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Investigating the progression of South Africa's developmental state through the Black Industrialist Programme

By

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DECLARATION

I, **Mlondi Blessing Fika Vilakazi,** declare that:

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[redacted]

ABBREVIATIONS AND ACRONYMS

ADLI	Agricultural Development Led Industrialisation
ANC	African National Congress
BBC	Black Business Council
BBEComm	Commission on Black Economic Empowerment
B-B BEE	Broad-Based Economic Empowerment
BDC	Botswana Development Corporation
BDP	Botswana Democratic Party
BEDIA	Botswana Export Development and Investment Authority
BEE	Black Economic Empowerment
BIP	Black Industrialist Programme
BPMC	Black-Politician Monopoly Capital
BUSA	Business Unity South Africa
CEDA	Citizen Entrepreneurial Development Agency
CIECD	International Economic Co-operation and Development
CODESA	Convention for a Democratic South Africa
COSATU	Congress of South African Trade Unions
CSR	Corporate Social Responsibility
CUSA	Council for US Aid
DBSA	Development Bank of Southern Africa
DD	Democratic Developmentalism
DFIs	Development Finance Institutions
DTI	Department of Trade and Industry
EDB	Economic Development Board
EDTEA	Economic Development, Tourism and Environmental Affairs
EED	Empowerment for the disadvantaged
EMIA	Export Marketing & Investment Assistance
EPB	Economic Planning Board
EPRDF	Ethiopia People's Revolutionary Democratic Front
EPU	Economic Planning Unit
ETC	Economic Transformation Committee
FAP	Financial Assistance Programme

FDI	Foreign Direct Investment
FELDA	Federal Land Development Authority
FIG	Foreign Investment Grant
GEAR	Growth Employment and Redistribution
GTP	Growth and Transformation Plan
HCIs	Heavy and Chemical Industries
HICOM	Heavy Industries Corporation of Malaysia
HSRC	Human Sciences Research Council
IDS	Industrial Development Strategy
IDC	Industrial Development Corporation
ILO	International Labour Organisation
IMP	Industrial Master Plans
IPAP	Industrial Policy Action Plan
JSE	Johannesburg Stock Exchange
JTC	Jurong Town Corporation
KBE	Knowledge-Based Economy
KMT	Kuomintang Party
MERG	Macro-economic Research Group Report
MFDP	Ministry of Finance and Development Planning
MITI	Ministry of International Trade and Industry
MICI	Ministry of Commerce and Industry
MNCs	Multi-national Corporations
MOEA	Ministry of Economic Affairs
MOFED	Ministry of Finance and Economic Development
MOF	Ministry of Finance
MTU	Manpower and Training Unit
NDP	National Development Planning (Botswana)
NDP	National Development Plan (South Africa)
NEDB	National Economic Development Board
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NEP	New Economic Policy
NDR	National Democratic Revolution
NGC	National General Council

NIPF	National Industrial Policy Framework
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development
PAP	People’s Action Party
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PIRLS	Progress in International Reading Literacy Study
RDP	Reconstruction and Development Programme
SACP	South African Communist Party
SAPs	Structural Adjustment Programmes
SDPRP	Sustainable Development and Poverty Reduction Program
SEIFSA	Steel and Engineering Industries Federation of Southern Africa
SME	Small and Medium Enterprises
SMMEs	Small Medium and Micro Enterprises
SOEs	State-Owned Enterprises
SPV	Special Purpose Vehicles
STPB	Singapore Tourism Promotion Board
TIMSS	Trends in International Maths and Science Study

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ABSTRACT

South Africa has made considerable progress in terms of economic development since the dawn of democracy in 1994. However, the pace and distribution of that progress have not been equitably reflected across all demographics, especially between blacks and white. With a decline of manufacturing, the 'developmental state' has featured as a strong theme in the ruling African National Congress's discourse to try and reignite industrialisation in the country. Under this framework, one of the policies driven by the South African government is the Black Industrialist Programme that aims to increase the manufacturing output whilst empowering black people. This research article investigates this programme as an industrialisation vehicle and seeks to understand its contribution to advancing South Africa's developmental state framework.

