PUBLIC EDUCATION

In the sphere of public education, which is crucial to the development of any society, the government in 1989 was spending seven times as much on a white learner as on a black learner. This discrepancy resulted in a severely distorted illiteracy rate. Illiteracy contributed to the suppression of the African population, confining its members to the bottom rung of the economic hierarchy. White children, by contrast, were infinitely more advantaged, and a white child had a far greater chance of becoming a university graduate than did a black child. According to Smock (1983) in Mangaliso (1997: 221), the differential matriculation rates were also widely divergent – almost half of the school-going males in the white population matriculated, whilst a mere 0.8 percent of African school going males achieved matriculation status (Mangaliso 1997: 221; see also Eberstadt 1988: 30-32 and Seidman 1977:23).

4.2.2 HEALTH CARE

In the area of health care, the per capita expenditure by the minority government was equally skewed. According to a study conducted by the Southern Labour and Development Unit of the University of Cape Town, the ratio of doctor to patient amongst whites was 1:600, whilst the ratio of doctor to patient amongst Blacks was 1:40,000 in the rural areas. (Thomas 1981 in Mangaliso 1997:221) The ideal doctor/population ratio was considered to be 1:800. The ratio for Blacks was found to be comparable to those in the most underdeveloped countries worldwide.

The rate of infant mortality among rural blacks was 31 times higher than among whites. The major causes of these deaths were diseases linked to malnutrition, such as Kwashiokor and other infectious diseases. These afflictions are regarded as symptomatic of high levels of poverty and starvation. Eberstadt (1988) argues that, given the high infant mortality rate for blacks, the purchasing power for South Africa's urban blacks should have been far higher than for any other black population group on the continent. It was not, however, adequate for the purchasing of the levels of health care that were enjoyed by other African population groups with distinctly

lower income. Soweto township had only one hospital, which served more than two million people (Eberstadt 1988:28-30; Seidman 1977:23, 29)

As various forms of pressure escalated, corporations sought to deflect the pressure for withdrawal by imposing certain limitations and restrictions on their South African dealings. These included the adoption of the Sullivan Principles –which committed signatories to non-discriminatory hiring of labour and fair workplace practices-, the ending of sales to the South African military and Police force, and providing funds for community development programs that provided housing, education and legal services to nonwhites. These changes did not appease anti-apartheid pressure groups, as they did not alter the fundamental structures of apartheid. Although the adoption by corporates of a greater degree of social responsibility may have eased conditions for blacks in the workplace, they did not alter the basic discrepancies in South African society. Rodman (1994:320) observes that a continued corporate presence in South Africa served to strengthen apartheid structures through tax revenues, technological advances and economic growth. These assets indirectly maintained the status quo.

One of the major problems regarding the presence of MNCs in South Africa relates to transparency. There was a lack of information about the precise nature of the activities of corporates in South Africa. Ironically, there was an abundance of information regarding the claims to “progressiveness”. Selective disclosure thus seemed to characterise the information flow, and many US companies with multi-million dollar investments, notably Union Carbide and others, simply refused to disclose details of their operations in South Africa. Another problem regarding corporates was the barrier erected by local laws. Rogers (2001) contends that when the US Congress and Treasury Department attempted an investigation of Mobil Oil’s South African affiliate – which was suspected of illegally transshipping oil to Rhodesia – the fact that Mobil’s subsidiary was licensed in South Africa proved to be an obstacle to investigation. Furthermore, South Africa’s Official Secrets Act, which prohibited disclosure of information on “munitions of war”, such as oil, effectively sealed Mobil SA’s books, rendering information inaccessible to both the US government and Mobil’s New York headquarters (Rogers 2001:69).

The Sullivan Principles reveal a critical inadequacy, particularly in the area of employment practices. According to Mangaliso (1997), the principles seemed to be aimed at correcting superficial inequities, without really embracing the root causes that underpinned these inequities. Even if these principles had been fully enforced by every US corporation in South Africa, apartheid's core would not be threatened. Indeed, the enforcement of these principles seemed to relate to the surface effects of the disenfranchisement of blacks, population controls, forced removals, bannings, and the detention of people without trial. In 1988, the Economist published an audit of the demographic comparisons of Southern African population groups. It emerged that black South Africans earned \$670 per capita in terms of gross domestic product (GDP), had a life expectancy of 57 years, had an adult functional literacy rate of 80 percent, and had an infant mortality rate 57/1,000. The figures for Botswana, a much poorer neighbouring country were \$ 1,000 per capita GDP, a life expectancy of 67 years, 70 percent functional literacy, and 41 deaths per 1,000 children (Mangaliso, 1997: 222).

By comparison, white South Africans enjoyed one of the highest living standards in the world: \$ 6,500 per capita GDP, a life expectancy of 73 years, 100 percent literacy, and an infant mortality rate of 13 per 1,000 children. Cheru (2001) points out that these inequalities are extreme. The South African Human Development Index (HDI) attests to the depth of these inequalities. If "white" South Africa were separated into a hypothetical country, it would rank 24th out of 180 countries, while "black" South Africa would rank only 123rd (see also Todaro 2003: 771). South Africa is thus a country marked by extreme discrepancies and inequalities. It seems to consist of a highly developed, "first world" sector as one pole, and an underdeveloped "third-world" sector as the other pole (Cheru 2001:505). The above data helps to expose and discredit the popular myth that Africans living in South Africa were better off than those living elsewhere on the continent.

The tantalising question, which the above discussion raises, is the following: if the continued presence of MNCs is construed as an asset and an improvement in the quality of life in South Africa, why do the above-mentioned discrepancies persist? A possible answer to this question lies in the fact that certain companies signed the so-called "job fragmentation" agreements. These agreements seemed to benefit the white

workers' unions, and to neglect the interests of the Africans, which amounted to an overall benefit for the Whites. Moreover, if certain enlightened MNCs pressed for parity between the wages of Whites and their black counterparts, a competitive disadvantage would arise with regard to rival firms. Accountancy procedures also provide a partial answer to the question. The decentralised accounting procedures in MNCs relating to performance assessment stresses the need for profitability, the onus being on each separate regional unit to achieve a profit. Any failure to meet the required standards of return on investment would inevitably result in capital flight. Mangaliso (1997: 222) points out that the principles on which finance capital rests are clearly defined. They turn on the maximising of returns on investment and seem to exclude considerations of social and political consequences or national identity. In the light of these considerations, the Sullivan Principles, and similar codes of corporate conduct should have been carefully evaluated, with appropriate reservations as to their qualifying as vehicles of social change.

The foregoing discussion can be regarded as an attempt to explain the factors which helped to shape the socio-economic dispensation of apartheid South Africa. It also, hopefully, provides a perspective on the role played by multinational corporations in the workings of the apartheid system. From the arguments presented above, it emerges clearly that the logic which assumes a gradual improvement in the living conditions of the deprived majority through a process of constructive engagement, and the eventual abolition of apartheid was indeed flawed. As has been demonstrated above, very little of the economic growth which resulted from MNC investments was directed towards uplifting Black living standards in areas such as education, health care, housing, and civic protection. By contrast, a disproportionate degree of expenditure was directed to the military (for the purpose of withstanding a Black uprising) and the multiplication of services to accommodate the functioning of apartheid structures, for example, the existence of 14 departments of Education for the different ethnic groups. For this reason, perhaps, many Black South Africans perceived foreign MNCs as vehicles, not of upliftment, but of oppression. This negative collective perception shifted significantly when large blocks of investors in the US and other countries signalled their concerted condemnation of the South African apartheid policies by divesting their interests from SA-related stocks.

4.3 An Analysis of MNC involvement in the South African political economy

4.3.1 CAPITAL

Mangaliso (1997) and Beinart (1994) note that the United States began investing capital in South Africa in the second half of the last century, in the initial form of entrepreneurship. The entrepreneurs comprised insurance salespersons, diamond diggers, merchants and shipping agents. The wealth of natural resources in South Africa attracted US miners to this country. Several large US corporations began to emerge in the South African market. Among these were the automotive giants General Motors and Ford. Such was the success of these corporations that, by 1918, South Africa had burgeoned into a major automotive market and ranked fifth on the list of foreign buyers of US automobiles. The tyre and rubber companies Firestone and Goodyear began business in South Africa in 1915 and 1916 respectively. In the 1930s, consumer goods corporations such as Johnson & Johnson, Colgate Palmolive, and Coca-Cola entered the South African market as did the financial services company Dunn & Bradstreet (Mangaliso 1997:2; Beinart 1994: 165-166).

After the World War II, many of the plants became outdated, as a result of the technological advances abroad. This necessitated the large-scale refurbishing of plants and equipment, a feat that was accomplished by means of the sizeable profits from the war, import control measures, improved financial efficiency, as well as the existence of large firms with ongoing concentration and centralisation processes. It was estimated that at the end of the 1970s that 17 percent of all foreign assets were from the dollar area. The US alone accounted for 15,8 percent (see also Seidman, 1977: 74-75). There were also substantial investments from Canadian, British and West European companies that are wholly or partly owned by American corporations. The US and the United Kingdom constituted about 70 percent of foreign investment in South Africa at the end of 1968 (Rogers, 2001: 65)

The Orange Free State became a mining magnet in the 1940s when rich gold fields were struck. Kennecott Copper loaned money to finance the mining of gold, and

Dillon, Read and Company (New York) negotiated a \$10 million three-year revolving credit to the South African government from four US banks. In the banking sector, banks such as Chase Manhattan entered South Africa in the 1940s, as did communications companies such as AT&T and RCA. In the field of air transportation, World Airways of New York began a passenger service between South Africa and the United States in 1947. Two years later, Pan American Airways offered two flights a week between New York and Johannesburg. Other companies whose entry and presence are worth noting from that period are NCR and later IBM, and in the 1960s, Burroughs (Unisys), Control Data Corporation (Minneapolis), Hewlett-Packard in electronics; Polaroid and Kodak in the instant-camera market, and Xerox in the photocopying market (Mangaliso 1997:2; see also Bond 1991:24)

By the 1960s, the profits which US MNCs had generated were used to buy minority and majority interests in domestic firms. Kimberley Clark acquired a 38 percent share in Carlton Paper. ITT owned shares in African Telephone Cables, and Newmont Mining had shares in the Tsumeb Corporation of Namibia and Phalaborwa Mining. US popular culture found its introduction to South Africa through music and film in the early part of this century. Columbia Records, MGM 20th Century Fox (a merger between Fox Film Corp. and 20th Century Pictures) were among the first to establish subsidiaries, followed by United Artists Warner Bros. Conversely, little evidence of South African culture could be found in the American cultural context, that is, until Alan Paton's *Cry, the Beloved Country* was staged and adapted on Broadway as the musical *Lost in the Stars* (Paton, 1948 in Mangaliso 1997:2) According to Rogers (2001: 65), US direct involvement in South Africa increased by almost 237 percent between 1960 and 1971. Translated into dollars, this would amount to a leap from \$286 million to \$964 million. In 1973, US involvement translated into a figure of \$1,240 million.

Anglo American was by far largest and most powerful of the South African mining and finance houses. According to Seidman (1977), the majority of Anglo's shares (56 percent) were held by South African interests. A significant proportion of the rest were held in England. Anglo also had close ties with the US firm, Engelhard. In 1974, Anglo's overall assets were estimated at over \$7.4 billion. This was equal to about 27 percent of South Africa's total GDP. The parent company's own investments alone

amounted to \$1.8 billion. An additional \$5 billion in capital flowed from the complex of mining, industrial and other kinds of companies administered within the Anglo group. Anglo produced 23 percent of South Africa's coal and 25 percent of its uranium. De Beers, the largest diamond mining company in the world, and the largest company in South Africa, was (and still is) a member of the Anglo-American group, with Anglo owning about 30 percent of De Beers. De Beers' mining subsidiary, alone, reported after-tax profits of \$372 million in 1973, which amounted to more than double its 1972 returns (Seidman 1977: 41-42)

Anglo American owned 32 percent common and 20 percent convertible preferred stock of Engelhard Minerals and Chemicals Corporation (EMC), which marketed ore and minerals, mined kaolin and other non-metallic minerals, and refined and manufactured precious metals for industry. EMC reported consolidated earnings of US \$52.5 million in the year ended 31 December 1973 (Seidman 1977: 42). It is important to note here that the Anglo American Group, although based in South Africa, has investments through dozens of affiliates and subsidiaries. Anglo American had direct links, through its board of directors with some of the largest financial multinationals in the world. Thus it has become evident that foreign firms financed some 70 percent of their investment in South Africa from profits that were generated locally. Large inflows of finance were ironically non-existent – foreign investment did not imply foreign funds as such. Yet, as Bloch (1981:53) points out, in the absence of ownership by local companies, foreign firms exerted a vast influence on the South African economy.

4.3.2 EMPLOYMENT AND PRODUCTION

In the 1960s, the overall growth of the manufacturing sector's output can be measured in terms of the increased size of the average firm regarding employee numbers, average fixed capital and the average value of output per firm. The number of existing firms, on the other hand, has declined. Changes in the percentages of plants with over 300 employees gives an indication of the growth of manufacturing plants. In 1953 this constituted 3,1 percent of plants; in 1967, the figure had increased to 5 percent. At the same time, these factories accounted for 43,6 percent of the total employment in 1953, and 52 percent in 1967. This growth pattern reflects the

introduction of advanced modern technology, which expands the scale of the operations of individual plants. Bond (1991:28) and Seidman (1977:18) note that technological advances involved changes in the modes of production, specifically a change from labour-intensive to capital-intensive production. This transition was clearly evidenced in large companies. Technological advances and innovations have facilitated the increasingly oligopolistic control of industry at large.

The character of labour markets also underwent a change during the 1960s. Farms became mechanised, South African miners went to work in factories, and many immigrant mineworkers arrived to ply their trade in South Africa. By the late 1960s, there were a million manufacturing workers, 400,000 mineworkers, and around two million agricultural workers. South Africa was very productive in the field of industrial equipment, with about 80 percent of its industrial plants supplied from within the country. South African manufacturing was advanced in character, and heavy equipment was domestically manufactured for the steel, chemical, oil, plastics, sugar, cement, paper and brick-making industries. The range of relatively sophisticated equipment manufactured locally included hydraulic presses, coal loaders, conveyor systems, mechanised handling equipment, boiler and steam installations, automatic stokers for power stations, water treatments, sewage plants and mining equipment. This period saw the steady rise in capital investment. The annual gross domestic fixed capital multiplied from \$423 million in 1945 to \$7,016 million in 1973, about 24 percent of the GDP (Seidman 1977:19).

In the manufacturing area, cash earnings in 1975 averaged \$ 729 a month for whites, as opposed to a meagre \$147 for blacks. Black wages, overall, averaged about 20,2 percent of white earnings. The wage scales on the goldmines were significantly smaller than in the manufacturing industry. The reason for this discrepancy can probably be ascribed to the nature of the mining labour force. Many mineworkers were migrant contract workers who signed up for periods of twelve to eighteen months. The working hours were long, about sixty hours a week, and there was no leave concession. The workers were separated from their families for the entire duration of their contract. Because many mineworkers were immigrants from neighbouring African countries, they were particularly vulnerable to exploitation. As immigrants, they were simply not in the position to demand better wages and

improved working conditions. The situation greatly empowered the mine owners, who were backed by their own police and security forces. The remuneration for mineworkers was particularly low, and the discontinuity between the wage scales of black and white mineworkers particularly marked. In fact, the discrepancies in the mining industry were more severe than in any other sector of industry in the country, and the gap was widening. The ratio was 9:1 in 1911, 11:1 in 1946, and over 20:1 in 1970 (Harris 1975:249; see also Seidman, 1977: 21-22)

Seidman (1977) argues further that the officially reported average wages of Africans in all sectors of the economy, including the public sector, remained below the Poverty Datum Line (PDL), which measures the minimum income estimated to be essential for survival in South Africa. The average African family consisted of five or six members, consequently three-fourths of the wages earned would be spent on essentials such as food. A document published by the Cape Town University Students Representative Council Wages Commission in the early 1970s estimated the PDL at \$104 per month for a family of six. Seventy-nine percent of African wage earners did not meet this minimum requirement for survival. The inflation problem has to be factored into an already untenable situation. Inflation has pushed up the cost of living dramatically since the early 1970s, and consumer prices rose at an annual rate of 20 percent in June and July 1974. Food prices rose at a rate of 43 percent, severely affecting the vast majority of Africans who spend most of their income on food. The wage increases, which occurred largely as a result of strikes in the intervening three-year period, did not keep pace with inflation. Overall, prices rose by 17 percent in 1975 (Seidman 1977: 22).

The argument of many critics focuses on the beneficial impact of MNCs on development. It has become clear that the effects of MNCs on the growth and development of the country were, at best, uneven, and even divisive. MNCs tended to promote the interests of a small number of well-paid modern-sector white workers, and neglect the interests of others, thereby creating an ever-widening wage gap. This in turn reinforced dualistic economic structures, which exacerbate the imbalances in income. Harris (1975:245) provides a vivid example of this problem, citing the Chamber of Mines' major objective as being the reduction of the mining industry's labour costs. It tried to achieve this by eliminating competition between mines over

wages and working conditions by centralising control over labour recruitment. The net result was the establishment of a monopolistic policy towards labour. The result of these cost-saving manoeuvres was the further aggravation of poverty and malnutrition for the African mineworker. In 1962, the South African Institute of race Relations referred to findings that four out of five unskilled urban African workers showed “signs of undernourishment” (Seidman 1977: 23).

Given the above facts, it may be concluded that no US employer in South Africa was paying all its workers above the effective minimum level. In most cases a false impression was created, in which the US companies were presented as socially conscious revolutionaries, or disciples of the cause of African employment and betterment, or as highly conscientised institutions which were entirely unconcerned about profit. It is thus evident that the behaviour of US investors in South Africa is consistent with the behaviour manifested in any other country – that is, that they act for the good of the company. This would be their primary objective. It would, indeed, be naïve to assume that the interests of a major MNC – whose objective is to maximise profits – would be similar to the interests of the population at large in South Africa. The interests of these two entities are simply too divergent in character and purpose. It is a sombre fact that the majority population of South Africa has no protection against the exploitation of its labour. The US State Department described the situation as follows:

South African society, and thus the South African economy, is built on discrimination in favour of whites, and against blacks. In this situation, US subsidiaries and affiliates have generally blended into the woodwork. Many have treated their non-white workers better than many South African firms have, but as a group their record has not been outstanding. They have been less progressive than the most progressive South African firms, and not rocking the boat has been an important guide to action (Rogers 2001:67).

Sonny Leon, the leader of the Coloured Labour Party, referred bitterly to the resentment experienced by South African blacks towards the hypocrisy of foreign investors. He referred to the double standards exercised by foreign investors, who piously denounce segregation, practice integration in their own countries, whilst doing the very opposite in South Africa. They apply one standard in their own

countries, and adopt another in the local context, because the apartheid system sanctions their activities and vice versa. Ironically enough, many US investors attempted to justify their activities in South Africa by paying lip service to equal pay programs at home. In an attempt to salve their collective conscience, they tended to give large grants to civil rights organisations in the United States, to defuse criticism of their operations in South Africa. Gulf Oil and Union Carbide, perhaps the most blatant supporters of minority regimes in South Africa and Rhodesia, are particularly active in spearheading benevolent activities in the United States. The glaring ethical contradiction here is that the South African subsidiaries of US corporations apply employment policies locally, which are at variance with applicable standards in the US.

4.3.3 ORGANISATION AND MANAGEMENT

US investment has extended into the most dynamic sectors of the South African economy. The provision of critical technology and managerial expertise has promoted industrial expansion in key areas, especially manufacturing. By 1970, US investment in this sector had quadrupled since 1959, to 50 percent of the US total, while mining interests, which are historically important, dwindled in relative terms to 10 percent. Petroleum accounted for 20 percent. Specific industries where US participation was especially vigorous, was the automobile industry (where US firms controlled nearly 50 percent of the market), petroleum (44 percent), mining, banking, chemicals, rubber, and computers. According to Rogers (2001:66), all these industries were strategically significant to the South African economic and political structure, and, to a large extent, determine its military capability. The US and Canadian involvement in mining, with specific reference to what the US government call “strategic commodities”, often takes the form of consortia, which involve South African mining houses, the state and local capital.

Rogers (2001: 66) observes that although US investment covers over 300 firms, only 12 major corporations control a major portion of this commitment. The fact that the core of the decision-making power resides in a very small number of very powerful boardrooms is borne out by the very structures of control: Mobil Oil accounts for 13.6 percent of all investments, while the three automotive companies, Ford, General Motors and Chrysler, account for over 25 percent. Investment is thus concentrated in

proportions of half in the first four corporations, and approximately three-quarters in the first twelve. Bloch (1981:51) contends that if the index of the growth of monopoly capital in South Africa is set by the increasing size of establishments under “rationalised” production, another set of indices relate to the proportion of firms controlling various shares of the market. Such indices are problematic in character. Bloch (1981:51) points out that many firms, which appear to be nominally independent, are on closer examination, shown to be owned by a single firm.

There are many examples of the diversification of holdings, which exist under the semblance of a single unit or entity. Anglo-American holds shares under names such as Dido, Fermain, Petard, Resident, Sharestock and Taurus, De Beers, Rand Mines, and Charter Consolidated. Barlow Rand follows the same practice, using names such as Amosite, Bentonite, Cryolite and Dolomite. The control of these firms stemmed from Anglo’s command over technological links and financing, as well as share holdings. Anglo-American’s industrial companies, which span many spheres of the economy, share the property of being able to both supply and consume products internally, within the “conglomerate” structure, without having to concern themselves about competitors (Bond 1991:28). Monopoly capital functions in a specific way: it may maintain smaller firms for a time, and then asserts its control when these competitive firms have already taken initial risks, or developed new products. The eventual control of monopoly capital may ensue for ideological reasons. Firms may be controlled in the absence of any legal ownership status. An example of this is when a single large buyer controls its supplier. Because of the absence of legal leverage, indices such as control of output within a particular industry do not reflect the various controls and links between industries. There is scant literature on the monitoring of control by monopoly capital. In 1977, a government Commission argued that:

A comprehensive empirical study of the structure of the South African economy has never been undertaken before, with the result that data on firm sizes and the measures of concentration in industry are on the whole fragmentary and incomplete (RP64/77: para 57, in Bloch 1981:51).

Bloch (1981) contends that the apartheid state not only tolerated monopoly industry, but actually encouraged its operations. In the light of these historical patterns, it is

clear that South African industry still manifests a high degree of concentration and centralisation. As early as 1940/41, 3.2 percent of establishments produced 50 percent of gross output in 15 specified industrial categories. Another government commission (1958) found that in one third of industrial subcategories, the three top firms controlled 70 percent or more of turnover. In the least concentrated industrial subcategory, 10 percent of the largest firms controlled 50 percent of the output. Firms in the top 5 percent controlled 63.1 percent of turnover; the top 10 percent controlled 75.5 percent. The Mouton Commission made clear reference to “an exceptionally high degree of concentration of economic power” in all sectors of the economy. The frequency in the occurrence of firms in which one plant dominated the market was marked in advanced capitalist centres (Bloch (1981:51).

Banks and other financial institutions also play a significant role in encouraging the growth of large firms. Banks were highly centralised institutions: the two top commercial and merchant banks, Barclays and Standard, controlled more than two-thirds of existing assets. The banks made use of their own staff, experience and facilities to encourage specific ventures. In 1954, the Afrikaanse Handelsinstituut (Afrikaans Trading Institute) made an overt show of support for a monopolistic economic system by calling for the consolidation of monopolies in a monopolistic world. They specified further that only “well-disposed and powerfully capitalised” institutions should be supported. Sanlam and Federale Volksbeleggings (FVB) are powerful leaders in the financial and industrial world. One researcher was emphatic about the dominance of the giant firms in South Africa:

‘Should the present situation be allowed to continue unabated the South African economy may in due course be dominated by government enterprises on the one hand and only a few large conglomerates on the other’ (Du Plessis 1978:269).

Bloch (1981:51) and Seidman (1977:116-117) point out that the trend is towards the establishment of larger industrial units. Large-scale concerns are usually sponsored by powerful industrial or financial organisations. The intervention of financial institutions, and the Afrikaner Nationalist movement, allowed mining houses to gain entry into the monopoly industry.

The above could support the critics' contention that the expertise contained within MNCs has little impact on the development of local sources of skills. MNCs provide overseas contracts, entrepreneurial skills, technology and management skills, but these do not necessarily promote the growth of indigenous entrepreneurship. Because the MNCs' dominance of local markets is so marked, and power is concentrated within such a small cluster of producers, it becomes inappropriate to speak of "free enterprise". Clearly, the concentration of power within a limited production ambit would hamper the development of indigenous skills. The existence of monopoly capital suggests a pattern of a highly integrated and dependent industrialisation process in South Africa.

4.3.4 TECHNOLOGY

This section poses two main questions: Why is South Africa obtaining technology through the medium of foreign-based MNCs rather than licensing indigenous producers which would obviate the associated cost? Are the imported technologies "appropriate" to the South African circumstances or not? In other words, does the gamut of imported skills and expertise serve the basic needs of the impoverished masses, or does it indulge the desires of the elite minority?

According to Bloch (1981), the term "technology" embraces many facets: production materials, patents, (legally-captive technology), technical assistance through experts, production processes embodied in machinery, factory layout and design, work programmes, specifications, etc. It is significant that any change in the technological field, such as the continued development and advancement of the instruments through which man seeks to transform nature, occurs within the context of specific social relations. The domination of one class over another may take the form of technical production. Machinery replaces the functions of human labour. The scientific application of knowledge to production processes implies the ever-increasing domination of technology over human agency. The emphasis on technological advancement is crystallised in extensive Research and Development (R + D) costs. In South Africa, productivity rises were heavily dependent on the rate of improvement of the quantity and effectiveness of the capital equipment and improvement in industrial organisation and rationalisation (Bloch 1981:52).

Bloch (1981:53-54) provides a useful case study to illustrate the ways in which overseas companies can both inhibit managerial control and internal technological advances. Because of a lack in local technological skill, producers in South Africa were often compelled to replicate the techniques of production developed overseas. This placed them in a position of dependency on overseas skills and ideas. Because of the skills gap that existed in South Africa, multinationals would invest in the country and would profit directly from the lacunae that existed in the South African economy.

A South African company, Premier Metals, was active in the manufacturing of construction equipment and mechanical-handling equipment, with expansion closely tied to mechanisation of other areas in the economy. The 1950s saw Premier move into the field of industrial equipment, obtaining licences from Clark USA, which took some 22 percent of its shares. Licences later included Clark's Michigan earth-moving equipment, with many components being locally machined. Clark operated in nine US states, and had fifteen subsidiaries in Argentina, Brazil, France, West Germany and the United Kingdom. Clark equipment AG (CEAG) in Switzerland licensed and administered patents, trademarks, and production technology for Clark USA. The multinationals could secure their dominance directly through their ownership of the production centres in South Africa, and indirectly by maintaining control of access to advanced technology that they were responsible for developing.