The study employed qualitative research methods using open-ended interviews for primary data; documents collected from various sources for secondary data. The study draws from the rich existing body of literature on the developmental state and compares it with the series of overarching policy initiatives that have been enacted in South Africa. It uses the framework of the developmental state to investigate whether BIP is positioned to reignite South Africa's industrialisation.

Findings show that the BIP policy will have an impact as its funding model is a significant shift from past practices by assisting aspiring industrialists through grants and preferential procurement measures. However, the study argues that the shift from focusing on general industrialisation to narrowing it to black industrialisation brings with it new constraints in advancing a developmental state. Using race to promote a course towards industrialisation will have long-term detrimental effects, and also the ruling party's cadre deployment policy, challenges with education and skills training, and economic planning imperatives will all militate against the assumed positive impact of the BIP. The research concludes that the programme will contribute to the developmental state concept's progress but will be limited in praxis because the state does not possess a holistic overarching economic developmental plan. The study contributes to the analytical discourse of developmental states by offering context-specific analysis in industrialisation paths for societies addressing racial, economic inequality.

1. CHAPTER ONE: INTRODUCTION AND BACKGROUND

"How does one go about the restitution of political or economic rights without trampling on the toes of those who have enjoyed and who continue to enjoy those rights? The answer is, one cannot."

(Sachs, 2007)

1.1. Introduction

South Africa has been preoccupied with the economic development question since its transition from apartheid to democracy in 1994 (RSA, 2000, ANC-NGC-Report, 2005, Mbeki, 2009). The ruling party, the African National Congress (ANC), identified the triple challenges of poverty, unemployment, and inequality as the most significant challenges South Africa has to overcome (ANC-NGC-Report, 2005). The compounding factor is that the country has a history of apartheid - institutionalised racism - that had far-reaching consequences in terms of demographic policies, laws and the economy of the country.

Although statistics show that there has been marked economic growth in South Africa since 1994, that has not necessarily translated into an economically inclusive society (StatsSA, 2017b, Bell et al., 2018). The goal of empowering the previously disadvantaged peoples has dogged successive administrations, and there have been policy actions that have been taken towards addressing this challenge, and these have produced mixed results (Naidoo and Marrie, 2015). The country faces many more challenges, and unemployment, according to recent figures, sits at 32,5%, with employment among young people at 55%, while the level of inequality is one of the highest in the world (Gini Coefficient of 0.63) (Oxfam, 2018, StatsSA, 2021).

The challenge for South Africa's government has been the penetration in terms of numbers of black people in different sectors of the economy especially manufacturing. The overall ownership participation by black people, particularly the black women, and the percentage of the black designated groups and black new entrants who hold rights of ownership in entities are low (B-BBEEComm-Report, 2018). While there has been a considerable rise in the black middle class, poverty for black people, in general, has largely remained since the advent of multi-racial democracy (StatsSA, 2015). This is in spite of the state's efforts to champion measures to end poverty and the plight of previously disadvantaged communities and black people in particular. This has elicited the government policymakers to shift and reconfigure what else BEE can achieve.

In a country with such skewed economic patterns, state intervention is usually appealing for leaders. This study aims to examine the policy of the Black Industrialist Programme as it is emerging as the government's foremost policy in terms of empowerment of black people. The policy covers industrialisation, employment creation, as well as economic development in general. It comes as there has been a waning of BEE's policy impact, with some in opposition policies in South Africa calling for it to be wholly scrapped for a non-racial policy. The promulgation of this policy also extends to the realm of the developmental state, as has been the wish of the ANC's government for intervention in the economy to drive development.

Black Economic empowerment is a policy of the state to assist the previously disadvantaged majority of black people. BEE means the viable empowerment of all black people through diverse but integrated strategies (RSA, 2014). Such a policy is anchored on the statist notion in economic development literature that the state ought to intervene in the economy, an idea that has seen a global resurgence since the 2008/2009 economic crisis (UNECA, 2013, Piketty, 2014). The policy is controversial in that it seeks to propel black people into business ownership and control of the economy, and this is said to be at a disadvantage to white people. Also, because of the corruption that has been attached to the policy as it has been perceived as a ploy by the black elite to access the country's wealth (Seekings, 2015a). Although BEE has existed since the dawn of democracy in South Africa, the pool that benefited from BEE has been limited and elitist. Therefore it has not achieved the desired results in terms of bringing in more diverse people into the economic fold (BEE-Commission, 2001).

BIP is directed at black manufacturing companies by making it easier for needy businesses to access funding opportunities and other available government assistance (RSA, 2015). While manufacturing is one of South Africa's declining sectors (because of premature deindustrialisation), it still retains job-creating potential in a country where low skilled workers are present in large numbers. It is in this sector that BIP intervention is focused, and this study probes whether such a focus on BEE's policy can halt the deindustrialisation that has taken place in South Africa for the past 30 years. Because of South African history of racial apartheid and economic subjugation of black people, both economic empowerment and state intervention are imperative. This study uses qualitative research methods to examine the policy of the Black Industrialist Programme and how it relates to the progression of South Africa as a developmental state.

The reconfigured BEE, although not different from its foundational theory, has now moved to embrace industrialisation through a programme called the Black Industrialist Programme (BIP). This programme was established in 2015 by the Department of Trade and Industry (DTI) and is aimed at increasing the number of black entrepreneurs in the manufacturing sector across different industries through financial support, as well as a suite of technical support (RSA, 2015a). The research by the DTI had found that there were not enough black participants in the manufacturing sector. The policy thus seeks to address this and change the face of manufacturing in South Africa to reflect the demographics, but also create employment through industrialisation and expand the ownership of the economy to sections of society that were previously at a disadvantage (RSA, 2015a).

The need for a plan to develop the country's economy led the ANC to evoke the idea of a developmental state. According to Bresser Pereira (2019), every industrial revolution in the world happened under the leadership of a developmental state. Empirical studies in the East Asian region revealed that rapid economic development is a result of a strong and committed state that is willing to pursue policies and is able to bring the whole of society in one direction to end poverty and kick-start economic prosperity (Chang, 2008). In Malaysia, for example, the policies that were targeted at *Bumiputera*[1] were vital in driving development to end racial, economic inequality (AbuBakar and Connaughton, 2019).

With literature on developmental state clearly positioning the state as the most prominent role player in executing policies for economic development, this study aims to use developmental state theory to question the Black Economic Empowerment policies that have been driven by the state whether they have assisted in bringing about the developmental state. It seeks to examine the successive overarching policies and whether they have made an impact on industrialisation within the developmental state framework of state intervention. The South

[1] Bumiputera is a status granted to collection of indigenous people or children of either parent who is indigenous in Malaysia for empowerment purposes. It literally translates to 'son of the land' or 'son of the soil'. The ethnic Malays' population which is about 19.78 million out of a population of slightly over 32 million citizens in the country was disadvantaged during the British protection (AbuBakar, 2019).

African ANC government has explicitly stated that transformation is an essential factor in pursuing a competent, capable, and democratic developmental state.

Elevating racial importance to advance the developmental state has not been studied extensively in development literature in South Africa, and another one of this study's objective is to examine the BIP concept within the concept of developmental state as well as look at this policy's putative impact. Although some countries like Malaysia and Thailand have pursued this form of redress (mostly affirmative action), it has not been explicitly instrumentalised with the sole purpose of achieving industrialisation (Lee, 2015).

Development Finance Institutions are very important in South Africa and for emerging economies (Griffith-Jones and Ocampo, 2016). Developmental state theory shows that there is a need for financing in regards to development, and this role has to be fulfilled by the state through development finance institutions (Khadiagala, 2015). In East Asia, these financing instruments were vital for the liquidity of their firms, whether it was the *keiretsu* in Japan or the small businesses of Taiwan. In South Africa, DFIs has also played an outsized role in developmental financing, especially where it concerned the growth of small businesses. SEDA, IDC, NEF and other DFIs have been instrumental in supporting state-sanctioned policies through financing. Financial support and availability of non-financial support have been presented as a change in the context of the Black Industrialist Programme. The last objective of this study is to examine the role that such support as an aspect of the developmental state.

1.1.1. Brief Background of Developmental State and Black Economic Empowerment

Developmentalism is a concept that was used in East Asia, where countries from that region registered high economic growth in the latter part of the 20th century. Although sometimes an all-encompassing "buzzword," developmental state is defined as the state's explicit intervention in the economy to drive industrialisation and economic growth (Bagchi, 2000). The state's role is thus said to be developmental if it makes economic development the top priority of government policy and is able to design effective instruments to promote such a goal (Evans, 1995). The state uses a combination of political power and economic expertise to transform and direct the policies towards high economic growth and industrialisation (Pande, 2018).