Clark sent engineers to Premier on a regular basis to "discuss problems" and to help "integrate" Premier's local processes into its international operations. CEAG controlled changes in technology. CIMSA (another Clark subsidiary) in the United States controlled the supply of certain components. When Premier attempted to expand local production against Clark's wishes, CIMSA stopped the supply of components for seven months. After Premier had been compelled to reassess its situation, it agreed to purchase certain component kits from Clark and to submit to various quality specifications. This ensured that its plant set-up was tightly integrated with Clark processes. A Clark subsidiary in France controlled and limited the rights of local firms to export products.

Premier thus found itself in the position of having to take most of the business risks involved, and advancing the capital required, yet at the same time finding itself compelled to buy Clark components, at prices stipulated by Clark. The technology required by Premier to operate its business was controlled by Clark in key areas, and involved the payment of vast licensing fees. Bloch (1981: 54) observes that despite Premier's South African identity – which did enable it to obtain state tenders and a degree of protection – it was nevertheless under the control of Clark, despite Premier's minority-share ownership.

This case recalls Dunning's (1974:164) statement regarding the negative impact that MNCs can have on parent companies. He argued that “their operations will be deliberately limited in scope and potential, or simply be a replica of those of the parent company”. Most South African firms faced a similar situation. In order to produce locally they required overseas support, particularly in the fields of high technology. Most companies in the country employed techniques that were developed and implemented overseas. This tied them to the MNC in terms of the pace and the direction of development set by the multinational. A possible alternative to this dependency relationship would be to find a relationship with another MNC, which would involve a lesser degree of dependency, or produce items at prohibitive costs.

The access to and use of foreign technology involves enormous costs, often in the form of direct payments to overseas “parent” companies. Although vast incomes are generated locally, they are often repatriated. Managerial and technical fees have to be paid. The strong flow of revenue provides the MNCs with the means to shift finances around the globe. Foreign firms imposed royalty charges (45,3 million dollars in 1973). MNCs in South Africa produced luxury goods that met world standards (if not prices) to satisfy the desires of white consumers. The production of luxury goods reflected the economic imbalances in the country, and decades of protective tariffs as well as the presence of major multinational branch plants. Ironically enough, cheap, simple appliances and clothing were under produced and increasingly imported, suggesting that basic needs were simply not being met by local industries. These discrepancies or disjunctions between needs and supply were further underpinned by the lack of social services and meagre social wages that the country's majority have

to endure. Bond (2000: 18) observes the glaring social and economic discrepancies in the fact that South Africa enjoys upper middle-income per capita wealth.

The establishing of inappropriate consumption patterns is an aspect that should demand attention. In this regard, multinationals play a significant role, as resources are often diverted away from food production to the manufacture of frivolously inappropriate products, which indulge the tastes of a small rich minority in the local population. Furthermore, aggressive advertising and the monopolistic market power of the multinationals help to entrench these inappropriate consumption patterns. Technology is thus geared toward the advancement of inappropriate production, i.e. capital-intensive production.

4.3.5 THE STATE SOVEREIGNTY AND THE MULTINATIONAL

Because of its economic policies, the South African state appeared to be highly sensitive to certain preconditions for profitable expansion in manufacturing. The State actively encouraged monopoly production and along with it the trappings of capital intensity and a prominent foreign presence. Effective legislation on monopolies seems to be virtually non-existent in South Africa. The Minister of Economic Affairs argued as follows in the course of a debate on the 1955 Regulation of Monopolistic Conditions Act:

This is not anti-monopolistic legislation ... even though a monopoly exist and even though combines exist they can still be justified in South Africa if they do not have a deleterious effect on the public... There is not another Act on our statute book under which accused persons have as many opportunities as under this Bill (Hansard 87, 1955:col.1830 & 1834 in Bloch 1981: 54).

There were 18 investigations ordered in terms of the Act between 1955 and 1976, and of these 18, only one case led to a prosecution. This proves that the Act was not particularly vigorously enforced, and that it did very little to stimulate competition. Tariff protection was scantily employed in South Africa. The reasons for this were that tariff barriers would raise the costs of local intermediate and wage goods, thus affecting the sectors of agriculture and mining, which were the pillars of foreign exchange. Where tariff barriers did exist – in industries, which had to control a

substantial share of local production in terms of state policy – they served as a stimulus to established large firms by inhibiting any competition. Marais (2001:21) and Bloch (1981:55) observe that what these restrictions implied was latitude for the “development of local overseas-controlled companies” that exploited their freedom and produced at higher prices, and with the support of the state.

The government’s tax concessions encouraged the use of machinery. According to Bloch (1981), specific import-control measures were applied so as not to affect the import of plant equipment and machinery. State and private expenditure on R+D amounted to about R45,2 million in 1968/69 as against the R 35 million spent on overseas payments for licenses, etc. This constituted a small attempt at freeing local business from overseas-developed technology. The goals of various Liaison and Technical Committees established as part of the SABS after 1945 were clear: “to frame (specifications) in such a way as to reduce the number of types, sizes and grades of a product to a convenient minimum...” The object was to bring about larger runs in the manufacturing process, thus reducing production costs. The state encouraged foreign investment, as it provided the technological ability required by the local markets. There were few restrictions on foreign capital, and even less monitoring of foreign business activities. In fiscal terms, specific tax arrangements allowed certain tax categories (for technology transfer) to be taxed in their “country of origin” (Bloch 1981:55).

The State imposed flexible curbs on finance and credit, and the repatriation of profit was permitted within a specific period. Firms were encouraged to establish their productive processes within South Africa. The state established the Industrial Development Corporation (IDC) with the original intention of supporting small industry. However, it soon found itself almost exclusively involved with monopoly capital, and usually in partnership with foreign corporations. As Marais (2001: 21) notes, the IDC was involved with the “rationalisation” of firms, often bringing the giant parastatals (ISCOR and SASOL) into dealings with foreign companies. The parastatals (semi-private established companies) encouraged production on a large scale. They often provided a subsidised platform on which other industries could develop. Bloch (1981: 55) notes that AECI and Sentrachem burgeoned on this basis, utilising many by-products from SASOL. As the size and efficiency of these

parastatals increased, competition with firms in the private sector ensued. The private monopolies often agitated to take them over, arguing, ironically that the state interfered to an excessive degree, thereby undermining the spirit of “free enterprise”.

Under parastatal control, the number of plant set-ups in South Africa increased dramatically. This increase however occurred in terms of international cost-efficiency criteria, and often in association with foreign firms. An example of this is the South African firm SASOL, which had the US Fluor Corporation as its overall managing contractor, and included partners such as Lurgi (Germany), Air Liquide of France, Badger (US), Mobil and Universal Oil. Bloch (1981:55) notes that the priority of cost-efficient production could not possibly be opposed by the state, which implied concentrated, high technology production and a close collaboration with foreign capital for the supply of know-how and advanced equipment. Critics argue that the emergence of MNCs in local markets is detrimental to local interests, precisely because they (the MNCs) tend to displace or buy out local firms and establish oligopolistic market structures. This occurs because MNCs are regarded as more efficient or more profitable than local firms. It is necessary to note here that, with reflection, it emerges that oligopolistic markets are in fact a by-product of this efficiency.

4.4 Sanctions and disinvestment by MNCs

In the early 1980s it became clear that the National Party government did not have any clear idea or vision about the constitutional rights of urban Blacks who lived outside the homelands. Opposition bodies emphasised this fact during the revolutionary period of 1984 -1987 to underscore the fact that the government was reluctant to reject apartheid, clinging instead to its political power. The NP government found itself in a political dilemma. It realised that it could not maintain the political status quo regarding urban Blacks, yet at the same time realised that it was not possible to summarily substitute White control with Black control.

In September 1983 the ANC launched a so-called “people’s war....to render the country ungovernable”, and to force the government to negotiate with the ANC on the

issue of the transfer of power to the Black majority. Liebenberg and Spies (1993:498 – 499) note that the ANC implemented a simple two-point plan, namely, that increasing foreign pressure on the apartheid government had to be complemented by domestic unrest.

When social unrest escalated in South Africa, during the 1980s, the presence of foreign MNCs became an increasingly controversial issue of debate. Two opposing views became known. Those who questioned the legitimacy of foreign interests in a country that practised immoral policies, and those who favoured the continued presence of foreign multinationals in South Africa, chiefly because these firms could, in the long run, provide economic prosperity to all citizens, regardless of colour. The first view maintained that foreign MNCs gave moral legitimacy to the white minority government and created a vested overseas interest in the status quo. Proponents of this view advocated a total disengagement of MNCs from South Africa and comprehensive sanctions, believing that this two-pronged attack on the SA economy would speed up the dismantling of apartheid. The second view, however, favoured the continued presence of foreign corporation in the country, assuming that the liberalising employment practices of foreign MNCs in South Africa had set a positive example for local employers. Mangaliso (1997:219) sums up the situation by stating that whereas the pro-investment group seemed to favour a “constructive engagement” approach to solving the apartheid problem, the pro-divestment group believed that the application of economic pressure would hasten the elimination of apartheid.

In October, 1985, the leaders of the Commonwealth nations concluded that the South African government was pursuing dilatory tactics, and recommended that sanctions be imposed on the country. In their final report, they sharply criticised the South African government for posturing. In their view, the government claimed to be open to change, whilst in reality it was not ready to negotiate fundamental change. The government was not ready to face the end of white domination and the establishment of democratic structures in South Africa. Liebenberg and Spies (1993:512) observe that the government’s programme of reform was not intended to end apartheid, but to make it perhaps more palatable and humane. The government’s quest was not to transfer power wholly, but to opt for a softer, power-sharing approach.

The sanctions campaign reached a climax in 1986, with the acceptance of the Comprehensive Anti-Apartheid Act of 1986 in the United States. This act set up a set of sanctions that were farther reaching than those of any other country. The Act forbade the importing of coal, iron, steel, uranium, weapons, ammunition, textiles and agricultural products from South Africa, and the exporting of computers, atomic apparatus, oil and petroleum products to the country. South African aircraft were denied landing rights and US investments in South Africa were forbidden. Conversely, aid was offered to the long-suffering victims of apartheid. American law made provision for the imposition of severe penalties on those countries that sought to take advantage of the sanctions situation for profit. By this Act, America, along with most other countries, effectively ended its policy of constructive engagement, which, as Liebenberg and Spies (1993:512) observe, had sought to encourage economic links with South Africa as a means of promoting liberalisation through economic growth.

Rodman (1994) argues that the real actors who ended constructive engagement were not public agencies, but rather private entities, viz. the US commercial banks and foreign investors, and anti-apartheid organisations that articulated corporate responses to the growing economic and political risks in this country. In July 1985 Chase Manhattan Bank stopped rolling over its short-term loans and froze unused lines of credit. This triggered a chain reaction among US banks that urgently played down their South African connections. The growing disaffection from South Africa led to the weakening of the rand and a consequent drain on South Africa's reserves. On 1 September, Pretoria declared a unilateral moratorium on debt repayments, and imposed exchange controls. Confidence in the South African economy plummeted, and banks refused to provide additional funds unless an assurance of fundamental political change was forthcoming. South Africa found itself in a state of increasing political and economic isolation. Cut off from foreign capital, South Africa faced persistent foreign exchange shortages. These threatened South Africa's political stability and economic growth (Rodman 1994: 323).

Direct investment suffered similar consequences. The most visible example of this was the massive disinvestment process involving over 200 American companies after the eruption of political violence in 1984. Rodman (1994:324) refers to the move by

firms that still continued operating in South Africa to set about reducing the capital flow to their South African affiliates. With a few exceptions, the reasons given by corporate officials regarding disinvestment related to economic, rather than political factors. Growing social unrest in the townships further influenced corporate perceptions. South Africa was viewed as a high-risk area, which offered very little in terms of political and economic stability. The South African economy was experiencing a severe recession brought on by drought and falling gold and diamond prices. In macroeconomic terms, the government's apartheid policies led to an increasingly dysfunctional economy, in which the free market process was impeded and externally distorting factors like sanctions were prompted. The net result was a generally depressed economy that revealed declining profits for many of the manufactured goods produced by American firms.

4.5 Conclusion

South Africa in the 1950s and 1960s-1970s relied heavily on foreign investments, a fact which affected the South African capitalist system under apartheid, and subsequent resistance to it. South Africa's earlier economic growth was largely the result of the exploitation of low-cost African labour that was utilised to mine the rich mineral wealth of the country. This wealth was owned by a handful of powerful mining-finance houses. The mines produced significant investible surpluses, yet, in spite of this apparent wealth and the country's relatively large population, the general impoverished state of the African population limited the potential of the domestic market for manufactured goods. The Nationalist Party's "solution" to this paradoxical problem was direct government intervention through its own investments, and a more indirect form of intervention involving the imposition of import controls. The broad objective was to create an economic "hothouse" environment for manufacturing production.

Government parastatals became increasingly involved with the oligopolistic mining houses as well as foreign multinationals. Many of these investments were labour saving and technology intense. The increasing mechanisation of South African industries created severe unemployment problems among Blacks, with

unemployment levels reaching 19 percent in the late sixties. Inappropriate investment, such as the emphasis on consumer goods, and inadequate mechanical production played key roles in the economic crisis the aftermath of which continues to the present day. The brand of state capitalism that emerged in South Africa had very little concern with the welfare of the majority of its citizens. Its methods and motives were patently clear: Africans would serve as the labour force, whilst their White counterparts would enjoy the fruits of the resulting wealth. Fundamentally speaking, the resulting economic system could be classified as a classic form of fascism. The apartheid regime and its socio-economic trappings created an economy whose possibilities and potential simply excluded the majority of its citizens, and consequently became unsustainable.

The major lesson that emerges from the South African experience is that when immoral practices, assumptions and motivations pervade a social system, and when the limits of that system's sustainability have been reached, only extreme measures or interventions can prevent the system from collapsing in on itself. In the case of South Africa, the combined interventions of the international community, taking the form of international condemnation, corporate withdrawal, and the internal resistance of the Black groups, finally convinced the South African government that the immorality of apartheid was unacceptable to the world community. Perhaps the supreme irony of this scenario is that the MNCs became agents of change, not by their continued presence in South Africa, but precisely because of their disengagement from the country.

CHAPTER 5. THE REINTEGRATION OF SOUTH AFRICA INTO THE GLOBAL ECONOMY

5.1 Introduction

After 1995, South Africa sought to redefine its position and role in the broader international community. The trend was clearly towards trade liberalisation. After the successful transition to democracy, South Africa became the focus of international interest, with many requests from governments and regional bodies to participate in trade and co-operation agreements. The ANC government committed itself to developing a competitive economy. One of the key instruments for achieving this was the liberalisation of the trade regime. Regionalism became a prominent feature of international trade, as many other countries and regions (such as Mexico, the eastern European regions and Mercosur⁵) entered into trade agreements. The newly-adopted policy of the ANC government was one of export-led growth of non-primary products, which involved vigorous competition with semi-peripheral and peripheral countries. Lemon (2000: 36) argues that in order to meet this challenge South Africa needed to take cognisance of its areas of participation, namely, the regional blocs, and to relations with the world's major trade blocs.

Lemon makes out a case for the importance of international trade. Trade, he says, can be viewed as a great facilitator, expanding markets, enhancing competition and disseminating knowledge. Trade can create opportunities for growth and human development. Trade can further increase productivity and increase exposure to innovative technologies. Proof of this assumption lies in the fact that, over the past 20 years, the regions exhibiting the fastest rate of growth have also shown the highest rate of export growth Lemon (2000: 36-37).

The liberalisation of trade, however, is not a guarantee for human development. Nor does the expansion of trade always exert a positive or neutral influence on human development. What does in fact determine whether a country or population group

5 Mercosur, is a regional trade organisation formed in 1991 to establish a common market and a common trade policy toward outside nations. Mercosur has four member countries—Argentina, Brazil, Paraguay, and Uruguay. Bolivia and Chile are associate members of Mercosur.

benefits from trade are the internal and external institutional and social preconditions that it establishes as a framework for its economic functioning. In this regard, South Africa hopes to attract both capital and technology, and to promote trade to boost its GEAR strategy through burgeoning exports and the substantial flow of local and foreign investment.

Since the mid 1970s the environment for FDI and trade has been greatly transformed. Important changes relate to the reduction of technological and policy-related barriers to the movement of goods, services, capital, professional and skilled workers and firms. Consequently, international production has grown substantially with MNCs as the driving force.

In view of the above, this chapter starts off by looking at the relationship between MNCs and international trade, followed by the production systems used by MNCs and the analysis of the environment under which they operate. The primary focus is on trends and characteristics of South Africa's international trade in the post-apartheid era and the implications of these relations for the future. It also provides the base and perspective from which the role of MNCs within the democratic South Africa will be evaluated in the next chapter.

5.2. The relationship between MNCs and international trade

The United Nations Conference on Trade and Development introduced this topic in the 1996 *World Investment Report* with the following paragraph:

Foreign direct investment (FDI) has been growing rapidly in the recent past, faster, indeed, than international trade, which has long been the principal mechanism linking national economies. Moreover, as the global environment is changing and strategies of transnational corporations (TNCs) evolve new configurations of TNC activities are emerging. This focuses renewed attention on what FDI means for trade, how FDI and trade are interlinked, and whether and how these interlinkages influence the economic growth and welfare of countries, particularly developing countries (UNCTAD, 1996: 1, Online).

From the context of national policy-making, FDI and trade are very important indicators of economic performance, growth and development. The volume of international trade directly organised by MNCs has increased enormously since 1970, and this caused subtle changes in the association of MNCs with international trade. Cantwell & Bellak (2000: Online) maintain that earlier scholars of MNCs thought of international production of MNCs, usually financed through FDI, as an alternative way of serving international markets than through trade. International trade theory was theoretically styled at the level of products, and firms entered only in a national sense as location-bound entities trading a single product. However, modern trade theory has incorporated many aspects of the MNCs' trading style and attempts have been made to reconcile the approaches based on technology, preferences and factor endowments.

Cantwell & Bellak (2000: Online) assert that conventional trade theory as developed by Mundell (1957) regarded international trade and international capital movements as substitutes for one another. According to this perspective, trade and capital movements are motivated by macroeconomic country-specific differences in the proportions of factor endowments, and among these factors, capital may be mobile whereas labour is immobile. Because of this, national trade and FDI policies have typically evolved separately, frequently influenced by different goals. Thus, capital-rich countries export products making use of capital-intensive processes because capital is locally abundant and cheaper; alternatively they merely export capital itself through foreign investment.

As UNCTAD has indicated, most national governments still tend to view and address trade and investment separately, sometimes causing a disconnection between national policy instruments and corporate business transactions (1996: 16, Online). From a modern trade theory viewpoint, exports and FDI are more likely to be complementary channels because trade is motivated by firm-specific differences in technological capabilities and patterns of specialisation within and between industries. This means that more capable companies with low production costs and higher quality products generate more exports and more FDI, and their international expansion may facilitate their acquisition of further capabilities (so that FDI leads to new exports, and vice versa) (Cantwell & Bellak 2000: Online). It stands to reason that the historical and

organisational separation between trade and investment is no longer suited to a world in which trade and FDI are closely interlinked. Inconsistent policies risk creating a situation in which trade and FDI policies may prove counterproductive. In contrast, national trade and FDI policies that are well formulated and logically implemented become reciprocally supportive of national growth and development. The verdict of UNCTAD in this regard is unequivocal: “Co-ordination in this way can produce synergies that yield outcomes beyond the expectations for separate policy choices” (UNCTAD, 1996: 16, Online).

The overall conclusion is then that FDI gradually promotes more exports and more imports. FDI as the prime method of delivering goods and services to foreign markets and as the primary engine in the organisation of international production, increasingly influences the size, direction and composition of world trade.

If high tariffs are placed by home countries to prevent the imports from displacing local production, “it is really the trade barrier that displaces the existing trade, and FDI becomes the only viable means for foreign-owned firms to continue to service the local market”. This leads Cantwell & Bellak to observe that affiliates today are more locally creative instead of being the passive actors they used to be for their parent companies in the past. This process of development and creativity can be related to a process of learning within individual affiliates. Thus, Cantwell & Bellak (2000: 3) note “corporate competence is now increasingly generated within affiliates, and then strategically integrated in the relevant MNC group, such that internationalisation is now promoting greater corporate technological diversity in MNCs”. The advantage of being part of the localised and geographically confined inter-firm networks makes individual affiliates become more specialised and competitive in their functions, which also allow them to draw on other institutions and technological resources in their respective host country. Eventually, a trend towards greater local technological creativity and specialisation is linked to the changing composition of international trade. The stronger the association between locally based affiliates of foreign companies, local firms and public institutions become, the greater the spillover effect on the domestic economy will be.

MNC-directed trade also tend to increase the regional focus of trade. Internationally integrated FDI is in most cases integrated within regions between industrialised countries (Cantwell & Bellak 2000: Online; UNCTAD 1996:16, Online). For this reason MNC trade within regional blocs like the EU has increased relative to the cross-regional trade of MNCs. This implies that some investments might be labelled as both local-market-oriented and at the same time internationally (or regionally) integrated. Thus between regions FDI is market-oriented (i.e. intra-firm trade which supply complementary final products to local distribution systems), while within them it is internationally integrated (i.e. vertical integration which involves further local processing and distribution). These features imply that MNCs networks are becoming more closely integrated internationally through the process of regionalisation MNCs are progressively more concerned to see the maintenance and improvement of a free-trading environment in order to be able to retain and further develop the advantages of cross-border FDI, which makes them increasingly concerned with trade-related policies as well. (Cantwell & Bellak 2000: Online).

5.3 The global production systems

The global and national economies as well as individual industries and firms have undergone a remarkable degree of restructuring in the past several decades. The transformation of industry and production is partly because of the emergence of new global role players, the multinational corporations, and their influence on existing international trade patterns and regimes.

Until the 1970s, the global economy was primarily composed of national companies operating mainly within their borders. The system was characterised by shallow integration as against the deeper integration of today, in which global production systems distribute production across continents and the globe. According to Hudson (2002:5), growing globalisation of the economy can be linked to the transition from multinational to transnational strategies of economic organisations within corporations of varying sizes.

These changes in corporate form and strategy reflect an on-going search for more effective (in terms of corporate interests and profitability) ways of creating new

forms of uneven development and exploiting existing ones in pursuit of competitive advantage and profit (2002:5).

According to the World Commission Report on “fair globalisation”, some 65,000 MNCs, with around 850,000 foreign affiliates, are the key players behind these systems. The growth of these systems has been most pronounced in the high-tech industries (electronics, semi-conductors, etc.) and in labour-intensive consumer goods (textiles, garments and footwear). It is also becoming significant in the service sector (software development, financial services and call centres) where technological advances have made it possible for these services to be supplied from different countries around the globe. The high-tech industries are the largest single component of the manufactured exports of developing countries and they have seen the fastest growth. In these industries, the production of parts and components is carried out by subsidiaries of MNCs located in developing countries. However, most of the research and development (R&D) and other technologically sophisticated functions are carried out in the industrialised countries (World Commission 2004: 33-34).

According to Hudson (2002:5), MNCs create linkages and produce economic integration across national and supra-national boundaries in three analytically different ways that lead to different corporate strategies. The first one is horizontal specialisation, where the same product is supplied by the same firm in different countries. According to the author, the primary underlying principle for this type of specialisation is to take advantage of economies of scale and separate consumer markets. The second strategy is vertical specialisation, where the different stages of the production processes and the creation of a value chain for a particular commodity are undertaken in different locations. Such specialisation is driven by differences in production costs (mostly of labour) and also by preferences for economies of scale.

The third type of specialisation relates to corporate strategies for increasing the assets of a company via new production strategies to enhance the creation and appropriation of surplus value. The way in which these companies try to increase their surplus value is to acquire or access assets created overseas and redevelop them through their R&D capabilities so that they capture ‘local’ knowledge and thus through a “regionalisation” of their products, enhance the competitive advantage and core

competencies of the company. (Hudson 2002:8-9; See also (Cantwell & Bellak 2000: Online).

Hudson notes that classical companies normally deploy all three strategies at the same time in varying combinations. However, in the last decade or so there has been a noticeable shift away from investment strategies that operated within existing production models to those that seek to redefine these models through the acquisition and application of new knowledge and the adaption of production accordingly (2002:10).

Hudson continues:

Because of powerful pressures on companies to source key inputs to production on a world-wide basis the increasing importance of intellectual capital in both corporate asset-exploiting as well as asset-creating activities has redefined the competitive terrain. This is also linked to a trend towards a growing importance of merger and acquisition of existing companies as against the ‘greenfield’ investment in new production facilities through FDI. (Hudson 2002:10).

Whereas mergers and acquisition was previously regarded as a means of acquiring market access or increasing production capacity, it is now progressively being used as a cost-effective way of obtaining knowledge about new products and production processes (Hudson 2002: 10). As mergers and acquisitions continue to reshape the system of international production and thus to capture the full impact of the growth of MNCs it is important to also note that they are now rapidly boosting their foreign activities through a variety of non-equity (e.g. management contracts, franchising), as well as building technology networks with partner enterprises.

Because of the globalisation of production, FDI can begin anywhere within the MNC system – innovation, the production of a new product and export can start in a foreign affiliate rather than the parent firm, which means that any part of the value-added chain can be located wherever it contributes most to a company’s overall performance. Thus, as the UNTAD Report on Investment claims, “the decision to locate any part of the value-added chain wherever it is best for a firm to convert global inputs into outputs for global markets means that FDI and trade flows are

determined simultaneously [since] they are both direct outcomes of the same locational decision” (UNCTAD 1996:14). The decision about where to locate is a decision about where to invest and from where to trade. It thus becomes a FDI decision, if a foreign location is chosen. What is important to note here is that MNCs will locate to where they can organise their production most profitably for the national, regional or global markets in which they invest.

It is evident from the above argument that developing countries in the current global economic system also stand to benefit from MNC production strategies and foreign direct investment. However, without the right policies and institutions in place, it also carries with it serious risks, which may result in inequality and lack of accountability among institutions and exploitation of local labour markets. Moreover, developing countries often face difficulties in upgrading their industries, transport and communication systems to comply with market standards and requirements,. Thus the expansion of global production systems across the world calls for sound national labour and industrial policies to protect the state and its citizens from MNC exploitation, but also the development of international frameworks, or fair global rules, for co-ordinating labour standards, export processing sectors, outsourcing, foreign direct investment, and corporate social responsibility codes. It is now generally accepted that a notable characteristic of the growth of the global production systems is that it has taken place without the comparable development of multilateral rules to govern its primary element, FDI. (ILO & Carnegie Endowment 2004: Online).