Broad-Based Black Economic Empowerment (BB-BEE) means the viable economic empowerment of all black people and is aimed at improving the participation of black people in the economy (RSA, 2014). The policy of BEE has undergone an evolutionary path in order to deal with emerging challenges that the country faces in terms of redress and economic inclusion. This evolution has led to one of the interventionist policies under the BEE banner called the Black Industrialist Programme (BIP) that is being championed by the Department of Trade and Industry (DTI). The government's policy of BIP is intended to spark black-led industrialisation in South Africa because there has been a low penetration by this group in the manufacturing sector (RSA, 2015a).

This section briefly introduces the concept of the developmental state as well as the policy of BEE.

1.1.1.1. Developmental State

Throughout the history of the international political economy, the role of the state in the economy has been widely debated with differing views between the 'market-driven' approach (capitalism, liberalism or neo-liberalism) and the 'state-driven' approach (communist or socialism). The rise of the 'Asian Tigers,' whose economies arose remarkably in the late 1960s and 1970s, invoked such a debate with a new kind of political-economic model called developmentalism or a developmental state (Johnson, 1982).

After the successes in East Asia, many developing countries sought to use the same model to grow and industrialise their economies, and Africa was not left out as countries like Ethiopia and Botswana have attempted the model (de Wee, 2016). The concept implies that the state must intervene and build a developmental state which "is a necessary condition for it to grow its economy; reduce the high levels of poverty; inequality and unemployment in the country and be able to diversify its economy" (Edigheji, 2010: vii). Even though the goal of economic development is still the same, Bresser-Perreira (2014) and Williams (2014) believe the developmental state of the 21st century faces many challenges, and it will have to adapt and shed some of its past elements and embrace 'new developmentalism' in order for the concept to be relevant. Hsu (2018) also points out the fact that, in the 21st-century setting, there is a penetrating need to consider aspects of the human development paradigm to create people-centred development, distributive economic growth, enhancing human capabilities, equity, sustainability, productivity and empowerment. Also, funding for development and industrialisation is growing to be one of the most important parts of state intervention as states aspire to industrialise through equitable means (Mazzucato, 2015). This all means that aspiring developmental states will have opportunities to adopt a new kind of developmentalism but shall also face challenges because the blueprint is forever changing.

(i) Developmental State Concept in South Africa

Studies have shown that it is difficult to abstract a model out of a historical occurrence, as the conditions that may have suited such an occurrence might not be there to support the present application. For example, Wade (1990) showed that market 'guidance' in East Asia came about essentially by a combination of factors such as land redistribution, control of the financial system, prioritising industrialisation, and promoting and acquiring the technology. South Africa has been trying to follow a developmental state by attempting to implement some of these measures like land redistribution, prioritising industrialisation, and enjoin the state to direct and lead economic activities in the country. These attempts by South Africa's government towards a developmental state course are evident in most policy documents and overarching policies presented by the government and the ruling party since 1994 (ANC-NGC-Report, 2010, RSA, 2011a, RSA, 2015b).

The ANC did not produce any substantial economic policies until 1990 after its unbanning, although demands from the party for redistribution date back to the 1940s (Seekings, 2015b). In name, the developmental state was first mooted in literature by 1993 (in South Africa) Macro-economic Research Group Report (MERG), which in its analysis, submitted that the state must play a central role in providing leadership and coordination for widely-based economic development activities and "must intervene directly in key areas to facilitate this development. If there were to be any positive outcome in the economic policies of the new South Africa, one particular emphasis would have to be targeted at uprooting poverty, inequality and unemployment. To achieve these objectives, the state structure will need to be changed. The machinery of government, in addition to being democratic, with strong mechanisms of accountability and transparency, must serve the purpose of a developmental state" (MERG Report, 1993: 16).

The new government started grappling with socio-economic problems as soon as it took office in May 1994, and it was confronted by vast challenges and the government attempted to alleviate them by introducing the Reconstruction and Development Programme (RDP)

(1994) and Growth Employment and Redistribution (GEAR) (1996). Although both sets of policies were declared the state's official programmes, they differed in their direction. With the labour union COSATU and SACP supporting RDP, this overarching programme envisaged a 'growth through redistribution strategy' where the state would be actively engaged in managing the economy and competitiveness. GEAR (supported by private capital), on the other hand, propagated fiscal prudence and a market-aligned development path, where growth would be paramount before any redistribution could take place (Terreblanche, 2002).