5.4 Designing strategic trade policies for pro-poor development

Although trade can play an important role in the reduction of poverty, it becomes clear that no single or comprehensive trade policy prescription can be applied to all countries. Individual countries must design and implement strategic trade policies within the context of their particular national development strategies. These should be based on a wide-ranging and integrated assessment of the impact of these policies on the poor, as well as on environmental sustainability, gender equity and basic human rights. According to Oxfam (2001: 22-23, Online), the trade elements of a strategic

pro-poor development policy, within a national context, are likely to include the following considerations and procedures:

- Cautious approach to the liberalisation of sectors on which large numbers of indigent people depend for their livelihood, especially the agricultural sector.
- Prioritisation of the liberalisation of products which account for a high proportion of indigents' expenditure, or products which constitute important inputs for labour-intensive agricultural and manufacturing sectors, particularly the production of higher-value goods and services
- The careful sequencing of liberalisation, with adequate measures to promote the capacity of indigents to take advantage of new market opportunities and simultaneously to protect themselves from the increased exposure to risk associated with closer integration into the market system. These measures might include improved access to land, credit, marketing infrastructure, skills, training, health care and the provision of education.
- Sensitivity to the nature of the global market when determining which sectors in particular require support or protection in order to promote national development objectives. For example, a developing country could become internationally competitive with regard to certain agricultural products, but less so with other agricultural products because of high levels of EU and US subsidies for these products.
- Holding regular consultations on trade policy with all relevant stakeholders (i.e. technocrats, bankers, financiers, entrepreneurs and workers) and making the trade policy-formulation process more transparent and accountable, for example by increasing democratic scrutiny by national parliaments.

In terms of their scope and the degree of liberalisation involved, national trade policies should be framed and implemented subsequent to an integrated assessment of the likely impact of trade liberalisation on the poorer sectors of society, and on the matter of environmental sustainability. The implementation of such policies should take cognisance of the pace and sequencing of policy reforms. Oxfam contends that international trade rules should not undermine the right of governments to implement strategies regarding national development, specifically those seeking to reduce

poverty levels, promote respect for human rights and environmental sustainability Oxfam (2001: 23, Online).

According to the World Commission (2004, Online), good governance at both the national and global level, should promote values such as freedom, security, diversity, fairness and solidarity, as well as ensuring respect for human rights, international rule of law, democracy and participation, promote entrepreneurship and adhere to the principles of accountability, and efficiency. However the growing nexus of links between countries through trade, FDI and capital flows means that changes in economic conditions or policies in major economies have strong spillover effects on the rest of the world. Similarly, new global rules also have a strong influence on the policy choices and economic performance of countries. Countries that are classified as “semi-peripheral” (like South Africa) in terms of the international division of labour, find themselves in a more vulnerable position and affected by both foreign economic pressure and the general state of the global economy. Thus, according to the World Commission (2004:75 Online), increased economic globalisation has generated a need for better global governance. It has also given rise to a broadening range of issues that cannot be effectively dealt with except through collaborative global action.

A major challenge facing developing countries is to overcome the unbalanced WTO agreements, which protect the industrialised countries and their powerful corporations. The industrialised countries enjoy an unequal share of the trade benefits emanating from these skewed agreements, at the expense of developing countries and poor people, which necessitates a need to develop institutional arrangements that will support and supervise global markets in the interests of all participants (Oxfam 2001: 3, Online). This includes the need to ensure their smooth and equitable functioning, the elimination of uncompetitive practices and abuses, and the correction of market failures. The World Commission (2004:75-76, Online), asserts that the response to these new challenges (both national and global) has so far been random. Global experience to date, shows that there is an uneven and incoherent system consisting of a patchwork of overlapping networks and agencies in the economic, social and environmental fields. These realities provide a strong argument for applying reforms in the WTO.

5.4.1 KEY AREAS OF WTO REFORM

Oxfam reminds us that trade is a means to an end, and, that the rules pertaining to trade and the WTO should therefore be framed on the basis of their contribution to broader developmental goals. At the 1999 Seattle Ministerial Conference, the UN Committee on Economic, Social and Cultural Rights gave a similar message to the WTO members, reminding them that trade liberalisation should promote the conventions on international human rights. The committee aired its concern about the welfare of the more vulnerable sectors of society, and the environment, and called for a review of the impact of WTO policies in this regard. The need for review was regarded as an urgent priority. If WTO rules effectively undermine the capacity of governments or the citizens of a country to secure basic food security at the national or household level, or the ability to access affordable medicines in order to achieve a minimum standard of public health, these rules violate human rights (Oxfam 2001:24).

Other areas of concern outlined by Oxfam (2001) in order to effect changes in the WTO agreements are the following three key areas: market access, agriculture and intellectual property. With regard to agriculture, the Agreement on Agriculture (AoA) was exposed at the WTO as the most conspicuous example of double standards and hypocrisy of rich countries. Some critics regard the “special and differential” provisions of the AoA as a way of reinforcing the industrialised countries’ system of agricultural subsidies, rather than encouraging and promoting the rights of poor countries. These would include the right to food and sustainable livelihoods and the promotion of other important national objectives.

Agricultural production and growth are key determinants of general growth and poverty reduction in poor countries. For this reason, the continued agricultural support for farmers in the EU and USA has devastating implications for poverty-reduction efforts. Subsidised EU and US produce is frequently dumped on international markets with the help of additional export-specific supports. These products create an unfair competition dynamic in world markets, and deprive

developing countries of market share and foreign exchange (Oxfam 2001: 3; see also O'Driscoll 2005: Online).

Urgent intervention is also required to regulate the activities of huge MNCs that dominate world trade in agricultural commodities. It is interesting to note that 70 percent of this trade area is controlled by no more than six companies. Their activities influence the share of value captured by different actors along international supply chains, which has specifically negative implications for agricultural farmers who produce crops for export. The downward trend and the growing instability in the prices of international commodities have had a negative effect on the both the income of farmers involved in global markets, and the revenue of governments in commodity-dependent, developing countries (Oxfam 2001: 4, Online; see also O'Driscoll 2005: Online).

Oxfam (2001:20) argues that international trade rules regulate the actions of governments, not those of private corporations and warns that where companies enjoy monopolistic power, markets are distorted. In such a context, the removal of government intervention will not automatically encourage competition and guarantee that the most cost-effective producers find a market for their goods as theory predicts. Governments must develop binding international regulations for companies if markets are to be managed effectively in the interests of poverty reduction and sustainable development. According to Cantwell & Bellak (2000:5), non-governmental organisations (NGOs) have expressed similar concerns that business interests have now gained too much of a voice in situations where MNCs' purely economic arguments prevail over the concerns of governments for the redistribution of some of the gains from trade for development purposes. This also partly accounts for the trade talk deadlocks in the WTO rounds where developed countries support the investment policies of home-based MNCs against the trade policies suggested by governments of developing countries.

With regard to trade-related intellectual property (TRIPs), it is argued that the WTO TRIPs Agreement considerably increases the scope, breadth and area of geographical coverage of patent protection for many countries. It guarantees MNCs a minimum 20-year patent term on both products and processes, in all fields of technology, including

microbiology. As Oxfam (2001:5) has pointed out, the rationale underlying the TRIPs Agreement, does in effect oppose the general liberalisation objectives of the WTO, since it creates barriers to trade and undermines competition. The inclusion of the TRIPs Agreement in the WTO agenda illustrates graphically how globalisation operates and is being managed in the interests of powerful MNCs. The TRIPs Agreement focuses on the strengthening of intellectual property protection. The large companies were largely responsible for advocating the introduction of intellectual property on the WTO agenda, chiefly for reasons pertaining to the pursuit of monopoly rents.

There are very real fears that the WTO rules on intellectual property will affect technology transfer to developing countries by raising the cost of transfer, and by possibly inhibiting this process with regard to developing countries. This will, in turn, hamper the opportunity for poorer countries to compete in an increasingly knowledge-based global economy. The problem with the WTO intellectual property rules is that they fail to strike the correct balance between the rewarding of innovation, and the recognition that governments seek to promote broader social objectives, particularly with regard to the needs of the poor in developing countries (Oxfam 2001:5; see also Oxfam.b. 2002: 208-212).

The Oxfam organisation is particularly concerned about the potentially negative impact of the WTO intellectual property agreement on technology transfer to developing countries, and on the capacity of the poor to gain access to affordable medicines, seed, and other technology-rich products. Access to essential medicines has already become a major problem for one-third of the world's population. The negative impact of the TRIPs agreement on the price of medicines already constitutes an acute health risk, given the alarming levels of disease in the world's poorest countries. The TRIPs agreement allows for a degree of flexibility regarding the protection of public health. Developing countries are, however, frequently subject to intense bilateral pressure from governments, and legal pressure from private companies to overlook these safeguards, and rather to comply with an extremely strict and narrow interpretation of WTO patent rules (Oxfam 2001:5-6; See also Oxfam.b. 2002: 212-219).

The debate around patent protection, as exemplified by TRIPs, has filtered from Geneva to the streets of South Africa. The problem of AIDS has helped to foreground the argument, sharpen its focus, and strip it of the obscure legal jargon that can so often take on the semblance of legitimacy. The Treatment Action Campaign (TAC) was launched in 1998 with the purpose of pressurising the South African government and pharmaceutical companies to make life-saving medicines available to people suffering from HIV/AIDS. A legal dispute arose between the South African government and MNCs regarding the passing of the Medicines and Related Substances Act. This act would provide a legal framework for the parallel imports of patented medicines from countries where these were sold cheaply. The Act would also allow for the mass use of generic drugs, and would establish some degree of price control to ensure that these drugs would not be inaccessible to most people. The government would, through the Act, find a legal means of opting out of TRIPs, by utilising a waiver clause in times of national emergency. Naturally, if South Africa passed the law other developing countries might follow suit, hence the unprecedented and concerted class action by MNCs (New International Magazine 2003: Online).

With regard to market access the argument focuses on the inequalities of trade, with the greatest gains accruing to the industrialised countries. The costs of Northern protectionism for developing countries are huge, amounting to a loss of US\$ 700 billion. The sectors that are of the greatest interest to developing countries – agriculture and textiles – are subject to the highest trade barriers. Although developing countries have opened up their economies far more rapidly than industrialised countries, often under World Bank and IMF programmes, this positive trend towards liberalisation has been overlooked in multilateral agreements. Escalating tariffs pose a particular problem (Oxfam 2001: 7). Although the average tariffs on industrial goods fell from 40 per cent in 1945 to 4 per cent in 1995, agricultural tariffs still average 62 per cent. The major economic powers still maintain tariffs of 350 – 900 percent for some agricultural exports of interest to developing countries like sugar, rice, and dairy products. In contrast, many developing countries have been obligated to cut their tariffs and non-tariff barriers as conditions for World Bank and International Monetary Fund (IMF) loans (UNDP.a.2003: 8, Online).

5.4.2 WTO RULES, MECHANISMS, AND AGENDA.

The WTO commitments undertaken by developing countries are often fraught with difficulties. After a 5-year period of implementation, these countries find that they have not derived the benefits that they were led to expect from their WTO trade commitments. The “Single Undertaking” method, which involves all WTO members signing up for a package of agreements – as was the case in the Uruguay round – does not allow for the assessment of the desirability of certain agreements. Developing countries should be in a position to decide whether certain agreements serve the national interest or not (Oxfam 2001: 8).

Special and differential (S & D) treatment for developing countries is institutionalised in the WTO, but it has become little more than a longer transitional period for the implementation of basically the same rules which apply to the industrialised countries. There is thus no positive weighting of the rules in favour of the interests of developing countries. In point of fact, many S&D provisions have amounted to nothing. An example of this is the commitments to the promotion of technology transfer to developing countries that are a component of the intellectual property agreement. The commitment appears to lack an implementation mechanism, and, ultimately, rests solely on the good will and best endeavours of the industrialised countries. As far as bargaining weight is concerned, it emerges that there is a striking inequality of bargaining power between the WTO member countries.

An important development policy tool proposed by developing countries at the WTO meetings is to curtail the power of MNCs by negotiating an alternative to bilateral investment agreements. One of the objectives of such an agreement would then be to discipline investment incentives of MNCs. However, the implementation of such a policy was regarded as too complex, and that it would override countries' sovereignty and MNCs freedom (New issues... Online).

Regarding the incorporation of labour standards into WTO rules, there are cogent concerns and genuine fears on both sides of the argument for or against this move. The so-called “social clause” presented by the WTO is viewed with suspicion by

many of the developing countries, and is seen as a means to disguise Northern protectionism. Although Oxfam supports the core International Labour Organisation (ILO) conventions relating to workers' rights, it does not support the comprehensive inclusion of these conventions in a trade-based mechanism. The view is that trade sanctions would not necessarily address the root cause of the problem involving the denial of workers' rights, as, for example, in the case of child labour, which is utilised in a family business or on farms. Trade sanctions could, in fact, exacerbate the problem of poverty by depriving impoverished families of much-needed income (Oxfam 2001: 9).

Thus we can conclude that the burden of responsibility for protecting and promoting workers' rights should rest on the ILO, national governments and workers' organisations. According to Shah (2004:10), there has been much conjecture and discussion around these matters, but, as yet, no substantial agreements have been established. This proves further that the current world system that is so widely advocated does not qualify as "free trade" in the widely accepted sense. For South Africa, the critical question is the following: are there any prospects of establishing the country as an economic contender in the current economic and geopolitical order? Will the adjustment of the South African economy to the prevailing framework of free market economics accelerate the rate of its progress?

5.5 Trade liberalisation in South Africa

The analysis provided in the previous sections now has to be applied in the South African context. South Africa became reintegrated into the international arena with the institution of the Government of International Unity (GNU) in April 1994. Although the ANC, the dominant partner in the GNU, was new to government, it was far from inexperienced in foreign policy. During its years as a liberation movement, the ANC had built up an extensive network of diplomatic connections. In 1994, South Africa faced the world with confidence, secure in the knowledge that the world was happy to receive a country that could authentically call itself a democracy. Yet South Africa was faced with many challenges and questions. The new government had very little experience regarding the functioning of the global political economy. How

would the country deal with the existing world trade regimes, old trading partners established by the previous regime, and with Africa and Southern Africa?

Marais (2001:110) contends that one of the major questions posed by the new political order was how to devise a set of policies that could reconcile the country's insertion into the global framework of labour division with the need to improve the living standards of the majority. According to Lemon (2000:31), the ANC had perhaps not succeeded in absorbing post-Cold War developments into its diplomacy in exile, and for this reason, it was necessary to reassess foreign policy in the political and economic spheres. This was indeed the undertaking of the National Consultative Conference in Durban in July 1991.

Marais (2001:110) and Bond (2000: 19) note that as far as the issue of economic reintegration was concerned, South Africa needed to make extensive adjustments. The proposals which flowed from the conference ranged from standard neoliberal packages of free markets, trade and financial liberalisation, supply-side formulas and strategies which propose the creative division of labour between the private sector and the state within the context of innovative, targeted policies. The argument generally used by business and sections of government seemed to connect liberalisation with increased foreign investment, which implied economic growth. South African business leaders placed great emphasis on foreign investment. There seemed to be a degree of duplicity in these calls for foreign investment. Bond (1991:47) argues that corporate savings had increased to a substantial amount in 1990, after a low point in 1982. These savings were not, however, channelled into investment in productive plants and equipment. On the contrary, millions of rands were being drained from the country through disinvestment, or, if the money was being used, it was used to finance shopping-mall developments or speculations on the stock exchange. Bond and others (such as Jeremy Cronin) believed that the most effective way to encourage foreign investment would be through large productive investments by domestic firms.

In Marais' (2001:110) view, the IMF and the World Bank are largely responsible for the trend to internationalise the world economic system. Another player in this regard was the General Agreement on Tariff and Trade (GATT), now called the World

Trade Organisation (WTO). The WTO is typically involved in liberalising processes, such as the reduction of tariffs, and the removal of non-tariff protective barriers within domestic industry. The organisation supports the removal of financial controls, thereby promoting the free flow of capital, and seeks generally to remedy other features that may be viewed as deterrents to foreign investment. Given this climate of economic free play, South Africa began paring away exchange control restrictions – from 1994 – focussing initially on those applicable to non-resident investors, and gradually extending the paring process to other possible barriers which could impede outward investment by South African residents. The country's much depleted official gold and foreign exchange reserves were replenished by the Reserve Bank. Stals (1996: Online) observes that South Africa began negotiating for international sovereign credit ratings from companies and banks such as Moody's Standard & Poor, and Nippon Investor Service of Japan.

According to Gelb & Black (2004:180), the previous South African government had generally shown little interest in the mobilisation of foreign companies' resources at entry or after. Little interest existed in the impact that they may have had on the growth and development of the economy. The focus of South African policy has been more on the financial and macroeconomic dimensions of capital flows. Concerns about whether South Africa is drawing sufficient international investment, and the measures required to secure "through the door" investment by foreign companies, has never been very prominent. Thus, during the period 1990 to 1993, total inflows averaged US\$ 46 million per annum. Inflows rose rapidly after the transition in 1994, averaging \$ 1,861 billion per annum up to 2002.

In August 1994, the new Department of Trade and Industry effected marked tariff reductions in clothing, textiles and automobile components that far exceeded those demanded under GATT. According to Cassim and Zarenda (2004:106), the phasing down of tariffs under the WTO demonstrates that South Africa's average tariff rate declined from 11.7 to 5.3 percent in 2000.

The average weighted import duty for manufactured goods in 1994 was 15 percent, with consumption goods at 34 percent, intermediate goods at 8 percent and capital goods at 11 percent. South Africa's average tariff in 2002 was committed to 17

percent for consumption goods (against the 26 percent GATT binding rate); 4 percent for intermediate goods (against 11 percent GATT binding rate) and 5 percent for capital goods (against 15 percent GATT binding rate). Nevertheless, these cuts did not slot into a strategic package, aimed at directing those industries into new or more competitive directions. Simultaneously, Trevor Manuel, the Minister of Finance, declared that the South African government would not abandon local industries to the whims of international competition, thereby undermining the potential for investment and employment (Marais 2001:115).

In 1996, Manuel framed a new macro-economic strategy whose central thrust would be the pursuit of employment creation and international competitiveness. The measures employed involved the abolition of import surcharges, the phasing out of general export incentive schemes (GEIS) by the end of 1997 and, in the field of telecommunications, the lowering of tariffs to zero percent, well below the 20 percent required under GATT. Even though the GEIS scheme benefited mainly conglomerates, whose chief focus was exports, it was overshadowed by fraudulent double claims. However there was doubt, even in the World Bank circles, as to whether South Africa could achieve export competitiveness without the GEIS scheme. Government, however, opted for the harsher option. The labour-intensive clothing industry (one of the largest industrial employers of women in South Africa) became one of the worst areas affected by the tariff cuts, as well as the stressed agricultural sector, particularly in the area of maize farming (Marais 2001: 115).

The advent of exchange-control abolition should be viewed in the context of the global economic trends, which ran counter to exchange controls. They were viewed as a barrier or obstacle to the free flow of capital, and constituted a major deterrent to foreign investment. Marais (2001: 116) observes that certain factors added further leverage to this policy stance – the fact that South Africa's savings rate was low, and investment levels had declined significantly – from 20.6 percent of GDP in 1989 to 15,5 percent in 1993. The resulting debate centred on whether the abolition process should be applied in a single sweep, or in phases. Financial institutions seemed to favour the shock-therapy option, which was advocated by the IMF in late 1994, but the government decided on a more gradual, phased approach. The first step towards the dismantling of exchange controls was the abolition of the Financial Rand in 1995.

This was to be followed by a gradual but progressive dismantling process, subject to the favourable nature of circumstances. By 1999, 75 percent of exchange controls had fallen away (Marais 2001: 116).

South Africa's credit ratings were sound enough to permit the country's entry into the international capital market for public and private-sector companies, who also raised funds through either loan or equity issues. Stals (1996: Online) notes that there are currently more than ten foreign banks operating in South Africa through branch offices or subsidiaries, and more than fifty representative offices of foreign banks in South Africa. The presence of foreign banks in the country serves to sharpen competitive play between them and South African banks, particularly in regard to the provision of foreign finance for South African importers and exporters, and the raising of foreign funds for South African borrowers. Correspondingly, South African banks have established a number of branches and subsidiaries in the main financial centres of the world, and are currently also operating through branches and subsidiaries in about 15 different African countries. According to Stals (1996: Online), the turnover in the South African foreign exchange market five years into the new dispensation, already amounted to between US\$ 5 and 6 billion per day. This provides ample evidence of the successful opening up of South African financial markets to foreign participation and competition. Gelb and Black (2004:179) note that between 1995 and 2002, South Africa received two-thirds of gross market-based capital flow to sub-Saharan Africa and 101 percent of net portfolio equity flows.

The irony underlying the gradual approach was that it was accompanied by a number of difficulties associated with the "big bang" approach (i.e. capital-account volatility). In March 1995, a sufficient quantity of "hot money" flowed into South African shares to fund half the trades on the Johannesburg Stock Exchange. Non-resident purchases of South African bonds doubled from the past decade's annual levels. However, in early 1996 the Rand devalued dramatically, losing more than 30 percent of its 1995 value against the US dollar. This prompted the return flow of the "hot money" out of the country over several months (from 19.2 billion in 1995 to 3,9 billion in 1996). Moreover, baseless rumours about Nelson Mandela being ill exacerbated the revenue drain in the country. Thus Bond (in Khosa 2001:76), and Gelb & Black (2004:180-181) observe that the net result of this significant outflow was soaring import costs,

which in turn adversely influenced the retooling and upgrading of industrial plants. Another alarming development was the major shortage of foreign exchange. This compound of factors prompted the government to consider privatisation as a means to boost inflow. The adoption of the locally conceived structural adjustment programme Growth, Employment and Redistribution (GEAR), followed soon after, in direct response to international investor demands.

The above-mentioned obstacles and difficulties experienced by the South African economy could lend weight to the argument that the much-vaunted idea of a liberalised global economy was and is nothing more than a theoretical pipe dream exalted by nineteenth-century liberal economists such as Adam Smith and David Ricardo. Thus Nowicki claims that “free trade” is a theoretical ideal with no basis whatsoever in reality. There is a growing mistrust of globalisation which is founded on the realisation that globalisation establishes and formalises a new balance of power amongst states which entrenches the sovereignty of some whilst undermining the autonomy of others (2003: 2). Shar observes very insightfully that the worldwide free market system ironically accentuates the disparity between some centres of capital and the peripheries. The players who possess the knowledge and find themselves in positions of power set the rules and the terms, whilst the others simply comply (2004: 29). Despite these reservations, it must be stated that free trade and free markets are, in essence, geared towards the facilitation of trade by allowing the market to establish a balance between needs, supply and demand. Within the context of the national interest, they can be regarded as a positive engine of development.

In 1994 South Africa enthusiastically adopted the first post-apartheid national economic programme called the Reconstruction and Development Programme (RDP). In Nowicki’s (2003) view, the RDP retained certain redistributive elements, but it was eventually abandoned in favour of a purely neo-liberal programme called Growth, Employment and Redistribution (GEAR) in 1996 due to the increasing influence of liberals in the ANC. Nowicki’s argument concurs with that of Marais (2001) that GEAR was established solely by neo-liberal economists selected from the World Bank, neo-liberal think tanks and various African Development Banks. The GEAR programme stressed the need to commercialise and then privatise all of South Africa’s public companies and services. As will be elaborated in the next chapter,

tariffs designed to protect key embryonic economic sectors in the country, such as textiles and value-added manufactured agricultural goods were reduced. GEAR also aimed at liberalising capital controls and foreign exchange rates, which exposed the Rand as well as South Africa's import and export activity to the highly volatile and extremely mutable nature of international capital markets (Nowicki 2003: 1-3).

In the view of Oxfam (2001: 18-19, Online), the outcome of trade liberalisation depends on initial levels of inequality, and the degree to which productive assets such as land, credit, skills and government services are fairly distributed prior to the advance of trade liberalisation and export promotion. This proved to be a major difference between regions such as East Asia and Latin America. In the former, distribution was fairly equitable, whilst in the latter case, it was not. This suggests that the world must shift from an unrealistic view that "one size fits all", a view that the IMF seems to hold and for which it has been criticised.

South Africa also falls in the latter category. It has also been observed according to the DFID Report (2004: online), that over the last 30 years middle-income countries (MICs) have experienced higher GDP growth than both low-and high-income countries. Progress in the context of economic growth and poverty reduction however, remains unsteady in many MIC's, which implies that progress toward the millenium development goals MDG's may not be sustainable. Over the last 20 years, 38 countries have fallen back from MIC to lower-income-country (LIC) status.

According to Marais (2001:117) the international experience of the developing world's most dynamic industrialists suggests that the success of their states' industrial development was significantly related to the selective intervention of the state. South Korea and China could be viewed as two of the most dynamic performers in the South and can stand as examples of the benefits that flow from selective state intervention. These countries harnessed local capital investment in cycles that guaranteed high rates of return. In addition, large portions of the surplus were reinvested in specific, targeted activities. In South Africa, however, the government opted for a more hands-off approach. The government refrained from selective intervention, their approach being one of facilitating and promoting economic interest within a market-force governed context.

5.6 Regional and bilateral strategies

South Africa's status within the framework of the international economy still matches to a neo-colonial pattern: South Africa is generally focused on exporting raw materials and semi-manufactured products, and the import of manufactured products. In comparison to other African countries, South Africa occupies an intermediary position within the ambit of the international division of labour. Admittedly, South Africa has not to date appeared as a significant exporter of manufactured products, as against those countries that are classified as "centre" or "emerging" nations. These have based their developmental paths on the export of labour-intensive products, prior to the diversification of their exportable supply side. However, South Africa has developed a somewhat dichotomous character in terms of its relations with developed countries, to whom it exports mainly intermediary goods, and those with its African partners, to whom it exports manufactured goods (Cling 2001:102).

South Africa's trade policy in the new democratic era seems to favour regional and bilateral arrangements rather than multilateral agreements. The first two notable agreements established in the post-apartheid period are free trade agreements (FTA's) with SADC, and with the EU. South Africa is in the process of negotiating many other agreements.

5.6.1 ECONOMIC INTEGRATION IN SOUTHERN AFRICA

The definition of the role of the newly constituted ANC-led government in the Southern African regional context (as opposed to its role in the global context) is important. From the outset, the ANC government emphasised that it desired co-operation based on equality and not ascendancy. Nelson Mandela stated clearly "South Africa would resist any pressure or temptation to pursue its own interests at the expense of southern Africa" (Barber & Vickers 2001:354). Owing to the rising importance of the regional economy to South African producers, South Africa became an important member of SADC. As SADC was, initially at least, free of trade protocols, the SADC FTA comprised the least controversial and problematic membership option for South Africa in sub-Saharan Africa. In the view of the South African government, membership of SADC would be based on co-operation, rather

than integration. In other words, South Africa could enter SADC without any pressure related to trade reciprocity, the existence of which would complicate South Africa's inclusion greatly.

The matter of Southern African regional integration emerged as significant in policy debates, largely because of a milestone decision by SADC to develop a structured programme of market integration through the FTA. According to Cassim & Zarenda (2004:110), one of the central features of the trade modus operandi is its distinctive implementation approach. Tariff reductions are inequitably implemented, rendering South Africa more open to rapid liberalisation reforms and a set of "general offers", whilst other members are allowed access to a set of "differential offers". The FTA is scheduled to be phased in over an eight-year period, and SADC estimates by 2012, 98 percent of the SADC regional trade will be subject to zero tariff payments. The agreement also makes provision for the upgrading and co-ordination of customs, the improvement of the infrastructure, and cross-border investment in industrial programmes. Given the nature and scope of this agreement, the most that can be expected is the reduction of regional inequalities, rather than the eradication of any such imbalances or discrepancies.

The matter of renegotiating the long-standing Southern Africa Customs Union (SACU) agreement between South Africa and the Union partners (viz. Botswana, Lesotho, Namibia and Swaziland) needs to be addressed. The need to deal with this issue coincided with broader regional developments, and was demonstrated by the restructuring and reorientation of SADC. The discussions on renegotiation began in the early 1990s and were concluded in 2002. The findings and conclusions that emanated from these discussions are currently awaiting approval. The reformulated agreement brings in major changes, which involve the institutional structure of the customs area and a dispute settlement mechanism. The agreement stresses the need for common policies on agriculture, industrial development and competition among all member countries. The reformulated agreement involves the critically important development of a new system of competition introduced in connection with the common revenue pool and the sharing formula. The latter includes a development component in terms of which funds are to be distributed to all SACU members

according to the inverse of each country's GDP per capita (Cassim and Zarenda 1994:110).

The sincerity of the South African leaders' determination to seek co-operation on an equal footing with their neighbours is not in doubt. Barber and Vickers (2001: 355) however, do have uncertainties about the assumptions on which this collaborative approach is based. They argue that South Africa cannot escape the consequences of its own relative strength because of its powerful position in Africa. South Africa is the source of power in the southern African region. By contrast, the rest of southern Africa is poor and vulnerable; the region consists some of the world's poorest countries (Mozambique, Malawi and Tanzania), and it has suffered many setbacks including wars, famine and failed governments. Thus, in this impoverished and often stressed setting, South Africa emerges as a dominant power. This fact is exemplified in McGowan and Ahwireng's study (1998:5), where it is observed that the South African economy accounts for 80 percent of the region's GDP. In 1995, South Africa exported goods to the value of R26.2 billion to the eleven other SADC members, and imported goods to the value of a low R4.7 billion from them – which constitutes a ratio of 5.6 to 1.

Barber and Vickers (2001: 356) do concede that a stable region will provide opportunities to extend economic activities, which include trade, investment, tourism, transport and the supply of energy. This in turn would lead to a “neo-functional spillover effect”, which would promote the growth of co-operation on other fronts (see also Stewart and McCarthy 1995 in Lemon, 2000:33). The potential for co-operation is thus immense, a fact that has already been exemplified by the Highlands Water Project in the Lesotho mountains. This project involves the diversion of the headwaters of the Orange River in the north to meet the demands of the densely populated Gauteng province, while at the same time providing power to Lesotho and the nearby areas of South Africa. The scale of the project is large, and was backed by Western and South African capital. The Highlands project proves what can be achieved through co-operation. Another example of winning co-operative projects is the transnational Maputo Development Corridor and the Lubombo Initiative, as well as other Spatial Development Initiatives (SDI's) in the region.

The implications of a more liberalised trade regime with SADC are that, amongst others, the implementation of the trade protocol will unlock access routes to South African goods in the SADC market. The possible negative implication here is that this improved access may lead to the shutting down of industries in the SADC countries, the extent of which remains to be seen. Although South African manufacturers are considered as uncompetitive by international standards, they are relatively highly competitive in the context of the Southern African situation, especially when compared to their SADC counterparts. According to Rangasamy (2001:122), it is in fact, the very competitiveness of the South African producers over their SADC counterparts, together with the geographical advantage that South Africa holds, that explains the relatively high percentage of South African manufacturing exports to the region. This growing Southern African export market will be beneficial to South Africa in the short term – due to increased production, exports, export revenue etc – but is neither desirable nor sustainable in the medium to long term, due to increased migration to South Africa and the related effects on the SADC economies.

Lemon (2000:33) observes that the SADC states were able to take advantage of a provision in a trade protocol signed in 1996, which effectively prohibited countries outside Southern Africa from claiming the same preferential access to the South African market as was accorded to South Africa's SADC partners. The SADC states comprised a new trade group that is registered with the WTO, and succeeded in breaking the WTO non-discrimination rules through the institution of the SADC trade protocol mentioned above. It is, however, arguable whether the SADC countries would be able to use this window of opportunity to boost their capacity to export to South Africa. The question arises as to whether the SADC countries possess the necessary infrastructure, investment incentives, and stable economic and political environments for this to occur. Given South Africa's economic power in the region, she will have to play a leading role in ensuring that investment in the region does actually materialise. In Rangasamy's view (2001:123), South Africa will have to ensure that foreign investors' sentiment about utilising the country as a springboard for investment in the region becomes a practicable reality.

There is also a negative side to these multilateral agreements. Because of the high degree of dependency, regional disorder would affect all Southern Africa countries,

including South Africa. South Africa cannot, therefore, operate purely in terms of self-interest. To achieve its goals in the region South Africa has to establish a framework of relationships. In broad terms it can build a series of bilateral relationships with individual neighbours and establish agreements with multilateral organisations. In practice both are used. An example of an individual agreement includes a trade agreement reached with Zimbabwe in August 1996 in which the South African government agreed to cut import tariffs by up to 60 percent. The advantages are clear, but it is difficult to create (or reform) multilateral organisations, and even more complicated to make them function effectively. In fact, SACU continues largely in its old form, while on the broader scene, the SADCC has been transformed into SADC to become a major regional organisation according to Barber & Vickers (2001:358).

SADC also faces problems shared by all international organisations: tension between sovereign identity and co-operative necessities, differences and interests, political rivalries and the disjunction between verbal commitment and practical implementation; and bureaucratic and resource limitations which are revealed when ambitious plans are laid without the capacity to fulfil them. There are, for instance, differences over trade policy – some countries, like South Africa, want to open up to market forces while others want to follow the protectionist policies; there is obvious rivalry between Zimbabwe and South Africa in the economic, trade and security domain; and motivated plans are pushed forward – including expansion into central Africa – without sufficient resources to implement these plans. There are also continuing tensions caused by South Africa's relative strength in relation to its neighbours in the region (Ibid).

5.6.2 ECONOMIC RELATIONS WITH THE EUROPEAN UNION (EU).

At the official opening of the negotiations, the EU stated that it envisaged a progressive and mutual liberalisation of trade between the two parties. It therefore invited South Africa to enter into talks leading to a free trade agreement. After four years of negotiations an agreement on relations between the EU and South Africa was concluded in October 1999 (with the resolution of outstanding disputes over South Africa's agricultural exports, fisheries and use of wine and spirits names 'port' and

'sherry') and took effect in January 2000. This agreement is known as the Trade Development and Co-operation Agreement (TDCA) (Cassim & Zarenda 2004:112-113). The government's early negotiations with the EU indicate that market access, or a form of mercantilism, was a central concern of South African's economic policy-makers. There was a belief that market access was even more critical to South Africa's ability to increase exports to the European market than liberalisation. Lemon (2000:37) concedes that the major benefit was access for South African companies to tenders for European Development Fund projects in ACP countries.

The Department of Trade and Industry (DTI) as quoted in Goodison (1999: 35) is convinced that this agreement will obtain preferential market access for South African products and will heighten conviction and give added leverage for foreign investment in the South African economy. It will also help to consolidate the strategic links with the economies of the member states of the European Union, which will contribute towards the restructuring of the South African economy. In addition the DTI assumes that the agreement will promote beneficiation of natural resources and develop more value-added processing. It is assumed the TDCA will boost the South African economy, which will feed through into the regional economy as the new beneficiation industries will feed through into increased South African demand for raw materials and intermediate products produced in neighbouring southern African countries. The DTI also believes that strategic links to the economies of the EU will stimulate South Africa's growth and increase demand for regionally produced goods in what has emerged as the largest market. It is felt that these stimuli to regional trade with South Africa will set in train a broad and integrated process of industrialisation and modernisation throughout the southern African region.

However, there are three major issues that should be considered in this case. According to CIDSE (2000:4), the first is the gross disparities between the two partners, in the sense that the EU accounts for 44 per cent of South Africa's imports, 28 per cent of its exports and 50 per cent of its FDI. South Africa, by contrast, accounts for only 1.9 per cent of EU imports and 1.3 per cent of its exports. Secondly, whilst the positions of EU Member States have differed greatly during the course of the negotiations in terms of agriculture and production, collectively the EU has been an ungenerous negotiating partner and the agreement reached is likely to prove of

more benefit to the EU than to South Africa. Thirdly, according to Cassim & Zarenda (2004:112-113), the agreement was based on an asymmetrical principle in the area of bilateral liberalisation, with the EU liberalising at a faster pace (three years compared to 12 for South Africa), and with a broader coverage (95 percent of all imports as compared with 86 percent for South Africa).

My conclusion is that there is no definitive empirical evidence as to whether or not the agreement is in South Africa's favour. Deducing the results from the above issues however, some of the effects can be predicted. Although some South African companies will gain from increased access to the EU market, it remains a problem that, given the huge imbalance between the South African and EU economies, the overall impact on the South African economy may well be negative. Imports from the EU to South Africa will increase, but the same cannot be said about exports from South Africa to the EU – in other words, South Africa's trade balance will worsen. This may cause problems for the balance of payments, as South Africa's import costs outweigh its export earnings and there may be increased unemployment and financial instability, which further undermines investment. The impact on the southern African region may also be negative, as cheap goods from Europe flood into the markets of neighbouring countries through South Africa, and undercut local production.

Moreover, Barber & Vickers (2001:359) argue that although the West preaches free trade, it protects its farmers through its Common Agricultural Policy (CAP), which is protected by members with strong farming lobbies like Spain, Greece and France. Thus the hard lesson for South Africa from the EU negotiations is that even though there is political goodwill towards South Africa, global economic relations are shaped less by sentiment than by practical interests. It is therefore difficult to see how the agreement will function unless and until the European Union is prepared to reform and transform its trade policies as these affect sensitive products, particularly agriculture. Oxfam (2002a: 3) argues "if European governments wish to put development before short-term commercial interests, they should allow Third World exports into their markets, and allow developing-country governments to help their national industries and farmers by offering some protection against international competition".

Some EU governments, like the UK, are prepared to let in more Third World goods, but on conditions that developing countries liberalise trade rapidly. Oxfam (2002a:3) argues that “free trade between countries at completely different stages of economic development magnifies rather than diminishes disadvantages”. Thus Oxfam is calling on the EU Heads of State to take significant steps to rectify the injustices of European trade policy and to ensure that neither World Bank-IMF programmes nor WTO negotiations undermine the ability of developing countries to protect smallholders from imaginative and often unfair international competition. Barber & Vickers (2001:359) note that in the talks of a post-Lome trade regime, the EU is peddling regional free trade agreements rather than non-reciprocal trade preferences. It is doing this in the light of the current free trade philosophy, the newly emerging economies and its expansion into central Europe. These are the broad issues that make the negotiations with the South African government difficult.

Lemon (2000:37) argues that overall, the FTA negotiations expose both the strengths and the weaknesses of South Africa’s centre position between developed and developing worlds. Lemon contends that the challenge for its foreign policy is to overcome the weaknesses and play up the strengths. Following Rangasamy’s (2001:120) argument, the implications flowing from the EU-SA FTA are firstly, that the preferential access of South Africa’s products into the EU would boost South Africa’s exports revenues. Rangasamy contends, however, that countries place excessive emphasis on promoting products that are part of the current trading flow. The challenge that arises is to boost, exploit and promote products that do not form part of the current trading flow. He further suggests that government and organised business (e.g. chambers of business) should make a concerted effort to ensure that new products are effectively identified and marketed.

Secondly, if the preferential access into the EU is to be fully taken advantage of, it is essential to concentrate on the collection and dissemination of information relating to products and markets – i.e. consumer demand, environmental legislation and standard requirements. Here again, government is indicated regarding the availability of information, as the private sector seems to be more focused on profit margins rather than promoting products not in the current trade flow.

Thirdly, the rules of origin of any agreement should be effectively and rigorously implemented to ensure that the benefits emanating from the agreement are realised. Although progress have been made regarding the efficient dissemination of information provided by the Customs and Excise Directorate of the South African Revenue Service, much more could be achieved in the context of trade information, processing and trade documentation. One specific and immediate area of attention relates to the documentation and the procedures regarding the rules of origin of the TDCA. The regional offices of the Customs and Excise directorate should provide a “one-stop shop” for exporters.

Fourthly, the EU has committed itself to assisting South Africa in the reformation of the economy through the provision of development co-operation assistance. In this regard it is imperative that South Africa judiciously utilises the assistance offered, and that it directs initiatives at priority areas. Priority should be given to ensure that all the opportunities for transfer of technology and skills provided for in the TDCA and the Science and Technology Agreement are fully exploited.

It is also vital that the interests of the Southern African Customs Union (SACU) are protected, as the SACU is an important source of revenue for its members. Revenue from customs operations represents 45, 42, 28, and 17 percent of government revenue for Botswana, Lesotho, Namibia and Swaziland (BLNS) respectively. The FTA envisages certain compensatory mechanisms (partly funded by the EU) that will be put in place to protect the economy of the BLNS states from any major adverse effects. Despite compensation being offered by the EU, the challenge remains one of reforming the industrial policy in these economies. South Africa is an important player and can influence industrialisation in the SACU and SADC countries in general. In some respects the SADC Trade Protocol is an attempt to accomplish this.

5.6.3 ECONOMIC RELATIONS WITH THE UNITED STATES OF AMERICA.

South Africa recognises America as the world’s most powerful state. With the Cold War having ended, Sub-Saharan Africa seems to have descended the American scale of priorities, although South Africa remains a focus of interest largely because of its

fledgling democracy. By contrast, the USA seems to view itself as a fellow traveller on the road to a non-racial democracy that should be characterised by justice and economic opportunity regardless of gender, religion or ethnic origin. Relations with the US and the EU underline the dual nature of the South African economy. The USA recognises the “South” element, and for that reason the US provides aid to both government and non-government organisations (NGOs). In the view of Barber & Vickers (2001: 360), South Africa is the fourth largest recipient of American foreign aid (after Israel, Egypt and Russia). They calculate American aid to the Republic as amounting to US \$80 million in 1993, which rose to US \$212 million in 1994. There was a commitment to an amount of US \$500 million over the next four years.

The development aspect of the United States-South Africa relationship was formalised at a high-level Binational Commission, inaugurated in March 1995 by American Vice-President Al Gore and the (then) South African Deputy President, Thabo Mbeki. The schedule of the Commission is as follows: six-monthly meetings of the main Committee. Regular meetings for the sub-committees, which deal with issues of finance investments, markets, education, environmental affairs and sustained development. Gore insisted that the United States wished to do all it can “to lift up this new non-racial democracy we admire so much” (Barber & Vickers 2001:360). The efforts and the spirit of the “Gore-Mbeki” commission gave impetus to the African Growth and Opportunity Act (AGOA), which encourages and rewards those African countries, which adopt market-oriented and democratic reforms. The rewards include special trade preferences, debt relief and incentives for United States investment.

This unilateral concession set the scene for the removal of tariffs on several South African exports. According to Cassim & Zarenda (2004:113), there is evidence which points to various sectors having benefited from AGOA. An example of this is that fact that clothing and textile exports to the US rose by 28 percent to US\$356 million in 2001. An overall increase in exports to the US amounted to 17 percent. The bilateral relationship between the US and SA seems to be maturing and strengthening into a partnership of equal weight. It is, however, necessary to take cognisance of the fact that the US government has retained discretionary powers to effect changes to the tariff margins, due to the dramatic growth in the export of certain South Africa’s

products to the US. Negotiations are under way for an FTA with the US. South Africa views its trade agreements in a very serious light, so much so that this country is testing new possibilities with the European Free Trade Association (EFTA), China, India and the Mercado Commun del Sur (Mercosur).

It is clear that what lies behind this is a mercantilist intention, in the sense that South Africa is able to secure better market access under FTAs than under the WTO process. According to the research report of Oxfam (2002b: 127-128), when countries negotiate on trade reforms at the WTO, they exchange compromises. Governments agree to accept the costs implicit by increased import competition, in part because they will obtain better access to the markets of trade partners: they receive something in return for liberalising. However, under IMF-World Bank programmes, countries liberalise on a unilateral basis, receiving nothing in return. The result is unequal liberalisation, under which rich-country governments do not have to give in return measures undertaken by developing countries. Nevertheless, there are economic costs to preferential liberalisation, and these have to be borne in mind.

According to Nowicki (2003), it is currently in vogue to label the policies of the International Financial Institutions (IFIs) as 'neo-liberal', whereas, in fact, these policies are neo-mercantilist. Although they apparently emphasise centralised corporate control over under-developed economies, they allow for liberalisation in areas that developed countries already controls, such as the international capital flows. Thus, the globalisation currently being imposed through the WTO, regional trade agreements and IFI Structural Adjustment Programs (SAPs) throughout the under-developed world really goes back to the age of nineteenth-century imperialism. Now, as then, the resources of the imperial properties in the periphery are directed towards the core-developed economies – these days Europe, North America and Japan (Nowicki 2003: 2).

5.7 Conclusion

The global and national economies plus individual industries and firms have undergone an incredible transformation in the past several decades. Until the 1970s,

the global economy was primarily composed of national companies operating mainly within their borders. The system was characterised by shallow integration as against the deeper integration of today, in which global production systems distribute production across continents and the globe. The major effect of the new environment is that companies are now freer to choose how to serve foreign markets, whether by producing at home and exporting, or by producing in a country for local sale, or by producing in a foreign country for export. In the globalised production systems any part of the value-added chain can be located wherever it contributes most to a company's overall performance and what matters are the factors that make particular locations advantageous for particular activities, for both, domestic and foreign investors.

However while there has been a distribution of production, control has solidified on the retail side as a result of consolidation among top-tier firms and a proliferation among potential suppliers. Hence Hudson (2002:5) argues that "these changes in corporate form and strategy reflect an on-going search for more effective (in terms of corporate interests and profitability) ways of creating new forms of uneven development and exploiting existing ones in pursuit of competitive advantage and profit". The 1990s saw only too little growth in per capita income outside of Asia and a rise in income inequality within countries as a result of the Washington Consensus of export-led manufacturing growth, deregulation and liberalisation. The increased market linkages that now characterise the global economy have caused considerable product and labour market asymmetries. Many industries are now characterised by oligopolies on top and increased supplier competition at the bottom.

Moreover, evidence adduced in this chapter shows that generally, the benefits of closer FDI-trade interlinkages – whether for static efficiency, technological dynamism or industrial restructuring – are by no means equally distributed between countries, in part because of the uneven distribution of FDI. Internationally integrated FDI is in most cases integrated within regions between industrialised countries regardless of the contribution of export processing activities in some developing countries. At the same time, restrictions on market access through continuing tariff escalation have been a serious obstacle for most developing countries to graduate to high value-added activity within the global supply chain. Thus, in the short and

medium term, poorer countries that generally attract little FDI may have few opportunities to capture such gains and may in fact be further marginalised unless there are strong national and international efforts for development. Moreover evidence show that the gains of greater participation in the international division of labour are also accompanied by costs to particular groups within economies, both developed and developing – and more so when unemployment is high.

It is therefore evident that although MNCs have in many instances contributed to higher growth and improved business environment in some countries, their dominance in global markets presents difficult barriers to entry for new firms, especially those from developing countries and consequently barriers to competition too. The incentive competition between developing countries to attract FDI is inducing these countries to go too far in lowering regulations, taxes, environmental protection and labour standards. Thus, there is clearly a need to establish a more transparent, coherent and balanced development framework for FDI so that entry into global production systems by developing countries can be a win-win process, in addition to the overall benefits to all countries. Accordingly, to deal with global inequality and to improve the situation of poor countries, transformation could be accomplished in global trade rules, including the removal of agriculture subsidies, free trade in textiles, steel and other sensitive products, outsourcing, co-ordinating export processing zones, codes relating to the area of corporate social responsibility and in the WTO rules to emphasise intellectual property rights and financial liberalisation less.

Even though South Africa has liberalised its economy with the hope that it would attract foreign investment, evidence shows that, government policy as a prime example and corporations in South Africa have a culture or tendency of not reinvesting their profits in productive plant and equipment. Millions of rands in the 90s continued to be disinvested, or used speculatively on stock exchanges and in shopping mall developments. The economy experienced a great loss related to rapid decrease of tariffs, and the abolition of the general export incentive schemes (GEIS). Consequently the largest labour-intensive sector, the textile and clothing industry was most affected by the tariff cuts whilst export competitiveness was compromised by the abolition of GEIS. Many people lost their jobs and industries were exposed to

international competition. At the time, cuts did not slot into a strategic package, aimed at orientating those industries into new or more competitive directions. Evidence also shows that there has been little interest in foreign companies' mobilisation of non-financial resources at entry or after, or of their impact on the economy's growth and development.

The policy focus has been on the financial and macroeconomic dimensions of capital flows, with a narrow concern as to whether the country is receiving 'enough' investment, and what measures are necessary to get more foreign companies 'through the door' investment. On the other hand, the "gradual approach" that South Africa adopted in liberalising the economy was accompanied by many of the difficulties associated with the 'big bang' approach (i.e. capital-account volatility) and the country lost billions of rand in early 1996, the year when GEAR was adopted. Thus, evidence shows that GEAR has performed very badly in the last ten years. Perhaps the lesson that emerges here is that the opening up of poorer countries in an aggressive manner can leave them vulnerable to large capital volatility and outflows. This implies that "free trade" may not actually be "free trade" or "free market" capitalism that people like Adam Smith promoted some 200 years ago, even though power holders and major institutions may claim it to be. Hence, based on a practical reality other than the utopian ideology of neoliberalism, there is growing vocal concern around the world at the negative impacts that the current form of globalisation is having on people's lives.

As far as trade between South Africa and the EU, there is no definitive empirical evidence to support whether or not the free trade agreement between the EU and South Africa is in South Africa's favour, perhaps until the agreement is fully implemented in 2011. However this study estimates that although some South African companies will gain from increased access to the EU market, free trade between countries at completely different stages of economic development magnifies rather than diminishes disadvantages. This is an argument presented by Oxfam. Thus because of the huge imbalance between the South African and EU economies, the overall impact on the South African economy may well be negative. Imports from the EU to South Africa will increase more than exports from South Africa to the EU. This may cause problems for the balance of payments, as South Africa pays more for

imports than it earns in exports, and there may be increased unemployment and financial instability, which further undermines investment. The impact on the southern African region may also be negative, as cheap goods from Europe flood into the markets of neighbouring countries through South Africa, and undercut local production.

Generally, in terms of Free Trade Agreements (FTA) there are a number of lessons that South Africa has learned. Firstly, that even though the West preaches free trade and the opening up of our economies, it still protects its farmers very vigorously through its Common Agricultural Policy (ACP) especially in countries like Spain, Greece and France, and this proves that until there is equality in the international market, developing countries including South Africa are likely to lose out. This is why Oxfam is calling on the EU Heads of State to take steps to rectify the injustices of European trade policy, allow developing-country governments to help their national industries and farmers by offering some protection against international competition and to ensure that neither World Bank-IMF programmes nor WTO negotiations undermine the ability of developing countries to protect smallholders from imaginative and often unfair international competition. Hence, the concern of every developing country that the WTO be reformed in relation to trade regulation in key areas such as the market access in agriculture and trade-related intellectual property.

Secondly, from the EU negotiations South Africa has learned that even though there is political goodwill towards South Africa, global economic relations are shaped less by sentiment than by hard-headed interests. With the EU-SA agreement, it is imperative that South Africa fully utilises the asymmetrical nature of the agreement and the assistance provided by the agreement to maximise the potential benefits in her favour. With the SADC trade agreement, the challenge is to ensure that the present skewed trade relations that are in favour of South Africa are not perpetuated or further entrenched as this is not sustainable in the long run for the reasons outlined above.

In general, official UN trade reports as well as evidence from organisations like Oxfam (2001 & 2002) and the findings of economists like Marais (2001) and many others, all converge in the view that although trade can play an important role in

poverty reduction, however it is clear that there is no single trade policy prescription that will suit the needs and circumstances of all countries. They believe that selective interventions determine the nature and success of a country's industrial development. Thus, countries must design and implement strategic pro-poor trade policies within the context of their national development strategies, based on an integrated assessment of their impact on poor people, environmental sustainability, gender equity, and basic rights. Moreover national trade and FDI policies should be formulated and implemented coherently so that they become mutually reinforcing in support of national growth and development. Thus, coordination can produce synergies that yield outcomes beyond the expectations for separate policy choices in this regard.

In the view of these economists, South Africa can only succeed by harnessing local capital investment into virtuous cycles that guarantee high rates of return and the reinvestment of large portions of the surplus in targeted activities. South African government policy, however, refrained for the most part from such 'selective interventions'. With the South African government whilst not quite hands-off in attitude, the approach became one of highly restrained facilitation within an overall context governed by the reaction of the market forces. Economists argue that South Africa, like any other developing country, is thus prone to the world system in which capital adjusts the weaker zones of the world to the requirements of global accumulation, which in turn means that if this opening up is necessary, its success is not guaranteed. This leads them to conclude that a different paradigm is required for the 'catching up' frame of thought, and they argue that South Africa has to focus instead on what arrangements offer sufficient leeway and manoeuvring space for the achievement of national developmental priorities that run counter to the global trend of polarisation and impoverishment.