The predicament that South Africa found itself in was that as much as the state was against interfering in the economy, the market's ability to fast-track the inclusion of black people in the mainstream economy was slow (Jack, 2007). Thus, for economic development and inclusion of black people, it would have to be fostered through careful state intervention – as it would not come of its own accord. It would require active leadership by a capable developmental state (ANC-NGC-Report, 2015). Through programmes such as ASGISA, the state aimed to intervene directly in the economy and reignite industrialisation that had been long envisaged by the government.

The challenge that has been on the rise in South Africa is that of corruption by state officials, and this has also been linked to BEE and the so-called 'tenderpreneurs' (Coetzee et al., 2012). With multiple programmes being rolled out and contracts being signed off at all spheres of government, including by the state-owned companies, there has been a growing tide of corruption and malfeasance (Georgieva, 2017). Such high levels of corruption resulted in the establishment of a commission to investigate state capture and corruption. The cost of corruption in the South African public sector is high and, if left unchecked, will derail economic progress and plunge the country into crisis.

Some critiques have attacked the idea that South Africa could be a developmental state at all. Fine (2010) states that there need to be visible measures that address the economic development situation for South Africa to call itself a developmental state. However, the ANC's Strategy and Tactics document from its NGC (2015: 120) read:

> *"The main goal of state transformation is building a developmental state that provides effective basic services and with capabilities to take forward a far-reaching agenda of national economic development, whilst at the same time*

placing people and their involvement at the centre of this process. This objective is the guiding principle for the ANC's management of the State".

The RSA (2011a) states that there will be "critical interventions to build a professional public service, and a state capable of playing a transformative and developmental role in realising the vision for 2030." While the ANC mentioned in its documents that a developmental state must be implemented in all corners of the state, there seems to have been a failure from the state to enforce it.

(ii) BEE and the Black Industrialist Programme: A Brief Background

BEE is a uniquely South African policy of the government aimed at economically empowering black people who were economically excluded during colonialism and apartheid. Thus the country needs more black people participating in the economy, and there needs to be a concerted effort from the state and business to make sure that this happens (Patel and Graham, 2012). Economic Empowerment can be described as those policies that seek to provide opportunity and enfranchisement to the disadvantaged; stimulate the private sector through incentives; cultivate community participation; bring self-reliance and long term growth in all aspects of society (Iheduru, 2004).

Three evolutionary waves have occurred regarding BEE. The first practice of BEE came about through the established, primarily white-owned firms, which gave shares and equity to black individuals, and this wave did not really cause any meaningful inclusion of black people in the economy, nor did it expand the economy. Under this narrow BEE was the notion that once black people owned parts or acquired equity in some firms, they would then achieve transformation through employing more black people into higher positions, and thus, the economic transformation would materialise. Mbeki's (2009) controversial argument about this era is that BEE itself was the brainchild of white oligarchs who controlled the key segments of the economy by the end of apartheid. Therefore, it was pivotal for them to co-opt leaders from the ANC and other progressive movements by giving them assets. These lenders were buoyed by the optimism of the 1994 political agreement, which promoted alliances with aspirant black capitalists by lending them money. This strategy was a way for white companies to mitigate against political risk, manage their exposure by luring in connected Black individuals, and adapt themselves to the new political elite.

As the last century was coming to an end, the Black Business Council (BBC) asked the government to institute a commission to look into the matter and resolve some of the concerns that had arisen and affected black capitalism. The Commission on Black Economic Empowerment (BBEComm) was then established and was tasked with developing a vision and a strategy for BEE. The BEE approach that followed in the wake of the establishment of the BEEComm is the second wave of the policy. One of its successes is that the commission was able to give a clear definition of BEE, but even more importantly, there began a process to develop the BEE Act in terms of the South African Constitution. BEEComm's recommended state intervention to build meaningful participation for Black people. It linked BEE with government Departments, and it campaigned for the establishment of respective industry charters in the key segments of the economy, such as mining (Jack, 2007). This was a critical wave as the Commission looked at all flaws that had been experienced with a comprehensive BEE, and this overhauled policy had to be broad-based – thusly phrased Broad-Based Black Economic Empowerment (BEEComm, 2001).