CHAPTER 6. THE ROLE OF MNCS WITHIN THE NEW DEMOCRATIC SOUTH AFRICAN POLITICAL ECONOMY

6.1. Introduction

Foreign investment and more specifically foreign direct investment generated by multinational corporations is a commonly offered solution to the problems faced by less developed countries. In this regard, South Africa is no exception. All African governments face enormous development needs: health, education, water, sanitation, transportation, electrical power, food production and distribution. Governments must provide many of these basic needs, either directly or through their policies. Where those policies include adherence to the rule of law and good governance, investors adjust their calculations of risk and increase investment. In this way indispensable services can be provided for, directly by government and indirectly by government policies. The overriding priority should be given to combating poverty and providing for the essential needs of the poor in society. However one of the major problems South Africa must overcome is unemployment, and the vicious cycle of poverty normally presented as four variables, is continuously impacting on and reinforcing its components: low savings and investment, low capital accumulation, low productivity and low average income.

The role of the state, the approach and attitude of government and macroeconomic policies become critical in alleviating poverty and inequality and in implementing sustainable growth and development strategies. However, in terms of employment creation, it seems South Africa was negatively affected by a liberalised economy, and that government used misguided policies, which compounded the problem every year. According to Adelzadeh (2003: 26), firstly, government used policies designed to achieve the restructuring of the economy through export promotion in an increasingly liberalised economy. Secondly, other “stabilisation” policies have focused on lowering inflation and the deficit by administering contractionary measures in the economy. Neither of these two policy thrusts has placed an emphasis on job creation. Thus, South Africa remains a country that exhibits severe inequalities, which seems have increased at ground level over the past ten years.

Thus, to better the situation for the poor, government enacted the Broad-Based Black Economic Empowerment Act of 2003. This Act uses the term “black people” in a generic sense to include “Africans, Coloureds and Indians”. According to the Act, “broad-based black economic empowerment” – with an emphasis on ‘broad-based’ – refers to the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas. The government rightfully believe that a substantial increase in the level of black people’s participation in the South African economy is fundamental to economic growth and the eradication of poverty. In Mbeki’s view “South Africa’s collective future depends on the ability of all people to understand that the success of black South Africa is conditional on the success of white South Africa, and that the success of white South Africa is conditional on the success of black South Africa” (Mbeki, 2005: Online).

6.2. Theoretical background

Taking a somewhat longer historical perspective, it appears that there have been three major changes in international production over the last fifty years or so that are worth noting for their political significance. One is that the earlier MNCs were far more powerful than contemporary MNCs; they commanded armies and fleets, had their own foreign policies, and controlled vast expanses of territory: the sub-Asian continent (India, Pakistan, and Bangladesh), the East Indies (Indonesia), and South Africa. Modern MNCs seemed to have scaled down significantly. Another major difference between earlier MNCs and those of today is that the former were principally interested in agricultural products and extractive industries in particular regions of the world, whereas major firms in the early twenty-first century, which are principally involved in manufacturing, retailing, and services, tend to operate on a regional or worldwide basis, and usually pursue an international corporate strategy. Another significant difference between the MNCs of the past and those of today is the fact that exploitation and subjugation of indigenous peoples is no longer a condition of operation. Today’s MNCs, in fact, provide important sources of capital and technology, which could boost the economic development of less developed countries (Gilpin 2001:279).

However, according to Strange (1996:49), dependency, certainly, still exists. If anything, it is harder than ever for poor countries to be truly independent of the capitalist world economy. But dependency, in her opinion, is no longer equated with the relegation of local labour to menial tasks in the fields or mines as used to be the case in the 1950s and 60s. Today there are new career opportunities open to MNCs workers and to their children either as managers or as entrepreneurs. It is a general rule that the older the MNC, the more expatriates will have been replaced by local managers. Between the MNC and the host government, there may still be conflict over the terms and conditions of entry; but the bargaining that ensues is a clear recognition of symbiosis. Consequently, there is a growing belief that developing countries can negotiate agreements with MNCs in which the benefits of foreign investments are not necessarily outweighed by the cost. According to Fieldhouse (2000:177-178), modern manufacturing MNCs are, by their nature, interested in freedom of trade outside their protected home base, hence they do not require physical control over their markets. Their very presence in the host country reflects local policy decisions. These MNCs depend for their profit on the continuance of that policy. They have little power because, in most cases, the only sanction they could impose on a hostile state would be to stop production.

The second politically significant change in international production is that MNCs have become 'global' or 'stateless', in the sense that firms engaged in international production of goods and services now originate from many countries. In a world where components may be made in several countries, assembled in others, and sold in yet a third, the nationality of a particular firm or item has become almost impossible to identify and, moreover, has become irrelevant. One-half of all imports and exports in the world economy are estimated to be transactions between parent corporations and subsidiaries. The considerable increase in the internationalisation of business in the 1990s gives support to those who argue that globalisation has triumphed (Strange 1996:50). In an opposed view, other political economists, like Robert Gilpin (2001) still maintain that MNCs are national firms conducting international business. With few exceptions, it is believed that a firm's primary market is still its home market, and the policies of home governments weigh more heavily on the decisions of the firm than do those of host governments (Gilpin 2001:297-300).

A third trend in global production may be the most politically significant of all. It is the switch in employment, and in trade, from manufacturing to services. It is a shift in the production structure that is most evident in the rich, industrialised countries. But it is one that fundamentally affects the whole world market economy. The list includes, among others, transport services on land, sea and air; communication services by mail (conventional and electronic), computer link-ups, data-base information services; financial services, not only in banking but in insurance and re-insurance, asset management and provision of complex financing arrangements, leasing and franchising deals; advertising and public relations; and improved education and health care. Strange argues that these two non-material thirds form the basis for the long and diverse list of services now offered and traded, both within and between national economies. What is obvious is that any enterprise in a developing country must make use of more than one of these services in order to function and operate within the global market (Strange 1996:51).

Thus, in short, by opening up their economies to the world market, developing countries have certainly increased their chances of competing successfully in export manufacturing – but at the price of accepting increased dependence on the financial and marketing services provided by large firms in the developed countries. According to Hume (2004:2) the first challenge of African governments is to encourage more foreign direct investment to come to Africa. African economies need the capital investment, and they need the transfer of technology that comes with direct investment. Multinational firms are also their surest connection to the global marketplace, and without such a connection these economies cannot prosper. But the Congress of South African Trade Unions (COSATU) warns that FDI often means that decisions relating to investment, production and jobs are dictated not by local needs, but by the planning requirements of multinationals. Transforming the economy implies that policy must seek to promote basic needs-producing sectors, which have higher employment-creating potential – at least in the short run. COSATU therefore argues that FDI's position should be dictated by the developmental needs of the country and should form part of a carefully constructed national industrial strategy (Bell 2001:2).

John Dunning (2005: Online), in an interview with the Gateway Special Report, stated that for the governments of the poorest countries to maximize the benefits of MNCs participation in their economies, these countries need aid or loans from the governments of the wealthiest nations to provide the essential legal and other institutions and physical infrastructure (roads and communications), necessary to attract FDI. South Africa needs job-creating growth. Thus, governments must offer the appropriate incentives to, and form partnerships with foreign MNCs, so that the latter know exactly what is expected of them in connection with the provision of technology, management skills, entrepreneurship and markets necessary to kick-start home-grown development. Foreign investment is often capital intensive, but it can stimulate economic activities that may create jobs to a certain extent. As mentioned in the previous chapter, this depends on the role assigned to local affiliates and on the extent to which this role is associated with networking and linkages with other local indigenous firms in the same location, and hence becomes part of a wider system of technological and associated spillovers.

According to the World Commission (2004:59), the key instrument is the rate of growth of both public and private productive investment in the economy. Partnerships between governments and private actors are an effectual means to generate the skills, infrastructure, technological and managerial capabilities, and frameworks that provide an enabling environment for private investment (both domestic and foreign) in most dynamic productive activities. However, the Commission warns that this should not be about “picking winners”, but establishing the preconditions for the growth of globally competitive enterprises. Both Dunning (2005: Online) and the World Commission (2004: 55; 59) concede that this, together with respect for the rule of law and good governance, is the most important contribution that governments can make to attract foreign direct investment. It also underlines the importance of domestic resource mobilisation and an effective, non-regressive taxation system. This also necessitates the need to bring the informal economy into the economic mainstream, because taxes that only extend to the formal economy not only lead to revenue shortfalls, they also provide strong incentives for informal work.

The challenge for the developing countries is to move into higher-value exports. A strategic reaction is needed to promote innovation, adaptation and the learning

process associated with it. The solution to the creation of national systems of innovation is the improvement of skills and technological capabilities. This enhances both the gains from trade and participation in global production systems, and expands the domestic market through increases in productivity and wages. Global production systems must provide opportunities for domestic firms to engage themselves in a process of learning and adaptation in both industry and services, closely linked to world-class production experience. Policies should focus on strengthening production linkages between leading economic sectors and the rest of the economy and take account of the needs and constraints of small enterprises. Access to financing and financial institutions is particularly critical, as are specialised technical extension services for micro-enterprises (World Commission 2004:59-60).

In addition, training, financial and technology policies and partnerships can support the phasing out of inefficient old industries and the growth of new high value-added activities. Thus supportive policies for economic adjustment help create new opportunities, notably in the knowledge economy and new service sectors, including social protection and income security (Ibid). It is against this background that the relationship between MNCs and the democratic South Africa will be judged for this chapter.

6.3 Capital and investments

Capital formation remains the main important contributor to economic growth in developing countries. MNCs, as a major source of capital and a channel for transferring capital across borders, have a large potential contribution to make in stimulating growth in developing countries. FDI as a share of domestic investment in host developing countries is usually not large, generally below 5 percent, although it is substantially higher in a few cases. However, even where it is a small share of gross domestic capital formation it still makes a positive contribution in the sense that it is usually much larger as a share of capital formation in industries that play a key role in development, such as durable consumer goods or high technology manufacturing industries (UNCTAD 1992: 8).

The average annual inward FDI as a percentage of gross fixed investment in South Africa increased from 1.3 percent in 1995 to 6.8 percent in 2002 and the corresponding increase for outward investment was from 4.8 percent to 6.3 percent respectively. Moreover, between 1996 and 2001 the average annual value of cross-border mergers and acquisitions of South African companies more than doubled (UNDP 2003b: 14). Thus this shows a major increase in inward investments and the capacity South Africa has in handling these investments. According to the study *Business in South Africa in 2003*, conducted by the South Africa Foundation (2003: x), the following sectors have been major investors in the South African economy since 1994:

- R300 billion of investment was generated in manufacturing, largely driven by exports.
- R180 billion worth of investment was generated in communications and transport. This largely reflected investments by the cell phone companies and Telkom.
- R280 billion worth of investment was generated in the financial services industry.

According to South Africa Foundation (2003: x), South African business has invested more than a trillion rand (R1000 billion) in South Africa since 1994. Domestic investment spending by business has increased throughout the period, and by 2002, annual business investment was a quarter higher than in 1994. By 2002 private business corporations were responsible for some three-quarters of gross capital formation (investment in production capacity) in the country. Thus far in this decade, as in the 1990s, the capital stock controlled by private business has grown more quickly than that controlled by state-owned enterprises or by government, resulting in business, by 2002, controlling 55 percent of the country's capital stock.

However, South Africa performed poorly on the foreign direct investment front in the IMF's most recent report, which found that annual flows averaged 1 percent of gross domestic product between 1994 and 2000, compared with 3-5 percent for other countries in a similar situation. The IMF blamed this on a variety of factors including South Africa's lower growth rates, taxation, trade policy and crime. Whether a slow growth is undesirable is debatable (i.e. 2%-3% growth), but the Standard Bank economist Iraj Abedian (2003) argues that essentially the reason for our receiving

little FDI is that we do not need it that much. He argues that our domestic capital markets are well developed – far more so than in other developing economies, so investment projects can, mostly, be funded in South Africa at competitive rates. Contrary to the notion of a desperate savings shortage, he argues that South Africa as a nation saves more than enough to cover investment needs. According to Abedian, foreign direct investment has increased quite significantly and now makes up about 6 percent of gross fixed capital formation, as against 1 percent a few years ago (Abedian 2003: 16).

According to the study by the South Africa Foundation (2003:xi), since 1994, corporate sector savings have equalled 87 percent of South Africa's cumulative gross domestic savings, compared to 13 percent for the household sector and dis-saving by the state. This trend has sharpened in recent years. At 17 percent of GDP per year, South Africa's gross domestic savings rate is low compared to other middle-income countries with an average rate of 25 percent. Virtually all of those savings were made by the corporate sector because in 2002 business corporations saved R132 billion, or 12 percent of GDP, households 0.3 percent of GDP and government was a marginal dissaver. Thus, this means South Africa relies heavily on corporate savings to fund all forms of investment, as well as government deficits. However, according to Lall (1976:3), the ability of MNCs to gear themselves towards significant local savings means that the host country provides its own resources to improve the profitability of the original capital contribution from abroad.

6.4. Employment and Production

Access to jobs that are properly remunerated and provide respectable work is not only an important means of improving living standards; it is also a means of exercising skills, creativity, making productive contributions to society and enjoying self-respect, dignity and empowerment (UNDP 2003b: 144). Thus in this section the study will determine employment created by MNCs and check whether that rate increases or not. Secondly, the study will look at the absorptive capacity of MNCs to unskilled labour and lastly, the rate of production and exports MNCs account for in South Africa. According to Stephen Gelb (2002), author of *Foreign companies in South*

Africa: Entry, performance and impact, more than one-third of the sample firms in his study fall into the smallest category. They employed between 10 and 50 workers, and more than half the firms had fewer than 100 workers (the median is 91). This pattern was seen across all sectors except Primary and Trade & Hospitality, which employed even fewer staff. It has often been observed about the South African economy that there is a ‘missing middle’ in terms of firm size, which has implications for the impact of growth on employment creation. Foreign investment appears to bear out this generalisation. It is worth noting, however, that the median increase in the size of the sample firms’ labour force from entry to 2000, was 67 percent, and 44 percent of firms at least doubled the size of their workforce (Gelb 2002:5).

With the exception of Greenfield entries, where the initial workforce is often a small fraction of the intended complement at full capacity, the median growth in employment between entry and 2000 was only 14 percent, and one-third of firms doubled in size⁶. Thus, according to Gelb’s study, although foreign firms were relatively small, their employment-creation record has been relatively good. Gelb’s (2002: 8) findings correlate with those of Bhorat (2002:38), who found that contrary to the conventional wisdom of “jobless growth”, the economy (including both formal and informal sectors) did create jobs between 1995 and 1999 (about 1.1 additional jobs), but these were not sufficient to accommodate the demand for jobs by new entrants to the labour market, which increased by about 3.1 million individuals. As a result, there has not been jobless growth in the economy but rather a situation of poor employment growth. The South Africa Foundation (2003: xiii) finds that since 2000, employment has been falling across most industries. The only industry in which employment has consistently grown has been in the area of community service (which includes government) and in a broad sense the financial sector.

However, Mazibuko Jara (2000), the South African Communist Party (SACP) media officer, argues that in 1999, the government decreased company tax by 5 percent from 35 percent to 30 percent. This tax cut provided an overflow of R8 billion. Company bosses failed to plough the money back into job-creating investments.

⁶ “Greenfield” refers to productive (i.e. value adding) foreign direct investment, such as new factories and power plants, that are located on new sites rather than on sites with existing facilities.

Instead, big companies acted selfishly and invested in Western countries for reasons of easy and quick profits. He goes on to argue that in 1997 alone, easier exchange controls made it possible for local capitalists to invest R12 billion in other countries compared to the R5 billion invested locally. Most of the R5 billion invested locally went to privatisation and mergers. The country has a huge demand, for a wide range of services, material and goods, such as: housing, medicines, school textbooks, jobs and many others. For capitalist entrepreneurs, however, this demand is of lesser importance because it does not generate money. People's needs only transform into demands, if they increase profits. Companies invest their money in the stock exchange for speculation instead of investing in people's needs and job creation. The cutbacks in state spending also discourage economic growth. Thus, both the state and public corporations are not investing enough in job creation. (Jara 2000:12).

According to Adelzadeh (2003: 26), there are two reasons for this poor employment growth. Firstly, policies that are designed to achieve the restructuring of the economy through export promotion in an increasingly liberalised economy. Secondly, other "stabilisation" policies that have focused on lowering inflation and the deficit by administering contractionary measures in the economy. Neither of these two policy thrusts has placed an emphasis on job creation. This is witnessed by Borat's (2002:41) findings that the restructuring process of government shed some 143 000 jobs between 1995 and 1999 in the public sector and this was both rapid and particularly widespread. Thus the first set of policies, which includes trade and industrial policies, has contributed to an increasing recourse to machinery in economic activity. This, according to Adelzadeh (2003:26), is clear from an average real growth rate of 8.2 percent of investment in machinery and equipment during the 1990s, resulting in about 50 percent of total investment being of this kind in 2000/01.

The second set of policies has resulted in an inappropriately high real interest rate, which continued to seriously dampen the economy's growth potential. That made the cost of borrowing for investment spiral and limited household expenditure, especially on durable goods. It has also resulted in major real per capita decline in government expenditure. While the government's real per capita disposable income (income excluding interest on public debt) increased by 9.9 percent between 1995 and 2001, its real per capita expenditure declined by 7.6 percent during the same period

(Adelzadeh, 2003:26; Innes, 10-11; Jara 2000:12). Adelzadeh asserts that “Experience in many parts of the world shows that the danger of achieving orthodox stabilisation goals is an economy with a high unemployment rate that is stuck on a low growth path” (2003:26). Consequently, this is why South Africa’s growth performance remains much lower than originally envisaged by GEAR – and at the same time the gap between employment growth and output growth has risen significantly since the early 1990s.

Bhorat’s study also revealed that various groupings of workers benefited more than others from this growth. It was clear that skilled and semiskilled workers benefited at the expense of unskilled workers. According to Gelb’s (2002:6) study nearly one-third of the firms are in the skill and knowledge-intensive Financial services, IT and Pharmaceutical sectors. In addition, a significant proportion of the sample firms (around 14 percent) had outsourced all their operations, or a substantial share of the labour-intensive segments and this has led to certain sectors increasing imports (as negotiated within trade deals). The clothing and textile industry has been hit hard by reduced trade tariffs through the invasion of cheap goods imported from other countries by shops like Mr Price and others. South Africa’s Clothing and Textile Workers’ Union (SACTWU) claims that this industry has lost 21 000 jobs as a result, through factory closures, retrenchments and liquidations (Afrol News 2004: 1); Gedhardt in *The Star* 2003:2). Thus, public policy should not merely increase foreign direct investment, but ensure that it leads to the development and not the displacement of local industry, and should reinforce the need to marshal local sources of investment as a priority.

Low tariffs in certain sectors, in conjunction with foreign investment, have seen the warehousing of local production facilities. In the dairy industry, local production facilities have been converted to importing and packaging facilities resulting in job loss (Jarvis 2002: 44). The Italian multinational group Parmalat has sunk R815 million into the local dairy industry and controls 24.1 percent of South African milk production. South Africa sold 100 percent of the two largest Western Cape dairies (Towerkop and Bonnita) to Parmalat at a bargain basement price. Parmalat bought the brands, the processing plants and the distribution network. Today, some Western Cape dairy farmers are wondering if they were not too hasty in selling all their

interests. The net result is that they are now in service to a foreign company with hostile European Union connections (Nofal 1998: 4). Based on the above evidence, displacement of local industry and loss of jobs as a result, proves that foreign investment is not always the positive development that it is generally accepted.

According to Hume (2004:3), corporations doing business in South Africa need to apply their own standards in the African environment, with the goal being not just short-term profit but a long-term partnership in which the African economy prospers. For example, in matters of procurement, the company might consider what it can purchase locally to help vendors. If the quality of the local suppliers' goods is not up to par, the corporation could consider working with the local vendors to advise them on what has to be done to meet the quality standards. According to Nofal (1998:4), Gauteng-based Clover entered an association with a French multinational, Danone, which has a 4.4 percent stake in Clover Holdings and 22.75 percent in the operating company Clover S.A. The dominant shareholder in both, however, is NCD, the agricultural co-operative, with a 75.9 percent interest in Clover Holdings and through the holding company, 77.25 percent of Clover SA. Clover's farmers are still working for themselves. This strategy goes a long way towards helping to sustain local companies and jobs, unlike the Parmalat arrangement with Towerkop and Bonnitas dairy companies.

There has been a revitalisation of the manufacturing sector in the export field since 1994. This has rested on a successful export performance. During the decade before, South Africa had been rooted in global markets, with the accompanying knock-on effect on the economy. In manufacturing, between 1981 and 1994, real manufacturing output was stagnant, falling by 2 percent. Since 1994 manufacturing output has grown by a quarter, contributing about a fifth of overall economic growth. The reason for this is that manufacturing exports have increased by 73 percent since 1994. Sustained increases in annual real growth have had a remarkable impact in certain sectors. For example, vehicle exports are now up by 683 percent on the 1994 performance, machinery is up by 422 percent and other manufactured items up by 266 percent in real terms (South Africa Foundation 2003:xvi). The government's Motor Industry Development Programme (MIDP) allows exporting car and component firms to earn

rebates on import duties, thus allowing firms producing and exporting a limited range of products to import a variety of products at virtually zero duties.

In this way, the programme encourages local production sites to produce higher volumes at a greater degree of specialization. For instance BMW is able to produce one model for export, so earning rebates that enable it to import a garage of models for the local market. Behind this export boom lie three factors, and these are, South Africa's re-entry as a full member of the global economy; South Africa's trade policy which has been liberalised and gained access to foreign markets; and the rand's weakness between the 1990s and 2001 (South Africa Foundation 2003:xviii). Notwithstanding the fact that during the 1995—2001 period the balance on the current account was in constant deficit (i.e. less than 2 percent), it moved into the black in 2002, amounting to 0.3 percent of the GDP (UNDP 2003b: 14). However, although the automotive industry is a success story in South Africa, there were companies like the former Delta Motors, now called General Motors, which violated workers' rights and the Basic Conditions of Employment Act. The company was accused of bad faith negotiations on various issues raised by the National Union of Metalworkers of South Africa (NUMSA), including the unilateral change of sick leave policy which had not been resolved, and conducting house visits on workers who were off sick, infringing their right to privacy (Cokayne 2003:3; Hlangani 2000:3).

According to Cokayne (2003:3), NUMSA claimed that the new sick leave policy led to the dismissal of 25 workers and disciplinary measures taken against 400 workers between 2002 and 2003. Delta was accused of having permanently closed one department, restructured departments and retrenched workers using this policy. Delta reportedly failed to comply with the multi-skilling agreement and refused to pay workers who graduated to new grades after training. The company maintained that they should be reassessed before compensation. This dispute led to a 13-day strike. At the same time 500 NUMSA workers staged a strike over a wage dispute at Jurgens Caravans at Garankuwa, Pretoria, which continued for the second week after management employed scab labour to maintain normal production levels.

6.5. Organisation and management

In this context, there is unquestionable efficiency and competence exhibited by MNCs, both as efficient users of resources and as demonstrators of sound business methods in countries where corporate “management” is a novelty. Yet there may be hidden costs, seen from a “nationalist” or “welfare” position. Sometimes the price of accepting an MNC may be subordination as a “branch-plant” in a hierarchical world system, which implies dependence. It is therefore necessary to determine how decision-making power(s) or authority is shared between the mother plant and among subsidiaries in South Africa. Thus, the study will have to look at the size and the entry mode of these companies, where Greenfield, joint ventures, partial (10-95 percent of equity) and full (over 95 percent) acquisitions are distinguished. According to Gelb (2002:18), the employment size distribution of the mode of entry shows that acquisitions are particularly prominent in the medium size categories between 101 and 1000 employees, while partial acquisitions dominate the largest category. Greenfields on the other hand are more prominent in the smaller firm categories. Indeed, most Greenfields have been very small: 73 percent of Greenfield entries had fewer than 100 workers in 2000 and 50 percent of Greenfields had a capital stock value at start-up of less than \$1million.

According to Gelb (2002: 9-12), South Africa had a significant proportion of acquisitions – 31 percent of the sample firms were full acquisitions and another 14 percent partial. In each of the other three countries in the sample, full acquisitions amounted to less than 5 percent, and partial between 8-12 percent. This underlines the greater maturity of South Africa’s equity market, which enabled asset purchases of this nature, as well as suggesting that a relatively high proportion of investors interested in South Africa see the country’s asset base and structure as broadly similar to what they are familiar with. Looking at the sectoral level, firms with small fixed asset bases dominate Finance & business services and IT, but it is more surprising that small firms are also prominent in basic consumer goods and infrastructure. In the IT sector several firms provide services such as infrastructure system design and management, rather than directly owning and operating infrastructure installations. Consequently, the capital asset base of these firms is very small. At the same time, this sector also has significant share of firms with very large capital stock. Thus, “foreign investors in South Africa cover the full spectrum of multinationals, from small companies with operations in three or four countries to global

giants” (Gelb 2002:12). This is a sign that even though foreign companies are not monopolistic, they are dominating many sectors of the South African business.

6.5.1. THE OWNERSHIP OF MNCS

The 1994 multiparty elections brought political freedom to the country. However, they did not give the new government any potential power over the economy. Whites who make up to 13.6 percent of the population, still dominate trade and commerce in South Africa, an inescapable legacy of decades of discrimination against blacks (Nduru.a. 2004: 1). This is why since the democratic elections in 1994 the challenge for South Africa has been how to transfer economic power from a white minority to the black majority without destroying the economy itself. It is government’s opinion that economic growth and the eradication of poverty can best be assured by increasing the level of black participation in the South African economy. As a result government enacted the Broad-Based Black Economic Empowerment Act of 2003. This Act defines “black people” as a generic term that includes “Africans, Coloureds and Indians”. As mentioned before, “broad-based black economic empowerment” refers to the economic empowerment of all black people including women, workers, people with disabilities and people in rural communities (South Africa Info Reporter 2004: Online; S.A. Labour Bulletin 2002:21).

The socio-economic strategies envisaged include increasing black ownership and management of businesses; facilitating community and worker ownership of “enterprises and productive assets”; skills development; issues around equal representation in the workplace; preferential procurement; and investment in businesses that are owned by black people. It is therefore the purpose of this section to determine whether the pattern of ownership in favour of blacks is changing, and at what rate? For listed companies, the category for which the most information is available, two seemingly irreversible forces complicate the picture: the globalisation of ownership of equities and the rise of institutional capitalism. Foreign investors own a large proportion of the market capitalisation of the JSE. In 2002 stockbrokers Cazenove estimated foreign shareholding in the JSE at 36 percent. The vast majority of South Africans with an interest in the country’s listed corporations hold that

interest through a domestic institutional investor such as a pension fund, a collective scheme or an insurance policy. It is estimated that 38 percent of JSE market capitalisation is held by South African institutional investors on behalf of millions of beneficiaries (South Africa Foundation 2003: xxi).

This pattern is a sign of a mature and sophisticated market, but it tends to shield the identity of the ultimate beneficiary. This type of institutional capitalism also tends to blur the ultimate locus of control. For example, the Congress of South African Trade Unions (Cosatu) was appalled that the Public Investment Commissioners (PIC), which manages the pension fund for public sector employees, bought the 15.1 percent stake in telecommunication giant Telkom from Thintana Communications. PIC said it would keep the shares for a maximum of six months and would then sell them to the Elephant Consortium, the so-called Black Economic Empowerment firm led by former Department of Communications Director-General Andile Ngcaba and Gloria Serobe. The trade union considered this to be a disgraceful misuse of a pension fund and it demanded the cancellation of the deal. Cosatu added that it was furious that the government was using the workers' pension money to oil the wheels of an already discredited deal which would make a small number of people very rich and which had raised serious questions about the involvement of former and current public officials (Cosatu, 2004: Online).

According to the South Africa Foundation (2003:xxi), there is still an element of corporate cross-holding in our market, with an estimated 19 percent of the market owned by other corporates. That leaves direct retail investors (and company founders and their families) with an estimated 5 percent of the market. As far as ownership is concerned, it is important to trace the holder of the beneficial economic interest. This has not, however yet been done in a satisfactory manner, although it is crucial to track black participation as the ultimate owners of private-sector companies. According to Gelb's study (2002: 20), Black Economic Empowerment (BEE) ownership of foreign firms' equity during the 1990s amounted to 2.2 percent at the time the firms entered the economy. The current level of BEE ownership stands at about 50 percent greater. It must be reiterated that this figure applies only to firms entering South Africa for the first time during the 1990s. Gelb also indicates that only 6 percent of foreign entrants

had (over 10 percent) BEE equity at the time they entered, compared with 12 percent currently.

With the increase in the number of companies with BEE stakes above the threshold, the average BEE equity share is lower – 28 percent as compared with 35 percent at the time of entry. Black executive management in new FDI has risen overall from about 5 percent to 11 percent and the number of companies with more representative executive management is 46 percent today, compared with 17 percent at the time of entry. BEE executive management per company is four percent lower, 25 percent compared with 29 percent. A majority of companies (52 percent) now have black professionals on their staff, and 81 percent have black operations managers, compared with 26 percent and 46 percent respectively at the point of entry (Gelb 2002: 21). In sum, this segment of the study indicates that FDI, at least by firms newly entering South Africa, has not been a major medium for expanding BEE ownership levels during the 1990s. Foreign firms however, have in general been far more effective in endorsing black participation in high skill job categories. The study also suggests that public procurement has not proved an effective lever to promote BEE equity stakes in foreign investor affiliates.

6.6 Technology

It is argued by critics that the primary factor contributing to the higher productivity of MNCs' employees is the use, by these firms, of more capital-intensive technology than by local firms. Critics like Fieldhouse (2000:174) add that this technology does not accommodate the labour-rich context of LDCs such as South Africa. Indeed, a cross-examination of the three-core manufacturing groupings of iron & steel and metal products, chemical and plastics and clothing and textiles in South Africa has found that the upstream components are relatively capital-intensive, have experienced greater job losses and export a large proportion of their output, consistent with the importance of reaping economies of scale (Machaka & Roberts 2003:688). They also have higher investment rates and higher average wages. However, the chemicals and plastics grouping have performed much better than the others, with strong growth in value-added and stable or increased employment.

Taking the iron and steel industry as an example, an area which is dominated by Iscor in South Africa, Machaka and Roberts (2003:688) find that since being privatised in 1989 this industry has undergone a process of transition spurred by reduction of the import tariff from 30 percent in 1994 to 5 percent in 1996. This involved rationalisation of production and large reductions in employment. In 2002 almost 35 percent of Iscor's equity was purchased by one of the world's largest steel companies, LNM, under a strategic business assistance agreement, and that dramatically improved both quality and delivery time. Expansion enables new investment which means that plant and equipment are upgraded more rapidly than under the static conditions that have existed in South Africa. Weak investment means that competitive improvements depend on the downward adjustment of wage rates, which is a slow and painful process. But it must be noted that this happens at the expense of labour, where labour is replaced by capital.

The value-chain describes the interdependence between firms in terms of being sources of inputs and markets for outputs. According to Machaka & Roberts (2003:691), interdependence has not brought co-operation or co-ordination in the iron and steel industry in South Africa. Major investment decisions in this industry have been made as part of industrial policy oriented to resource exploitation. The high levels of investment in 1996, 1997 and 1998 were due to very large investments in Saldanha Steel and Columbus (stainless steel). Both were based on primary minerals beneficiation and South Africa's very low energy costs and were almost wholly for export. This reinforced the historical bias to larger-scale upstream industry over downstream more labour-intensive sectors – South Africa's iron and steel sector is much larger than the other metal products sector. While access to low cost inputs underpins the competitiveness of the iron and steel industry, import-parity pricing means these competitive advantages are not necessarily passed on to metal products firms.

On the other hand, South African firms play an important role in opening up the benefits of innovation and technological progress to the country's people. The competitiveness of the upstream activities is based on a combination of access to international technology, research & development, and investment in large-scale

production facilities. Even though new technology is often sourced from abroad, South Africa has its home grown component and ranks 28th in the world in terms of patent registration. SASOL (by far the largest company in basic chemicals) stands out in terms of its ongoing R&D programme as well as its continued international interactions governing technology (South Africa Foundation 2003:xxix; Machaka & Roberts 2003: 693). For example, in 2001 Sasol announced the construction of the first gas to liquids (GTL) plant in the world. A GTL plant converts natural gas into high quality, low emissions diesel.

This process increases the value of the gas while making it easier to transport. Up until now, gas was routinely burned off, or flared, leading to the characteristic flame-above refineries. The GTL process developed by Sasol makes vast but currently uneconomic gas reserves economical. Thus, the technology has the potential to dramatically increase the world's energy supply. Similarly, pay-as-you-go telephones created a social revolution. The South African cell phone companies, MTN, Vodacom, and more recently Cell-C, have revolutionised access to telephone services. Government has taken the view that the best way to increase access for the poor is to require Telkom to roll out 2.6 million fixed lines to under-serviced areas by 2002. The cost of this was used to justify giving Telkom monopoly rights for five years with the consequent higher prices, lower innovation and restriction in choice for consumers. Ultimately 600 000 of these lines were taken up by customers (South Africa Foundation 2003:xxix).

In 1996 MTN introduced the pre-paid method of charging for cell phone calls. Pre-paid users never had to pay a monthly charge but rather purchased "phone call minutes" from shops. In 2002, eight out of every ten cell phone users were using pre-paid contracts. In total, the cellular providers had more than ten million active pre-paid users, many of whom fell into the low-income category. These are instances of new approaches by South African firms that have benefited society at large. In summary one may conclude that capital-intensive production methods are not always appropriate to deal with the high unemployment rate that characterises South Africa. On the other hand high technology can benefit the low-income earners too, as was illustrated in the latter example (Ibid).

6.7. State sovereignty and the multinational

Susan Strange (1996:4) argues that state power is declining: world markets, shaped by private enterprise in finance, industry and trade rather than government involvement, are now more powerful than the states to which ultimate political authority over society and economy is supposed to belong. Where states were once the masters of markets, now it is the markets that, on many crucial issues, are the masters over the governments of states. The state is less effective on those basic matters that the market, left to itself, has never been able to provide – security against violence, stable money for trade and investments, a clear system of law and the means to enforce it, and a sufficiency of public goods like drains, water supplies, infrastructures for transport and communications. Balaam and Veseth (2001:14) warn that the problem experienced with markets

is that no one negotiates with the public interest in mind. That is, in the process of individual interests, the market may allocate and distribute resources (and therefore power) in ways that are not in the general interest of the population or different from the way the state would make these choices. In fact, states can sometimes be manipulated by a small group of “elites” or by economic forces of special interest.

Thus, the focal question of this section is based on how effectively the state performs its role as maker of policy and defender of the national interest. Here the study will have to consider the attitude, policies and capacity of the state to use and control the potential of the MNCs.

In general, globalisation has provided the main thrust behind the privatisation of government assets. Since the fall of the Berlin Wall globalisation has become increasingly characterised by the domination of the market economy, and the principles of liberalisation and privatisation. These principles underpin the recommendations of the World Bank, International Monetary Fund, donor agencies and MNCs. Globalisation has created a skewed scenario, where individual emancipation takes priority over social emancipation. However this phenomenon should not simply be accepted as an economic given but should rather fuel ongoing public debate in both the national and the global level. For example, in South Africa privatisation is viewed as an important resource in the pursuit of black empowerment. But evidence show that the overemphasis proponents of privatisation place on

commercial objectives undermine the pursuit of social objectives which embrace the need to access quality health, water and education services for those that cannot afford them at commercial rates (Community Law Centre Report 2003: 46-47).

However, the role and the power of the state and government against that of MNCs in South Africa is mixed because there are strengths and weaknesses that have been experienced since 1994 to date. Among others, one of its strengths is that in April 2004 the Competition Commission initiated its investigation into the South African motor vehicle manufacturers, including Daimler Chrysler, BMW, Volkswagen, General Motors, Nissan and Ford on allegations relating to car price fixing in terms of Section 49B(1) of the Competition Commission Act No. 89 of 1998. Toyota South Africa was found guilty of maintaining high vehicle prices, which contravened with Section 4(1)(b) of the Act. According to the initial findings, one example of allegedly bad practice was the case of the Toyota Corolla 2002 models. The manufacturer, not the dealer, set the price the customer pay. A member of the public, who discovered this while investigating buying such a model, alerted the Commission. Toyota agreed to pay an administrative penalty of R12 million after individuals lodged a complaint. Toyota understood that it was wrong and agreed to stop engaging in such practices and promised to give its full co-operation to the Commission (Moneyweb Holdings 2005: Online).

Such conduct is not good as it is likely to facilitate collusion in the industry. However if the alleged contraventions and related cases are corrected by the firms concerned, consumers will be the ultimate beneficiaries in that they will be able to negotiate discounts and will have an incentive to shop around for better deals. This will therefore stimulate price competition in this industry. As mentioned in the previous chapter, reduction of competition in the market removes this incentive and raises prices for goods or services to the detriment of consumers. It would further strengthen the position of dealers as independent business entities since they will be free to sell motor vehicles where and to whomever they want to. Price competition was reduced because almost all manufacturers/importers/distributors of motor vehicles and dealers use the same method of restricting competition, which is detrimental not only to the consumer, but to the development and participation of dealers in the mainstream economy (Mail & Guardian 2005: Online).

Among others, one of its weaknesses is that even though all South African citizens are constitutionally guaranteed “sufficient food and water” in South Africa’s Bill of Rights, the ANC, encouraged by World Bank advisors, embarked on a nation-wide campaign to privatise South Africa’s public-owned and operated water systems. They contracted out management of water systems to large MNCs bidders such as the French water-multinational Suez whose sole motive, needless to say is profit. South Africans are now forced to deal with self-imposed corporate-controlled globalisation in increasingly desperate ways that meet with increasing oppression. As a result, the public health was jeopardised. In 2001 there was a massive cholera outbreak that had spread from rural areas in Kwa-Zulu Natal province to the outskirts of Johannesburg. It affected hundreds of thousands of people and killed at least three hundred people who had to turn to polluted, cholera-infected water systems after they could no longer afford the water charges of the new privately owned water companies. This cost the government millions of dollars as it sought to contain the outbreak and treat infected people and contaminated river systems (Nowicki 2003:3).

Thus, ten years after South Africa began living Nelson Mandela’s dream, much has changed but too much still remains the same. As we know, the apartheid laws that made up South Africa’s system of apartheid prohibited the country’s black majority from voting, getting a proper education or owning property. Segregation in the provision of education and training opportunities meant that generations of black South Africans were disallowed to acquire the skills that would make them eligible to pursue productive employment opportunities. As a result more than half of the black population lives in poverty today (Nduru.b. 2004:1; Lewis 2002: 2). Therefore, South Africa is characterised by two parallel economies, the first and the second. The first economy is modern, produces the bulk of the country’s wealth and it is integrated within the global economy. The second economy exhibits striking underdevelopment, contributes little to the GDP, embraces a large percentage of the country’s population, consists of extremely poor rural and urban people, is caught in a structural disjuncture between the global and the first economy and is incapable of self-generated growth and development” (Khotso De Wee 2004: Online).

There are three causes of poverty amongst the poor in the labour force, and they are unemployment, under-employment and low earnings from labour (UNDP.b. 2003:161). Formal unemployment according to census 2001 is 41.6% (Smith 2003: 5), and most of this percentage are blacks. Thus, the issue of unemployment remains one of the country's major challenges. There is therefore a serious need for proactive and brave measures needed to steer the economy towards generating employment, while bearing in mind the imperatives of the global economic situation. Government intervention in this regard is necessary to ensure that economic growth can simultaneously generate employment and integrate the poor in the process. Some form of "interference" in the market is also indicated, although on a temporary basis. Policies should be implemented for the purpose of ensuring that a growth process that both generates employment and absorbs labour is introduced and maintained (UNDP.b. 2003:161-162).

High unemployment rate and nagging poverty can be relieved if South Africa achieves a higher rate of growth and development. It has been suggested by economic commentators that one of the ways in which South Africa can achieve large permanent increases in employment and a significant reduction in poverty is by doubling economic growth to 6 - 8 percent a year (Bernstein and Dagut 2003:8; Innes 2003:19). It is worth noting that according to State of the Nation Address (2005: Online) by President Mbeki, real domestic output growth accelerated through 2004 to reach an annualised 5.6 percent in the third quarter, with contributions from all sectors of the economy. This means that while South Africa certainly still has a major unemployment problem, there are encouraging signs for the future. To sustain this growth into the future, business and government should develop and maintain relations of trust and work in partnerships in service delivery and the satisfaction of people's needs. According to Dlamini (2004:170), trust and strategic interactions between government and business have served as the basis for dramatic national success. Japan, France, South Korea, the US the UK and Germany provide good examples of what government-business relations can accomplish.

Following the same pattern, President Mbeki has taken a personal interest in ensuring regular meetings with the Big Business Working Group (BBWG), which comprises senior captains of industry, who regularly volunteer their time to share and exchange

views with the president and senior members of the cabinet about South Africa's long-term future, and to explore issues of common concern. The BBWG provides an opportunity for government to test the thinking of chief executive officers (CEOs) on various policy issues, and to obtain feedback on their probable impact from representatives of the business sector. The president also has regular meetings with (CEOs) of some of the world's leading multinationals (such as Unilever, CitiBank, Mitsubishi, Ashanti Goldfields, Daimler-Chrysler, Independent Newspapers and Siemens), who are members of his International Investment Council. They meet at least twice a year in South Africa, to share their views on how the government is performing from a policy perspective, and provide insights on how the foreign investor community is likely to respond to these. More importantly, they are expected to help the president to align public policy so as to attract FDI (Dlamini 2004:175).

This indicates positive and constructive government attitude because the extent to which South Africa grows and prospers will depend in part on how well business and government work together to strengthen the economy and improve the investment climate. A surprising feature of South African business is that South African companies tend not to invest their savings in ways that will expand local production and boost job creation. The opposing tendency exists – the desire for quick profits results in these businesses investing in portfolio or offshore investments. Unions characterised this as “an investment strike”, and this betrays the good intentions of our government in alleviating poverty. Since the introduction of GEAR the country's GDP growth has remained low, formal employment continued to fall, and the key objectives of poverty reduction and improved service delivery remained largely unmet. But captains of industry suggested that the main reason why employment creation never proceeded more rapidly is because labour laws such as the Labour Relations Act and Basic Conditions of Employment Act, while benefiting those in employment, have created disincentives to employers to take on more labour (Lewis 2002:13; Mamaila 2000:15; Innes 2003:23).

The SACP does not share this perspective because it does not see how extending basic human rights can create unemployment. It believes unemployment in South Africa is a product of capitalist development embarked on during the apartheid period, which is proving to be unsustainable under the changing global and national

circumstances (Jara 2000:12). Some economists and commentators blamed the lack of investment and economic growth on the rigid labour markets and on lack of skills. According to them, augmenting the skills base of the South African labour force will increase growth and create jobs. The issue of the lack of skills is part of the problem, but not necessarily the only or major solution because both Borat (2002: 38-43) and Adelzadeh (2003: 26) argue that currently, a much smaller number of jobs is created for every percentage point of South Africa's economic growth, which is not sufficient to accommodate the new entrants into the labour force per year. These factors, according to Adelzadeh, differ significantly from the experience of countries in the Organisation of Economic Cooperation and Development (OECD), whose growth performance now creates twice as many jobs as South Africa.

It is clear, therefore, that there must be a shift away from the argument that rising unemployment is caused largely by the inherited skills shortage of the labour force because that argument implicitly assumes that with an improvement in skills, employability and employment will increase. Adelzadeh (2003: 26) demonstrates that there are significant changes in labour-demand patterns – there has, in fact, been a decline in the demand for labour, whether skilled or unskilled. For South Africans with secondary education as the highest completed level, the unemployment rate has almost doubled, from 18-32 percent. For persons with a tertiary technical education the rate has trebled to 15 percent. As at the writing of this study, according to Solidarity, the trade union, nearly 20 000 people could lose their jobs. This trade union is currently negotiating with 25 companies against the retrenchment of 18 293 workers, mostly in the mining, chemical, telecommunications and metal industries. All the companies concerned are blaming the strong rand, which makes them less profitable, leading to cost cutting through retrenchments. Solidarity regards this as an “employment state of emergency”, and Cosatu is threatening to go on a national strike in retaliation for these job losses (Afrol News, 2004: Online).

It is therefore evident that the government's commendable macroeconomic reforms – fiscal discipline, sound monetary policy, an increasingly open trade regime and others – all add up to a necessary but not sufficient foundation for increased economic growth. However the persistent trend of the economy to invest in less labour-intensive technologies, as well as the existence of policies and institutions which do

not provide vigorous support for job creation, threatens the realisation of one of the key goals of the RDP and sustainable development – the creation of employment opportunities for all economically active South Africans at a living wage (UNDP.b. 2003:158). It is also a fact that the goal of substantially reducing the unemployment rate will remain elusive unless a strategy of openness, competitiveness, and macroeconomic stability is pursued through policies that prioritise employment creation and poverty reduction as a national goal. The objective of any successful sustainable development strategy is unavoidably linked to the country's employment generation strategy, which must encompass substantial reduction poverty and all its causes (UNDP.b. 2003:162).

Therefore central to a successful reorientation of the economy is the need to ensure that the general production processes of MNCs become significantly more labour-intensive. Suitable policy measures according to UNDP.b. (2003:162) in this area include:

- the withdrawal of subsidies which support capital-intensive or large-scale enterprises, whether overtly or covertly;
- the identification of incentives which promote labour-intensive production modalities, be targeted, time-structured and conditional in character;
- agricultural interventions which promote and encourage increased coverage of crops over extended areas using labour-intensive methods;
- the promotion of alternative proprietary and production modes, such as co-operatives and equity arrangements that use labour-intensive methods of production.

In a number of these areas, the restructuring of South Africa's diverse public enterprises like Eskom and Telkom can lead the way. The solution to poverty alleviation lie in improving local government regulation as well as the local economic base and increasing the availability of basic services like water, reliable electricity supply, local business development services, quality roads and transport systems (World Commission 2004: 67-69). It is also important to note that practically, regions or districts with weak investment climate tend to have a higher concentration of poverty (i.e. poor infrastructure is less attractive to MNCs and business in general). A key measure(s) therefore to ensure that poor people benefit from economic growth is

to strengthen the investment climate throughout the country, rather than just in the higher capacity and often wealthier regions like Gauteng and Western Cape.

Local production systems and markets play an important role in satisfying consumer needs and generating employment. Clusters of small local enterprises can be a major source of economic dynamism and employment creation, from furniture production to software development. National and provincial government policy should therefore be amended to put stress on procuring goods and services from companies that seek to use labour more intensively in their areas of activity. Government also have the critical role in ensuring that capabilities of local governments and other actors are raised for effective redistribution (especially from richer to poorer regions) to take place. Rural industrialisation should also be supported since it provides technologies and infrastructures to process raw materials locally and the value-added gained from processing further help in rural development. National and international policies and support systems are required to encourage local efforts by increasing access to micro-credit, support for management and protection from external interference (UNDP.b. 2003:162; World Commission 2004: 67-69).

In contrast government has the responsibility to enhance the economy's capacity to utilise more labour. It is necessary to develop sector strategies that will aim directly at promoting labour absorption. These should not be seen as separate from an employment strategy, but as vehicles for the realisation of the employment promotion objective. Sector strategies should reflect internal coherence, and should also be coherent in terms of their national and regional interlinkage. Policies that are aimed at supporting these strategies are usually directed at the following: enabling policies, pricing, inputs, innovation and technology, information, infrastructure, the development of regulatory regimes and institutions, incentive structures, the identification of specific activities or groups to be targeted and resource mobilisation. Overall, commitment to the goals of sustainable development requires that policies should move towards rewarding sectors of the economy on the basis of their potential contribution to the national developmental goals (UNDP.b. 2003:162).

The government is currently implementing the policy on (a) the facilitation of access to credit for disadvantaged individuals and communities through the reform of

financial institutions; (b) land reform through restitution, tenure reform and redistribution. This is appreciated, although as will be discussed in the next section, there is a slow progress taking place in this regard. However there should be greater focus and emphasis on (c) projects aimed at uplifting the poor, labour tenants, farm workers, women and emerging farmers, giving them access to land for residential and productive use (d) supporting large, medium and small-scale activities by providing subsidised credit and extension services to these labour-absorbing endeavours; and (e) activating employment through an employment subsidy by encouraging the private sector to take on first time jobseekers and /retraining/hiring retrenched employees. Some kind of political consensus should be established regarding the conversion of increased wealth generated by technological progress – into actual jobs. The building of the institutions instrumental in securing the consensus is also recommended (UNDPb. 2003:162-163).

Government should also promote sectoral programmes characterised by a high level of employment multiplier. The promotion and consolidation of value chains or sectoral linkages that increase the range of employment opportunities are also indicated. Proactive policy measures include (a) support for activities that supplement and fill lacunae in the value chain (distribution, etc.), for specific activities in the spheres of agriculture, manufacturing and services; (b) rigorous co-ordination of public investment projects for maximising their impact on activities that mutually reinforce one another in the private sector; (c) the development of the cluster concept, in the context of economic activities, especially in depressed economic areas; (d) special programmes, such as the public works programme, aimed at those members of a community who cannot be easily or readily absorbed into production employment. It is important that these public works programmes be focused on selected activities specifically those that qualify as promoting the ‘public good’. It is felt that these selected activities will enhance the social infrastructure that supports or underpins private sector productivity (UNDPb. 2003:164).

Expanded labour-intensive public works (LIPW) programme could be a very useful transitional measure that provides dignity and fosters self-reliance while providing jobs, training and skills and work experience. This strategy could be a significant contribution to reducing unemployment. The popular perceptions of public works

programmes are a little skewed and oversimplified – many people see them as schemes that make people “dig a hole one day and fill it the next day”. Properly designed LIPW are very different. They do what no other employment or poverty relief system can – create and maintain socially useful and economically vital infrastructure (roads, schools, facilities in informal settlements and rural areas, waste collection, street cleaning, storm water drains, infrastructure for small-scale farming). LIPW starts to show results relatively quickly because they are self-targeting and they are easily stopped when they are no longer necessary (Bernstein and Dagut 2003: 8).

According to Bernstein and Dagut (2003: 8), national and provincial government departments currently operate several small public works programmes. They argue that in 2000/1, for instance, all of them combined created no more than 80 000 temporary jobs and the total is unlikely to have risen significantly since then. Not all of these projects would fit the strict definition of a properly labour-intensive public works programme. The main reason these programmes have continued to exist on a small scale is because they lack the involvement of the only South African sector which has proved that it can construct infrastructure on a really large scale: the private sector (and corporatised state enterprises such as Telkom and Eskom). This strategy must increase in scale to have the kind of impact on jobs, and on the politics of reform, that the country urgently needs. Designing this kind of strategy must allow for a realistic degree of growth which should have some impact on unemployment and the national morale. This will therefore require extensive private-sector involvement.

Such an ambitious approach is affordable within the country’s fiscal constraints. However Bernstein & Dagut (2003) warn that LIPW schemes that aim to pay the wages appropriate to conventional construction quickly go bankrupt – the benefits of these schemes are thus merely temporary and limited to small groups of contractors and few workers. In order to target the poor effectively and benefit the largest number of poor people over a long period, wages paid on LIPW should be low – well below the minimum wage in the formal, capital-intensive construction industry (Bernstein & Dagut 2003: 8). This obviously impacts on and demands a reduction of the cost of the cost of living. The increasing cost of basic necessities such as food, housing, health care etc. contributes to the high cost of living and impacts on workers’ wage

demands. Policies must focus on controlling the price and accessibility of wage goods. This can be achieved by implementing activities that bypass the necessity for price control. The transaction costs of the labour force could be lowered through planning of transport requirements, housing and industry and regional and local initiatives (UNDP.b. 2003:164).

At the same time, it is true that part of South Africa's long-term capacity to grow its economy, rests on its ability to upgrade the education and training of its human resource, which will eventually result to increased productivity of its citizens. Basic education is critical to ensuring that everyone can participate and benefit in the national economic growth and in the global economy. A combination of a sound investment climate and good basic education turn to be complementary in the long term. A healthy, literate labour force will increase the amount of growth we get from establishing a sound investment climate and strongly increase the poverty reduction benefit from that growth. It is also imperative to remember that education is a goal in itself, a dimension of development, above and beyond its effect on raising incomes. Thus human development does matter to foreign investors because it is indisputable that people are the most important assets. Furthermore, much of the MNCs investment overseas must be in expanding opportunities for people and building their capacity to make the most of those opportunities. One determinant of productivity is the skills that workers are able to apply in the areas of production, experience and training (Hume 2004:4; see also Burger 2003:215-217).

The fact that there is a non-discriminatory school environment (among more than 27000 schools), with access based on criteria other than race or religion, was a very significant achievement in South Africa because it broadened the choice in search for better education. The establishment of new institutional typologies is one of the most recent achievements of the new government. This includes the integration of 150 Further Education and Training (FET) Colleges into fifty, the incorporation of colleges of education into universities, and the merging of technikons and universities in various combinations (UNDP.b. 2003: 23). At the same time government has enacted the Skills Development Act of 1998 that allows firms to claim reimbursement against training costs, and segments of the private sector have introduced initiatives to accelerate worker training. In terms of the Skills Development Levies Act all

employers are required to pay 1 percent of their payroll to the South African Revenue Service. 80 Percent of these funds are transferred directly to 25 Sectoral Education and Training Authorities (SETAs) and 20 percent are transferred to the National Skills Fund. In 2002, 67 percent of the beneficiaries of training were black and over 22 000 learnerships – a type of apprenticeship, have been funded (South Africa Foundation 2003:xxiii; Lewis 2002:14).

However, there is a very true need for the proactive promotion of economic activities that can harness and efficiently utilise the educated human resources that already exist. Policy support should be shaped and directed by taking cognisance of the labour trends and patterns in expanding enterprises or sectors. This could result in the emergence of incentives that encourage a particular area of specialisation and disincentives that discourage another area of specialisation. Just as a specific employment strategy promotes certain employment activities, so the education and training of human resources can be directed toward supporting these activities. This is particularly significant for micro-enterprises, which effectively expand the economic base, which cannot be left to the market forces alone (UNDP.b. 2003: 164).

6.8 Black Economic Empowerment (BEE).

The 1994 multi-party elections brought political freedom to the country however it did not give the new government any substantial power over the economy. The whites, who make up 13.6 percent of the population, still control trade and commerce in South Africa – an unavoidable legacy of decades of apartheid against black people. To help change the situation the ANC government initiated a policy of BEE, which is similar to affirmative programmes adopted in the United States. The purpose of BEE basically involves a balancing act of trying to draw blacks into the formal economy without imposing intrusive regulations that might end up destroying business. So far government has enacted two laws to promote BEE. Firstly, the Mining Charter, which calls for 26 percent of mines to be owned by blacks within a decade. Secondly, Financial Service Charter, which seeks to place a quarter of this sector in black hands by 2010. Government is also trying to integrate BEE principles in trade agreements (Nduru.a. 2004: 1).

Thus even though GEAR as a whole is widely acknowledged to have been a failure to economic development (i.e. economic growth with a lack of the trickle-down effect and disregard of the broad-based redistribution because of increased fiscal stringency), the government currently sees BEE as the centre of its economic growth strategy and an indicator against which performance would be measured. According to the broad definition by the BEE Commission, BEE is:

- An integrated and coherent socio-economic process, located in the context of the country's national transformation programme, the RDP.
- It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens.
- It seeks to ensure broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity.

Members of the ANC's Economic & Transformation Committee (ETC) adopted this approach at the workshop on March 3, 2001. The definition above locates BEE in the overall transformation programme, the RDP, and it argues that the broader and meaningful participation of black people in economic activities is central to growth, poverty eradication and the building of a more egalitarian society. According to the government's view, South Africa's transformation challenges can only be addressed in a context of a growing economy. However, economic growth, whilst being a necessary condition to raise the living standards of the people, is unlikely to reduce the racial and income inequalities of society unless the growth process is accompanied by creative economic and social programmes that address these inequalities, hence BEE. Furthermore, prevailing inequalities, unemployment and poverty have a fundamental impact on prospects for attracting productive investment and thereby reinforce the low growth cycle (ETC 2001: Online).

To emphasise this position President Mbeki in his State of the Nation Address (2005: Online) said that the government was operating from the premise that "South Africa belongs to all who live in it", and that "South Africa's collective future depends on

the ability of all people to understand that the success of black South Africa is conditional on the success of white South Africa and that the success of white South Africa is conditional on the success of black South Africa” Thus BEE serves as evidence of government’s determination to accelerate and promote the redistribution of economic resources in favour of the poor majority in order to reduce the continuing ‘dual economy’. Following South Africa Foundation (2003:xxiii-xxv) there are therefore three attributes in particular that characterise the new wave of empowerment:

The government released its BEE strategy in March 2003. In line with the above-stated definition of BEE, currently there are two categories for empowerment as it relates to company ownership. ‘Empowering companies’ refers to a company with 26 percent black ownership. ‘Empowerment companies’ refers to a company with 50.1 percent black ownership. The strategy is not prescriptive in that government would not set out requirements, but would function as a facilitator and a procurer of goods and services, and an issuer of licences and certain rights to create an incentive for companies to empower. Government is a major source of business in a host of markets, including information technology, financial services, media and publishing, professional services, asset management and many others. Industries where government licensing or similar regulation is a major factor include banking, insurance and other financial services, electronic media, liquid fuels, electricity and telecommunications. For firms in these industries, a strongly empowering stance has now become a necessity for doing business in addition to being a social obligation.

Government has taken a strong but flexible approach to empowerment: It has endorsed the use of a scorecard to measure the extent of empowerment achieved. The scorecard typically takes into account performance in areas such as ownership and control, employment equity and skills development, and procurement and enterprise development. It also allows for contributions to empowerment by the business activities of the firm to be included. For example, the scorecard developed for the financial services industry includes achievement in providing low-income households access to financial services (SA Foundation 2003:xxiv).

Voluntary industry-wide charters: Government have cast this idea in a “carrot and stick” guise. The issue of empowerment is slightly different when considering government tender requirements. State tenders make reference to Historically Disadvantaged Individuals (HDIs) – a category carrying a 25 percent weighting in evaluating tender proposals. HDIs, which indicates black ownership and managerial empowerment levels in business, includes white women in its empowerment measurement (SA Info Reporter 2004: Online). If the company does not have this prerequisite in place, it automatically disqualifies itself from getting tenders. Instead of specific prescriptions, government calls on a positive and serious response by private business in the various sectors – including setting targets and designing tailored approaches through sector-wide charters (SA Foundation 2003: xxiv).

The government’s approach is notable for its flexibility. However, government involvement in the drawing up of charters has been different. In the Mining Charter, government was a primary author and negotiating partner. When the initial draft of a charter for the mining sector was leaked, it caused alarm among investors and share prices tumbled. The experience seemed to indicate that the changes envisaged were too radical for the big investors to tolerate and the government later negotiated an easy target of 26 percent black ownership within 10 years (Hamilton 2005:3). Subsequently, perhaps because of the large market dislocations caused by that process, the trend has been towards targets negotiated within sectors. Government is not absent in that process though, but the key decisions are taken by the sectors.

A notable aspect of the financial services charter is that almost 80 percent of the weighting is attached to progress in broad-based empowerment. An example of this is the commitment to expanding the access of low-income households to a range of financial services. It is estimated that the achievement of the access targets would result in some 8 million adult South Africans gaining access to financial services. Government stepped back from the process for most of the negotiations, allowing the private sector to come forward with solutions. Companies are expected to publish annual BEE reports, including audited scorecards. Implementation of the charter will be monitored by the Charter Council, a body yet to be established. The development of industry-specific BEE charters in South Africa is an on-going process. However, charters have already been developed for several key sectors, including mining, the

petroleum and maritime sectors, tourism and financial services (Hamilton 2005:3; South Africa Foundation 2003 xxiv-xxv).

These are measures viewed as necessary by the ANC's Economic and Transformation Committee (2001:Online) to be implemented, which ensure the emergence of black human capital and black enterprises as dominant economic players with increasing influence. The ANC was and is aware that the inevitable consequence will be the growth of a black middle class but it reasons that this is a necessary step in the BEE process, and can contribute towards transformation in the economy. As a result, Everatt (2005: Online) notes that through this process, inequality has been changing from being race to class-based as a rich black elite has emerged and whites have become proportionately less wealthy. Thus only a small proportion of black South Africans is benefiting significantly from the post-apartheid economic dispensation, and it also seems apparent that reliance on market forces to achieve anything other than gradualist elite redistribution is misplaced.

In principle BEE strategy is both a political and an economic essential. It is an investment in democracy, wealth and security over the long term. The only problem with BEE is that there is no correct balance in the benefits that accrue to the various classes. For example, a recent empowerment deal was criticised by trade unions because a public pension fund bought a billion dollar stake in the state telephone monopoly, Telkom, on behalf of a handful of top officials of President Mbeki's ruling party the ANC. As a result the former Archbishop Desmond Tutu accused Mbeki's government of enriching a few while the vast majority of the population stayed poor. Bishop Tutu's attack was directed to the government's policy of black economic empowerment whereby, in a move to redress the inequalities of apartheid, well-connected black businessmen and politicians got large shares of South African corporations. "What is black economic empowerment when it seems to benefit not the vast majority but an elite that tends to be recycled?" he asked (Meldrum 2004: Online).

The SACP maintains that there are two competing conceptions of BEE in our country today. The one conception is that which focuses narrowly on elite empowerment to the exclusion or without due regard to the overwhelming majority of our people. The

second conception is that of a broad-based BEE principally focusing on the workers and the poor but without excluding elite empowerment. Their argument is that South Africa should accept a broad-based definition of BEE within which to locate even people's own legitimate aspirations to rise in the managerial ranks. For example the SACP has been calling for the workers to have direct say over the control and investment of their pension and provident funds. The SACP argues that this is actually a crucial weapon for advancing a broad-based BEE. As part of this control it implies that workers have a say over the investment of their pension and provident funds, to this end they should seek to promote progressive black managers to manage these assets, under the direct control and supervision of the workers themselves (Nzimande 2005:2-3).

Hamilton (2005:2) quotes President Thabo Mbeki's brother, Moeletsi Mbeki, a businessman who contends that BEE is in reality a political rather than an economic strategy whose aim is to enrich the black business elite with close ties to the government. In response to this criticism, the government has widened the terms of empowerment, which now entails not only the transfer of ownership but also a participation in management and development of skills as discussed above. To this end, both government and the private sector are putting up cash to fund the initiative. Harsch (2001:34) however, notes that although some blacks have joined that ranks of the shareholders and executives in large, white-owned corporations, development experts argue that the real impetus which black economic empowerment needs is to be found in the growth of small local business. Conversely, it needs to be remembered that since 1995, small, black-owned business have experienced great difficulty in locating start-up finance for purposes of launching or expanding their business ventures. These impediments need to be overcome.

Unfortunately even those organisations that seem to promote empowerment and developmental programmes remain unwilling to risk and stipulate that prospective entrepreneurs make their own contribution to the intended business. For example, the Khula Equity Fund, compels the promoter of a business concept to contribute between 15 to 20 percent of investment costs (Department of Trade and Industry (DTI), 2003: 28). Although Mr Erwin stresses that 30-40 percent of his ministry's spending on industrial programmes is devoted specifically to small and medium-scale

business, targeted on black people, he nevertheless acknowledges that black entrepreneurs are still at a serious disadvantage. He argues that whites, because of their greater possession of skills and capital to begin with, have been better positioned to set up viable businesses. They also have easier access to credit at reasonable interest rates. In addition, the small business community does not have a strong enough voice to make their concerns heard. At present only big business has the ear of government in an organised form (Harsch 2001:34).

What is observed here is that the Black Economic Empowerment programme, as part of the GEAR strategy was expected to be the engine that drove the creation of a non-class based economy, yet at the same time, there is evidence that those living in poverty have sunk deeper into poverty and the gap between the rich and poor has widened. Moreover, whereas there was a definite racial cast to the distribution of wealth and poverty in the apartheid era, today there is a growing stratification within African ethnic groups along class lines, with the rich on the top and the abjectly poor at the bottom. As a result critics from the base of the ANC rightfully argue that the BEE strategy is leading to the selective mobility of certain individuals who do not have a commitment to elevating the poor along with them. This is the reason why recent estimates of poverty show that the proportion of people living in poverty has not changed much since the mid 1990s. In 2001 it was estimated that 57 percent of South Africa's population lived below the poverty line (Keller 2005: Online).

Real domestic output growth accelerated through 2004 to reach an annualised 5.6 percent in the third quarter, a rate last seen in 1996, with contributions coming from all sectors of the economy. According to President Mbeki in his State of the Nation Address (2005: Online), the reason for this growth is that the economy is changing from one driven predominantly by consumption to one driven to a greater degree by fixed investment. However in the light of this study and the evidence adduced above, none of the poor people have participated in this growth process. Because of high unemployment, only the educated and the skilled labour force have benefited from growth. This shows that even though government has made poverty eradication its top priority, the problem cannot be solved through economic growth alone. According to the SACP, the key contradiction facing South Africa is that whilst the democratic forces have consolidated their hold over the state power, including many

advances in addressing the social deficit, economic power still remains with the same class forces that were economically dominant under apartheid (Nzimande 2005:2).

The SACP rightfully disagrees with the view that development will only follow growth because economic growth does not automatically translate into benefits for the workers and the poor. To say that growth will in itself translate into development is a trickle-down approach that will not take the country out of the current skewed growth path. In essence, the SACP view is that a market economy, on its own, is completely incapable of distributing the fruits of growth equitably, which is why

- there has been a call for a shift from a pre-occupation with macro-economic policies to a micro-economic approach. That South Africa's macro-economic policy must also reflect its micro-economic priorities.
- Greater effort should be devoted to the mobilisation of the country's domestic resources, human and financial as well as increased investment in infrastructure as a critical foundation for growth and development strategy.
- The key challenge for sustainable development in the South African context would be to develop a growth and development strategy based on job creation and which will only grow the economy by addressing the development needs of the majority of our people (Nzimande 2005:2).

In addition, it is important that South Africa's macro-economic policy reflect a scale of micro-economic priorities. Financial capital is the foundation of global capitalism. Similarly, the South African economy requires a huge injection of capital. The SACP strongly believes that "without a fundamental transformation and diversification of South Africa's financial sector the government can never be able to address poverty eradication nor realise sustainable development and BEE" Nzimande (2005:2). The SACP further claims that the government's approach of employing large amounts of finance capital, and its investment decisions have a significant impact on the country's developmental agenda. Thus, according to Nzimande, the country's pension and provident funds which amount to R1.4 trillion, could be used as capital funding in a national growth and development strategy (2005:2).

The SACP's argument proves a point argued by Abedian (2003: 16) that in fact South Africa does not lack the financial capital required for investment in the productive

assets of the economy. The fundamental problem of the South African economy lies in the fact that local capitalists are loath to invest in productive activities, but rather prefer to invest in financial markets on a global scale. The motive seems to be the reaping of quick benefits at the expense of South Africa's local needs. With unemployment at 41 percent and millions in poverty, the Communist Party is questioning why banks spend billions of rands on empowerment deals while evicting the poor from their homes. This is a futile exercise that does not create wealth or add value to the economy. Thus because of the apparent failure of BEE government has come up with Accelerated & Shared Growth Initiative for South Africa (ASGISA) as an intervention strategy to accelerate growth and employment.

6.9 Accelerated & Shared Growth Initiative for South Africa (ASGISA)

Government has come up with a variety of fresh initiatives that heighten the probability of increasingly robust job creation and this strategy has integrated most of the policy measures and ideas suggested by various organisations and institutions (i.e. UNDP.b. (2003), Oxfam (2001 & 2002), COSATU and SACP from the previous chapter to this one). Through ASGISA the public sector will accelerate infrastructure investment in the underdeveloped urban and rural areas of the country through Municipal Infrastructure Grants, the Expanded Public Works Programme and other infrastructure funds to improve service delivery in the areas of the second economy. This will include the provision of roads and rail; water; energy; housing, schools and clinics; sports facilities and multi-purpose government service centres, like police stations and courts. These programmes serve as an important bridge between the two economies and a significant part of the poverty alleviation programme. Government promised to provide about R372 billion for both these sets of programmes over the next three years (Mbeki 2006: Online)

As part of implementing ASGISA the state-owned enterprises and the public sector will in some cases work in public-private partnerships and make large investments in various sectors to meet the demand for electricity; to provide an efficient and competitive logistic infrastructure; to expand and modernise the telecommunications

infrastructure; and to satisfy the demand for water. ASGISA has also identified particular sectors of the economy for accelerated growth, building on the work done within the context of the existing Micro-Economic Reform Programme (Mbeki 2006: Online). These include:

- Business Process Outsourcing (BPO);
- Tourism;
- Chemicals;
- Bio-fuels;
- Metals and metallurgy;
- Wood, pulp and paper;
- Agriculture;
- The creative industries; and
- Clothing and textiles.

According to Paton (2006: Online), the department of trade and industry (DTI) estimates that BPO could create 25000 jobs in the medium term, given the right government incentives. The special support package that government is looking at involves three elements:

- The marketing of South Africa as a call-centre/BPO destination to the top global multinationals
- Free or subsidised training for staff; and
- Help with the costs of setting up for an initial period.

One of these will involve negotiating cheaper telecommunications costs with Telkom for BPO operations and import parity pricing with regard to steel and chemicals. Government have already reached agreement with the People's Republic of China to protect the country's clothing and textiles sector. Other sectors that are likely to receive a financial injection from government are the labour-intensive or at least, the down stream employment opportunities. The DTI has also included the 'community and social services' to its list of priorities. This involves child-care and home-based care for the ill. These services are viewed as a potentially large job generating sources in the second economy (Paton 2006: Online).

Based on this background, government business and labour are to embark on a new joint skills development initiative – a Joint Initiative on Priority Skills Acquisition (JIPSA) will be launched to respond to the skills challenge in as practical a manner as possible. ASGISA would also focus on encouraging small, medium and micro enterprise (SMMEs) growth in line with broad-based BEE and the development of women and youth. Particular attention will also be paid to issues involving access to capital, the training of entrepreneurs, marketing assistance, and development cooperatives. According to President Mbeki (2006: Online), government would reform its procurement programme with the aim of redirecting the purchasing patterns of departments in the direction of SMMEs, which would provide departments with their goods and services. Government would further ensure that SMMEs are paid timeously for their goods and services. However, it is necessary to point out here that South African experience has shown that unfairness and corruption is rife in government procurement systems and unless this is not properly dealt with many SMMEs might be detrimentally affected.

Government does not mention what role it foresees for MNCs in the Asgisa programme. However, Asgisa forms part of government's national programme for political-economic transformation and makes provision for multiple stakeholders. In terms of the anticipated role that MNCs should play in this regard it is worth noting that foreign investors in South Africa cover the full spectrum of MNCs, from smaller companies to global giants and this is a sign that they are dominating many sectors of the South African business (Gelb 2002:7), which include sectors that are identified by ASGISA above. Among others, both national and foreign MNCs have signed the different business and trade charters for BEE. Thus, it expected that through ASGISA there would be an interaction through partnerships between government, MNCs and small local enterprises, especially in infrastructure provision.

The Business Process Outsourcing (BPO) that is mentioned by the ASGISA policy is also conceded by Zybrands (2006) that outsourcing of appropriate services to the private sector is sometimes a solution to overcome the lack of funds or capacity (2006: 155), and this also helps to boost small enterprises.

In terms of conventional wisdom, economic growth expands the material base for the fulfilment of human needs. However the link between the two is neither automatic nor unidirectional. Hence, as the UNDP Report, *The challenge of sustainable development in South Africa*, concludes it is the quality of growth that determines whether it genuinely serves human needs. If economic growth does not create sufficient jobs or a better livelihood, people are deprived of more than a livelihood and are robbed of opportunities to develop their abilities, and their self-respect and dignity are consequently undermined (UNDP.b. 2003: 170). Similarly, as discussed in the previous chapter, the correlation between economic growth and job creation is not directly proportional. The overall effect of the weakened link between economic growth and employment is that it lessens the impact of growth on poverty reduction. This can be a serious problem because it simply means that the rich are getting richer; the poor poorer, while the conditions for future social instability are increasing. This is the most important consideration for South Africa's economic policy makers as they prepare to implement ASGISA.

Great pressure has been exerted on the 'accelerated' aspect and ASGISA's growth targets up to the present moment. The ASGISA growth targets demand an average expansion of 4.5 percent from 2006 to 2009, rising to 6 percent in the period 2010 to 2015 (Creamer 2006: Online). The most important question relates to the aspect which is not as yet absolutely clear: how is this growth going to 'shared'? It is fairly obvious that this 'sharing' ideal is based on rigorous attention to the public infrastructure. In order to fund this sector, government can effectively deploy resources gleaned from the wealthier sectors of society. Government can focus on this sector, and in addition, the social sectors that involve the most marginalised members of society. However Creamer (2006) warns that because of the pressing needs of the so-called 'first economy' especially with regard to energy and logistics, top priority will be given to projects that embrace those needs. However the overarching growth targets will have to be met, and should not be undermined by a shift in focus.

ASGISA also makes reference to the improvement of skills at all three tiers of government, and more specifically, at local government in a bid to deliver bulk services. This is laudable, but the problem of status on the third tier remains. This will only be resolved when municipal managers and city engineers are given greater status

and authority; if this is not accomplished, the drain on the third-tier resources will continue. ASGISA will have to be delivered and implemented by the top people at municipal level. Although the ASGISA programme stresses the need for 'second economy' integration, the instruments and mechanisms that exist to achieve this end appear to be somewhat inadequate and vague. In the final analysis, the success of ASGISA in a complete full sense will depend on whether the poorest quartile of South Africans benefits twice as much as the richest quartile. If this is not achieved, then ASGISA will probably follow the fate of GEAR, and achieve only mixed success at best. In its quest to reach higher growth levels, ASGISA may ironically and unintentionally entrench social inequality, rather than eradicate it (Creamer 2006: Online).

A positive aspect of this policy, however, is that government policy is becoming sharper as evidenced by numerous initiatives that have gone beyond macro reforms and are focusing on the micro reforms that were rightfully argued for by the SACP. Government envisages its new industrial policy as working closely with the private sector, not by picking winners in the old-fashioned way but rather by removing constraints to investment. It is therefore interesting to note that government has moved away from a hands-off, trickle-down-type philosophy to one where it realises that it will have to become directly involved in generating growth and in ensuring a greater degree of redistribution (Creamer 2006: Online).

6.10 South Africa and multinationals in global perspective

Despite a very fluid economic scenario, there is a clear hierarchy of states which are ranked in terms of their roles and functions. One of the characteristics of the division of countries within this global system is the emergence of middle powers in the developing world. South Africa is now often labelled an emerging power, apparently referring to its position as a regional leader and its position in the broader or global political system as a possible middle power (Schoeman, 2003:349; Spence, 2004: 42-43). The term 'emerging regional power' is also used to describe South Africa, as well as countries such as Brazil and India. The concept 'middle power' has been applied to countries such as Canada, the Netherlands, the Scandinavian states and New Zealand. The term 'middle power' in a global context,

refers to the size and rank which places countries on the international division of labour in which they have the opportunity of exerting a type of moral influence on the international system, a role they accept and actively seek to play. Spence (2004: 44-45) adds that emerging powers must also have a considerable economic capacity, i.e. an efficient agricultural sector, a sizeable manufacturing sector, well-established economic institutions (central bank, stock exchange and regulatory structures) as well as prudent economic policies that keep inflation down.

According to Schoeman (2003:350-51), although their position or rank is determined by the structure of the international system, their role and functions are not. Structure gives them the room or opportunity to take up a certain role. They support the process of international organisation because of their interest in a stable and orderly environment, and not because they seek to impose 'an ideologically pre-conceived vision of an ideal world order'. Being middle powers, they cannot impose their own vision of an ideal world in the presence of the superpowers. They then logically choose to exert influence at the multilateral level where they can build consensus around certain issues. By implication, therefore, a middle power is one that is active in international organisations, supporting the objectives of international peace and security. They are always subordinate to or in the direct presence of the superpowers and act as interlocutors bridging the space between the powerful and powerless in the international system.

South Africa seems to prefer the use of multilateral forums rather than bilateral diplomacy as a tool for exerting influence. In the tradition of middle powers, the objective of multilateral diplomacy is to strengthen 'a rules-based system which limits the possibility of unilateral actions by major powers', while the practical advantage is to provide the opportunity for smaller states to participate on an equal footing on the world stage (Schoeman 2003:354). In 1999, the US pharmaceutical industry and vice president Al Gore lobbied to stop South Africa producing cheaper versions of a generic drug. Bristol-Myers Squibb, Glaxo Wellcome and Pfizer, which produce the medicines needed to treat Acquired Immune Deficiency Syndrome (AIDS), had South Africa charged with WTO rules regarding patents and intellectual property. South Africa challenged the Americans and won the case due to a loophole in the WTO's ruling on trade-related aspects of intellectual property rights (TRIPS). This allows South Africa to produce cheaper drugs because the WTO recognises

AIDS as a national emergency and because the drugs are needed for public non-commercial use. Even President Thabo Mbeki admitted in an interview that: “A lot of the discussion ... about the health and treatment of people does seem to be driven by profit” (Desgranges 2003:3).

Thus South Africa, as ‘middle power’ exerts influence in occupying a position of leadership. Because of this, it has strong leverage against MNCs and the WTO, and represents not only its own national interests but also those of the global South. In regional terms, President Mbeki and Foreign Affairs Minister, Nkosazana Dlamini-Zuma stand in the vanguard of the New Partnership for Africa’s development (Nepad), which requires active and concrete involvement of business if it is to succeed.

Most of South Africa’s top companies declared their public support for the Nepad initiative at the Southern Africa World Economic Forum summit held in Durban in 2002. These include Anglo American, ABSA, De Beers, Eskom, Sanlam, Sasol and SABMiller. At the international level, the Nepad Business Group comprises leading business organisations with broad constituencies inside and outside Africa, such as the African Business Roundtable, the International Chamber of Commerce, the Commonwealth Business Council, the Corporate Council on Africa, the Canadian Council on Africa and, the International Business Leaders Forum (Dlamini 2004:173).

Even though South African companies were already operating in African countries before Nepad was established, South African trade has only really taken root, over the last five years and opened up huge economic opportunities for profitable investment. Mbeki’s foreign policy initiatives have been aimed at making Africa safe for sustainable investment inflows.

According to Dlamini (2004), Mbeki’s decision to pioneer Nepad should be seen within the wider context of his political and economic philosophy, which appreciates the need for a robust and productive economy as a pillar of a credible and democratic system of governance. For Mbeki, foreign policy is a toolkit to make South Africa and Africa prosper, both economically and otherwise.

According to the World Investment Report (Sauvant, 2004:33), South Africa is regarded by far as the most attractive country for MNC activities in Africa. Services that have shown significant growth are telecommunications, electricity, management and trade. Thus, for example, South Africa's FDI in telecommunications and information technology has overtaken that in mining and extraction.

Several factors have driven South Africa's outward FDI in the rest of Africa (Sauvant, 2004:24):

- The liberalisation of South Africa's regulatory regime for outward FDI has facilitated the expansion abroad of firms from that country.
- The liberalization of South Africa's trade and exchange controls has raised competition in local markets and encouraged firms to look abroad. At the same time, privatization and liberalization in other African countries have allowed South African companies to acquire firms in the region.
- South African firms often have technological advantages over local competitors in Africa and greater familiarity with African conditions than MNCs from other regions. By the end of the 1990s, South Africa had over 900 MNCs; seven of them were among the top 50 non-financial MNCs from developing economies in 2002.

Some MNCs – Eskom, Sasol, Vodacom SA – have started to expand regionally in the past number of years to countries such as the Democratic Republic of the Congo, Mozambique, Namibia, the United Republic of Tanzania and Zimbabwe (Sauvant, 2004:25).

6.11 Conclusion

Those who command resources in society have powers, thus the market necessarily influences the actions of the state. People who command power in our society can influence the use and distribution of resources. It is thus difficult to make a distinction between states and markets. However Strange (1996:44) and Gilpin (2001:290) argue

that there is a shift from state to markets that has actually made political players of the MNCs. Besides the fact that MNCs influence the foreign policies of states, Strange argues that they themselves are political institutions and exercise political relations with civil society. The global production system is seen to be changing from manufacturing to services. These are services like transport services on land, sea and air; communication services by mail (conventional and electronic), computer link-ups, data-base information services; financial services, not only in banking but in insurance and re-insurance, and many more. This production structure is most evident in rich industrialised countries, but it nevertheless fundamentally affects the whole world economy. No enterprise in a developing country can operate in and sell on the world market without making use of more than one of these services and this fact increases the dependency of developing countries on developed countries.

Thus, by opening up their economies to the world market, developing countries have certainly increased their chances of competing successfully as export manufacturers – but at the price of accepting increased dependence on the financial and marketing services provided by large firms in the developed countries. According to Cosatu, even though multinational firms are the surest connection of developing countries to the global marketplace, without which these economies cannot prosper, FDI's position should be dictated by the **developmental needs of the country and should form part of a carefully constructed national industrial strategy** [My emphasis]. Transforming the economy involves policies that promote the basic needs producing sectors, as these sectors have great employment-generating potential – at least in the short run. Cosatu warns that, FDI often means that decisions relating to investment, production and jobs are dictated not by local needs, but by the planning requirements of multinationals. The South African government sometimes confuses this fact when privatising basic needs like water to MNCs.

South Africa still needs to attract more foreign direct investment in order to expand its production capacity, but it has been argued in this study that South Africa is also capable of funding these activities from within because of the strength of its financial markets. Instead, South African companies choose to invest offshore for quicker profits. In terms of savings, South Africa's gross domestic savings rate is low (at 17 percent of GDP per year) compared to other middle-income countries with an average

rate of 25 percent. Since 1994 corporate sector savings have equalled 87 percent of South Africa's cumulative gross domestic savings, compared to 13 percent for the household sector and dis-saving by the state. This means that South Africa relies heavily on corporate savings to fund all forms of investment, as well as government deficits. With regard to employment, evidence shows that in most cases investing firms fall into the smallest categories and employ between 10 to 50 or less than 100 workers. But contrary to the conventional wisdom of "unemployment growth", there is evidence that labour employment has been increasing (about 1.1 additional jobs) between 1995 and 1999, perhaps doubling since 1994, but this was not sufficient to accommodate the demand for jobs by new entrants to the labour market, which increased by about 3.1 million individuals. As a result, the economic phenomenon of jobless growth has not occurred in the economy, but rather a situation of poor employment growth has emerged.

According to economists and economic commentators, there are two reasons for this poor employment growth. Firstly the situation can be imputed to policies designed to achieve the restructuring of the economy through export promotion in an increasingly liberalised economy; and secondly, other "stabilisation" policies that have focused on lowering inflation and the deficit by administering contractionary measures in the economy. Neither of these two policy thrusts has placed emphasis on job creation. These policies included low tariffs in certain sectors, where foreign investment has seen the warehousing of local production facilities. In the dairy industry, local production facilities have been converted to importing and packaging facilities resulting in job loss. As far as job losses are concerned, the most affected industry is the clothing and textile industry, which is still losing personnel even at the writing of this study. Given this information, evidence shows that there is an element of displacement of local industry and loss of jobs as a result, which proves that foreign investment is not always such a positive development as is generally accepted.

In the exports arena, since 1994, there has been a revitalisation of the manufacturing sector, which has rested on a successful export performance. Since 1994, manufacturing output has grown by a quarter, contributing about a fifth of the overall economic growth. Sustained increases in annual real growth have had a remarkable impact in certain sectors. For example, vehicle exports are now up by 683 percent on

the 1994 performance. The government's Motor Industry Development Programme (MIDP) allows exporting car and component firms to earn rebates on import duties, thus allowing firms producing and exporting a limited range of products to import a variety of products at virtually zero duties. In this way, the programme encourages local production sites to produce higher volumes at a greater degree of specialization.

However, although the automotive industry is a success story in South Africa, we still have companies like the former Delta Motors, now called General Motors, which violates workers rights and the Basic Conditions of Employment Act. The company was blamed of bad faith negotiations on various issues raised by the trade union NUMSA, including the unilateral change of sick leave policy which had not been resolved, and conducting house visits on workers who were off sick, infringing their right to privacy. The trade union claimed that the new sick leave policy led to the dismissal of 25 workers and disciplinary measures taken against 400 workers between 2002 and 2003. Delta was accused of having restructured departments and retrenched workers using this policy, and it also failed to comply with the multi-skilling agreement and refused to pay workers who graduated to new grades after training. The company maintained that they should be reassessed before compensation.

With regard to organisation and management of MNCs in South Africa, evidence shows that acquisitions are particularly prominent in the medium-size categories between 101 and 1000 employees, while partial acquisitions dominate the largest category. Greenfields on the other hand are more prominent in the smaller firm categories. This underlines the greater maturity of South Africa's equity market, which enables asset purchases of this nature. Foreign investors in South Africa cover the full spectrum of multinationals, from small companies with operations in three or four countries to global giants (Gelb 2002:7). This points out that even though foreign companies do not qualify as monopolies, they still dominate many sectors of the South African business. In terms of BEE and ownership of MNCs, evidence reveals that foreign investors own a large (36 percent) proportion of the market capitalisation of the JSE. The vast majority of South Africans with an interest in the country's listed corporations hold that interest through a domestic institutional investor such as a pension fund, a collective scheme or an insurance policy. It is estimated that 38 percent of JSE market capitalisation is held by South African institutional investors

on behalf of millions of beneficiaries. This pattern is a sign of a mature and sophisticated market, but it tends to shield the identity of the ultimate beneficiary. This type of institutional capitalism also tends to blur the ultimate locus of control.

South African companies use capital-intensive technology, which is not beneficial for a country with a high unemployment rate like South Africa. There is a positive relationship between the type of technology used and the loss or creation of jobs. Most companies in South Africa are seen to be in the skill and knowledge-intensive financial services, IT and pharmaceutical sectors. They also have higher investment rates and higher average wages. Furthermore, the value-chain describes the interdependence between firms in terms of being sources of inputs and markets for outputs. However, the study finds that the iron and steel industry exhibits a lack of co-operation and co-ordination in this regard. This has reinforced a historical tendency to favour larger-scale upstream industry over labour-intensive downstream sectors. This reinforced the historical bias to larger-scale upstream industry over downstream more labour-intensive sectors – South Africa's iron and steel sector is much larger than the other metal products sector. While access to low cost inputs underpins the competitiveness of the iron and steel industry, import-parity pricing means these competitive advantages are not necessarily passed on to metal products firms.

On the other hand, however, South African firms play an important role in making the benefits of innovation and technological progress available to the country's people. Even though new technology is often sourced from abroad, South Africa has its home-grown component and ranks 28th in the world in terms of patent registration. SASOL (by far the largest company in basic chemicals) stands out in terms of its ongoing R&D programme as well as continued international linkages governing technology. For example, in 2001 Sasol announced the construction of the first gas to liquids (GTL) plant in the world. A GTL plant converts natural gas into high quality, low emissions diesel. The South African cell phone companies, MTN, Vodacom, and more recently Cell-C, have revolutionised access to telephone services. Government has taken the view that the best way to increase access for the poor is to require Telkom to roll out 2.6 million fixed lines to under serviced areas by 2002. Ultimately 600 000 of these lines were taken up by customers. This technology also impacts

positively on the development of small businesses (South Africa Foundation 2003:xxix; Machaka & Roberts 2003: 693).

Although ownership advantages are firm-specific, competitive strengths of MNCs arising from e.g. innovation, managerial and organisational skills, financial or natural resources, and network advantages, many of these advantages are also closely related to a home country's economic characteristics and competitive strengths.

In terms of state sovereignty and MNCs, there is mixed evidence with weaknesses and strengths. Democratic South Africa started on the wrong footing, by privatising the basic needs, like water services to the MNCs and by not monitoring the situation carefully. As a result, public health was jeopardised. Cholera affected thousands of people and even killed some who had to turn to polluted, cholera-infected water systems after they could no longer afford the water charges of the new, privately owned water companies (Nowicki 2003:3). Conversely, in April 2004 the Competition Commission initiated its investigation into the South African motor vehicle manufacturers on allegations relating to car price fixing in terms of Section 49B(1) of the Competition Commission Act No. 89 of 1998. Toyota South Africa was found guilty of maintaining high vehicle prices, which contravened Section 4(1) (b) of the Act. Toyota agreed to pay an administrative penalty of R12 million and promised to give its full co-operation to the Commission after individuals had lodged complaints. If these contraventions are corrected this will stimulate price competition in this industry, benefiting both customers (i.e. distributors and dealers) and individual consumers (Moneyweb Holdings 2005: Online).

At the same time, South Africa's long-term capacity to grow its economy rests on its ability to increase the productivity of its citizens, which necessitates human development in terms of educating and training them for increased production. A combination of a sound investment climate and good basic education turn to be complementary in the long term, because a healthy, literate labour force will increase the amount of growth we get from establishing a sound investment climate and strongly increase the poverty reduction benefit from that growth. That is why government has implemented the Skills Development Act of 1998 that allows firms to claim reimbursement against training costs, and segments of the private sector have

introduced initiatives to accelerate worker training. However there is a very real need for proactive promotion of economic activities that can harness and efficiently use of the educated human resources that already exist. Policy support should be shaped and directed by taking cognisance of the labour trends and patterns in expanding enterprises or sectors. Just as a specific employment strategy promotes certain employment activities, so the education and training of human resources can be directed toward supporting these activities. This is particularly significant for micro-enterprises because they effectively expand the economic base, which cannot be left to the market forces alone.

CHAPTER 7. CONCLUSION: THE WAY FORWARD

The study has come to the conclusion that countries experience FDI and international trade as largely beneficial to them and if qualified, one can draw the same conclusion with regard to South Africa. International trade and foreign investment expand markets, facilitate competition and disseminate knowledge, creating opportunities for growth and human development. Trade also raises productivity and increases exposure to new technologies, which can spur growth, but as UNCTAD has shown, liberalising trade does not necessarily ensure human development. Trade expansion guarantees neither immediate economic growth nor longer-term economic or human development. Internal and external institutional and social preconditions largely determine whether and to what extent a country or population group benefits from trade. As the Oxfam report, “Harnessing trade for development” has shown, the outcome of trade liberalisation depends on the level of initial inequality, and particularly the degree to which productive assets such as land, credit, skills, and government services are equitably distributed prior to the period of trade liberalisation and export promotion. The allocation of resources and assets cannot therefore be left solely to market forces but require a certain degree of government intervention to ensure that resources are distributed more equitably throughout society (2001, Online: 18-19).

In chapter five the argument was put forward that FDI and trade are inextricably interlinked. As the 1996 UNCTAD Report on Investment (1996:9 Online) has argued that interlinkages between trade and FDI must be taken into account if the contribution of each towards growth and development are to be maximised. However, the intertwining of FDI and trade presents new challenges for national policy makers and makes it imperative that national policies on FDI and trade should be co-ordinated. The need for co-ordinated policy approaches acquires greater importance with the emergence of integrated international production systems, as investment and trade flows are the means of support of such systems.

This study endorses the warning sounded in the aforementioned report that inconsistent policies that view and address trade and investment separately risk creating an environment in which these separate policies may neutralise each other,

but when formulated and implemented coherently, national trade and FDI policies become mutually reinforcing in support of national growth and development (UNCTAD, 1996:16).

The reason why this study argues in favour of a qualified degree of state regulation of MNCs and FDI activities, is because of the large degree of economic inequality that still exists in South Africa today. Despite the abolition of apartheid, black South African citizens still live in a world very different from that of the whites. This does not imply that government is doing nothing, but there is still much that needs to be done by government to alleviate the widespread poverty that besets this country. As discussed in the study, the South African whites, along with foreign investors, still own most of the country's property. More than half of the black population lives below the poverty line and more than 30 percent of rural children are stunted by malnutrition. Illiteracy among blacks is still staggeringly high at 33 percent. This clearly illustrates the dichotomy with regard to development in the country: South Africa is still divided into a first world economy and a second world economy.

It was argued, furthermore, that the results of the liberal economic reforms of GEAR are not positive in all respects. Economic growth has been generally sluggish, and privatisation, liberalisation, and foreign direct investment have in some cases led to a greater concentration of industry in the hands of a small entrepreneurial elite. Venter (2001:17) has shown that the ANC's GEAR policy of reintegrating South Africa into the world economy by lowering trade barriers, scrapping import substitution and restructuring the economy along neoliberal lines, was detrimental to job creation and has contributed to the loss of between 500 000 and 1 million jobs in the private sector of the economy.

Thus, even though South Africa liberalised its economy with the hope that it would attract foreign investment, evidence shows that government policy focus has been on the financial and macroeconomic dimensions of capital flows, with a narrow concern as to whether the country is receiving 'enough' investment, and what incentives are being devised to lure as many foreign companies as possible to invest in the country. In general, evidence extracted from the UN reports, organisations like Oxfam (2001 & 2002), economists like Marais (2001) and many others, share a view that although

trade can play an important role in poverty reduction, it is clear that there is no single trade policy prescription that will suit the needs and circumstances of all countries.

These authors believe that selective intercessions decide the nature and success of a country's industrial development. Thus, countries must design and implement strategic trade policies within the framework of their national development needs, taking into account their impact on poor people, environmental sustainability, gender equity, and basic rights. In the view of these economists, South Africa can only succeed if it harnesses local capital investment for developmental projects that guarantee high rates of return, and when large portions of the surplus can be reinvested in targeted activities. South African government policy, however, refrained for the most part from such 'selective interventions'. With the South African government whilst not quite hands-off, the approach became one of highly restrained facilitation within a context that is largely governed by the reaction of market forces.

They argue that South Africa, like any other developing country, is thus vulnerable to the world system in which capital influences the weaker economies of the world to conform to the requirements of global accumulation, which means that if globalisation is unavoidable, the weaker economies will inevitably fail to keep up. This leads a few authors like Marais (2001) and Bond (2000) to conclude that a completely different frame of mind is required regarding the urge to always draw level with the developed world. They argue that South Africa has to focus on what arrangements offer sufficient flexibility and leeway for the achievement of national developmental priorities and in countering the global trend of sustained poverty in many of the developing countries.

The other concern among the developing countries is that the WTO rules on trade are not fair to the developing world, and that they need to be changed to meet the development goals of developing countries. Because of the WTO rules, economic globalisation creates winners and losers. The question concerning this phenomenon is how successful is South Africa in creating policies that will help it avoid the problems in the international sphere and that are designed to stimulate growth and development in the domestic sphere?

In terms of MNCs in South Africa, evidence shows that despite extensive legislation to protect labour concerns in the industrial sector, FDI flows are not sufficient to accommodate the vast majority of poor and unskilled labour. The study also proves that MNCs are not performing well in certain industrial sectors like Mining, Clothing and Textiles and Agriculture because of a stronger rand. As a result, retrenchment is still very much a reality in South Africa.

The problem that developmental specialists experience regarding foreign direct investment by MNCs is that they do not generally supply the kind of products or require the kind of labour and other local resources and capabilities that people at the lower end of the economic scale need or can afford (Dunning, 2005: Online). MNCs are companies of “focused excellence”⁷ that usually specialise in high tech operations and skills, supplying products for the top-end of the consumer industry, but that does not mean that MNCs have no contribution to make towards economic and social development. Given the specialised competencies that MNCs possess, they become repositories of much of the technology and management skills that the service sector of big business require for pushing South Africa towards growth and development.

The study therefore concedes that South Africa as a middle power nevertheless stands a sporting chance of achieving its set of development goals. Apart from the capital inflow from overseas-based MNCs to South Africa, South African-based MNCs have been building their own international production systems and succeeded in securing considerable ownership advantages in the global economy over the past 10 years. As the World Investment Report has pointed out, by the end of the 1990s, South Africa had over 900 MNCs, seven of which were among the top 50 non-financial MNCs from developing economies in 2002 (Sauvant, 2004:25). Some South African MNCs have become major world players in their industries: AngloGold of South Africa has become the world’s largest gold producer when it acquired the Ashanti gold mine of Ghana in 2003, and SABMiller (with its primary listing in the United Kingdom) has become one of the world’s largest breweries, controlling more than 160 factories in over 40 countries.

7. A term used by Clem Sunter to describe world-class companies in his scenarios on South Africa during the 1990s.

As has been pointed out in the previous chapter, South Africa is a middle-income country that has the economic sophistication and the legislation to make big business contribute their share to development. The considerable income generated by these huge corporations can and are being utilised in several ways through enabling legislation and taxation to contribute towards South Africa's national development goals.

Political economy takes its point of departure from the assumption that there is a reciprocal relationship between politics and economy, which is mutually strengthening. Taking our cue from Balaam & Veseth (2001: 14-15), the argument was put forward in chapter 2 that the role of government in this respect is to balance the needs of society and the business sector through legislation and good governance. Government needs to provide legislation and physical infrastructure (roads and communications), necessary to attract FDI. One of the main functions of the state then is the allocation of scarce resources in such a manner that it provides good governance and service delivery in an equitable manner to all of its citizens. In this context, it is thus primarily the responsibility of the South African government to formulate a plan of national development for economic and social transformation and the alleviation of poverty, but it cannot achieve this without economic growth.

Markets on the other hand, allocate resources in such a manner that they maximise company profits. But in order to achieve their objectives, big business needs to invest in society and plough back some of their profits to achieve the desired economic growth they need.

This argument introduces a theme which is suggested, rather than fully developed in this study, namely that of public private partnerships. It is generally acknowledged that an effective development strategy will only be enhanced by dynamic public-private partnerships and there are many examples attesting to this truth. It has been argued in this study that the issue of unemployment remains one of the major challenges facing South Africa. It is one of the areas that affords much scope for an expansion of co-operative partnerships between government and big business.

Government seems to have a positive attitude towards and good relations with MNCs as is reflected in the regular meetings between the President and private business. In view of the above, this study recommends that the solution to poverty alleviation lies in improving local government regulations as well as the local socio-economic base by increasing the availability of basic services like water, reliable electricity supply, local business development services, quality roads and transport systems through government partnerships with the private sector. As Zybrands (2006: 155) has pointed out, outsourcing (or the contracting out) of appropriate services to the private sector is sometimes a solution to overcome the lack of funds or capacity. This is specifically the case where such an approach is cost-effective, or the municipality lacks the remuneration capacity and service expertise to profitably employ appropriate people on a permanent basis.

Provincial and local government should therefore amend their policies to put stress on the procurement of goods and services from companies that seek to use labour more intensively in their areas of activity. Since regions or districts with weak investment climates tend to increase poverty, a key measure to ensure that poor people benefit from economic growth is to strengthen the investment climate throughout the country, rather than just in the highest-capacity and often wealthier regions.

Government does not necessarily see public-private partnerships functioning in terms of MNCs, but also in terms of smaller national firms that have signed the different business and trade charters for BEE. This does of course not preclude the establishment of similar partnerships with MNCs where their input can be used effectively, provided strict directives are in place and a compulsory competitive bidding process is followed.

Dunning (2005: Online) however, gives a timely warning in this regard. In an interview on foreign direct investment trends in Britain, he cautioned that one should regard MNCs as engines for economic growth, and not as “charitable organisations, although one likes to think that many of them recognise they do have a social responsibility to help reduce the level of poverty, disease and suffering so prevalent in the world’s poorest countries”. For this reason, it is critical that the concept of public-private partnerships between government and MNCs should be studied and stimulated.

Government must specifically bring the South African MNCs into the scope of its programmes for national development and transformation and offer appropriate inducements so that they can understand what is expected of them, with regard to the provision of technology, management skills, and markets necessary to launch and consolidate home-grown development.

The Department of Trade and Industry (DTI) has helped to create an environment conducive to economic growth and expansion. Although home-based MNCs would probably have preferred the “rule of the market” and private enterprise to prevail, free from any bonds and trade regulations imposed by the state, one has to conclude from the success of MNCs and big business in South Africa, that neither the South African government nor MNCs are totally unscrupulous and that something of the concept of "the public good" informs both business and governments’ decisions.

By involving MNCs as partners, the state avoids both the political pitfalls of either lending too much of a free hand to MNCs to influence economic decisions, or of impinging too heavily upon the economic affairs of the private sector and of prescribing to MNCs how they have to conduct their affairs. The specific advantages to the state are that it shares in the utilisation of new technology expertise, diversifies risks, and improves government’s operational efficiency in international trade. To the South African based MNCs, it means gaining access to new markets, particularly in Africa, and a similar diversification of risks and expansion of trade to new areas for investment where government was instrumental in opening them up for trade and investment.

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ABSTRACT

The main goal of the study is to identify advantages and disadvantages of foreign direct investment (FDI) by multinational corporations (MNCs) and to determine whether the specific methods adopted by MNCs in South Africa are to the disadvantage of the country, even if the MNCs perform a generally useful role, and if so, to suggest measures for minimalising the disadvantages. Hence, the study tried to analyse how the benefits of economic growth stimulated by MNCs can also be translated into investment in social and economic infrastructure, and thus contribute to a reduction of poverty and inequality.

Historical conditions laid the foundation for South Africa's mushrooming manufacturing industry after World War II. On this foundation, an alliance of white mining and agricultural interests, built a state capitalist regime, which excluded the black majority from any meaningful participation in the government of the country.

After the collapse of the Soviet Union and the socialist economic order, the capitalist, neoliberal approach to the political-economic world order became the dominant view. Neoliberal writers reason that, in order to promote domestic economic growth and development, governments of less developed countries should encourage investment by MNCs through the adoption of "appropriate" economic policies. Part of these policies is a package of measures including deregulation, privatisation, currency exchangeability and fiscal conservatism.

A key issue that the study deals with is the changing relationship between states and markets, and how narrow economic growth created by elitist MNCs and FDI can be translated into broad-based socio-economic development objectives. A central issue is how government should create a business friendly climate to stimulate capital investment but simultaneously ensure that sufficient capital and commitment are made available for the socio-economic development programmes of the country. Economic development studies show that trade liberalisation creates losers as well as winners if it is not well managed. The costs of adjusting to more open trade policies frequently fall on people living in poverty, particularly in the short and medium term. Evidence gleaned from UN reports and development organisations like Oxfam suggest that although trade can play an important role in poverty reduction, it is clear that there is no single trade policy prescription that will suit the needs and circumstances of all countries.

The question is asked whether the policy focus of GEAR is not too narrowly concerned with the macroeconomic dimensions of capital investment and therefore does not sufficiently concentrate on measures for broad based economic empowerment of the people. Although South Africa performs poorly in certain trade and industrial sectors to convert economic growth into national development, government measures such as Black Economic Empowerment ensure that MNCs contribute towards broader national development goals.

The Department of Trade and Industry has helped to create an environment conducive to economic growth and expansion. MNCs from South Africa have been building their own international production systems and are contributing to the pool of capital wealth which can in turn be utilised to expand national development schemes.

OPSOMMING

Die hoofdoel van die studie is om die voordele en nadele van direkte buitelandse investering deur multinasionale korporasies (MNK's) te bepaal, en om spesifieke handelswyses wat moontlik tot nadeel van die land mag strek, selfs al vervul hul oor die algemeen 'n nuttige rol, te identifiseer ten einde die moontlike nadele te minimaliseer. Derhalwe het die studie probeer aantoon hoe die voordele van ekonomiese groei wat deur MNKs teweeggebring word, omgeskakel kan word in sosio-ekonomiese ontwikkeling en dus kan bydra tot 'n vermindering van armoede en ongelykhede.

Historiese omstandighede het die grondslag gelê vir Suid-Afrika se groeiende vervaardigingsbedryf na Wêreldoorlog II. 'n Alliansie van blanke myn- en landboubelange het op gemelde grondslag 'n staatskapitalistiese regime gevestig wat swartes uitgesluit het van enige betekenisvolle deelname aan die regering van die land.

Na die ineenstorting van die Sowjetunie en die sosialistiese ekonomiese wêreldorde, het die kapitalistiese neoliberale orde die heersende beskouing geword. Neoliberale skrywers het verkondig dat regerings van minder ontwikkelde lande MNK-investering deur "paslike" ekonomiese beleid moet aanmoedig ten einde plaaslike ekonomiese groei te bevorder. As deel van die pakket moet beleidsmaatreëls soos deregulering, privatisering, gelduitruilbaarheid en fiskale konserwatisme geskep word.

'n Sleutelvraag van die studie handel oor die veranderende verhouding tussen state en markte en die omskakeling van 'n MNK-elite se eng ekonomiese groeigerigheid, na breed-opgesette sosio-ekonomiese ontwikkelingsdoelwitte. 'n Sentrale oogmerk is om te bepaal hoe 'n sakevriendelike omgewing vir die stimulering van kapitaal-investering geskep kan word, terwyl terselfdertyd verseker word dat voldoende kapitaal beskikbaar gestel word vir die land se sosio-ekonomiese ontwikkelingsprogramme. Ekonomiese ontwikkelingstudies toon dat handelsliberalisering wenners en verloorders oplewer as dit nie goed bestuur word nie. Dit is dikwels mense wat in armoede leef wat die gevolge van 'n oop handelsbeleid op die kort- en mediumtermyn moet ontgeld. Bewyse uit die VN en ander ontwikkelingsorganisasies soos Oxfam se verslae dui daarop dat daar nie 'n vaste handelsvoorskrif kan wees wat vir die behoeftes van alle lande kan geld nie.

Die vraag word gestel of die beleidsfokus van GEAR nie te eng gemoeid is met die makro-ekonomiese dimensies van kapitaalinvestering nie en genoegsaam konsentreer op die vestiging van 'n algemene grondslag vir die ekonomiese bemagtiging van mense. Alhoewel Suid-Afrika swakker vaar in sekere handels- en industriële sektore om ekonomiese groei in nasionale ontwikkeling om te skakel, verseker maatreëls soos swart ekonomiese bemagtiging dat MNK's bydra tot die breër nasionale ontwikkelingsdoel.

Die Departement Nywerheid en Handel het grootliks daartoe bygedra dat 'n gunstige klimaat vir ekonomiese groei en uitbreiding gevestig word. Suid-Afrikaanse MNK's het hul eie internasionale handels- en produksiesisteme ontwikkel en dra sodoende by tot die kapitale poel van rykdom waaruit kapitaal weer aangewend kan word tot uitbreiding van die nasionale ontwikkelingskemas.

KEY WORDS

Apartheid

Black Economic Empowerment (BEE)

Democracy

Developing countries

Economic Development

Economic Growth

Foreign Direct Investment (FDI)

Multinational Corporations (MNCs)

Neoliberalism

South Africa