This new and revised BBBEE sought to target the creation of jobs, support to industries and also desired to build genuine Black entrepreneurs. This then presented two strands of BEE, which were, on the one hand, a passive growth-focused BEE which posits that Black people must play a part in the economy with no explicit change in the structure of the economy; and on the other hand, was the BEE that sought to challenge the concentration of the economic resources in the hands of the few. This wave was the most crucial part since it coincided with other policies such as ASGISA that were enacted to catapult South Africa's economy through industrialisation and export-led growth. The significant impact of it was that it aimed at ensuring broader and meaningful participation in the economy by black people to achieve sustainable development and prosperity (BEE-Commission, 2001).

This evolution means that each wave is not its own product or stand-alone but has some facets stemming from each preceding wave (Luhabe, 2007). The current wave is the Black Industrialist Programme, the BIP. The BIP is a government intervention that has been presented to fast-track BB-BEE. DTI (2015: 42) pronounced that it should be "a priority of industrial policy to foster a stratum of majority-owned and - managed Black manufacturing enterprises with a long-term interest and commitment to the manufacturing sector." The document placed the Black Industrial Programme (BIP) as the quintessential model to assist potential Black businesspeople in expanding their businesses and, with that, help in industrialising the country. According to the RSA (2015a), the initiative is underscored by the purposeful and targeted approach to draw in Black people into industrial sectors and support them through financial and non-financial instruments and this programme is expressed through the National Industrial Policy Framework (NIPF) and the amended BB-BEE policy.

This section covered a brief introduction to the literature and background pertaining to the developmental state and the Black Economic Empowerment. An extensive literature survey is presented below in chapters two and chapter three of this research study. The critique of the literature on developmental state BEE is covered extensively in the study offering the paradigmatic arguments that have been proffered by those that oppose these concepts, those who want to make them better, and also those who are interested observers of these subjects.

1.2. Research Aim and Objectives

1.2.1. Aim

The aim of this study is to examine the emerging policy of the Black Industrialist Programme as a form of economic development and how it relates to the progression of South Africa's developmental state and the imperative of Black Economic Empowerment.

1.2.2. Objectives

- Examine South Africa's industrialisation and economic development within a developmental state framework

- Examine the Black Industrialist Programme's concept of industrialisation in the context of the developmental state

- Ascertain the role that the BIP model will have in driving South Africa's industrialisation as a process for Black Economic Empowerment

- Examine the role of DFIs' industrial financing as an aspect of the Developmental State.

1.2.3. Research Questions

- What is the state of South Africa's Industrialisation within a developmental state framework?

- What is the Black Industrialist Programme's concept of Industrialisation in the context of the Developmental state

- What is the role that BIP will play in effecting BEE through driving South Africa's industrialisation?

- What role does DFIs have in financing BIP in the context of the developmental state?

1.3. The study problem (Rationale of the study)

This study aims to examine whether equitable growth will be achieved in South Africa through a developmental state and the Black Industrialist Programme. This research notes that the existing literature on the developmental state is voluminous and covers the extensive ground. Whilst this is welcomed and offers a measure to view developmentalism as applicable in other parts of the world, the literature is slanted mainly towards East Asia even though there are some contributions from different parts of the developing world like Africa and South America. The countries in East Asia mostly have homogenous populations, which usually do not filter into matters of race and identity politics and history of racial, economic subjugation. Malaysia and Thailand, because of their diversity, are just two countries that developed policies towards changing their economic ownership profile and making their economies inclusive. Even with the rise of what is termed 'the new developmentalism,' this approach is also silent on the affairs of race and how countries that were ravaged by racial exclusion can use developmentalism to a significant effect. This study sought to bring the concept of race into the developmental state framework and highlight it in South Africa because, in such a country, economic development and empowerment of black people are synonymous, and for the country to truly develop, one cannot happen without the other.

The Black Economic Empowerment (BEE) policy has proven all too slow in improving the economic environment and raising the standard of living for the Black majority. The amended Broad-Based Black Economic Empowerment (B-BBEE) also aimed at changing this scope but has been slow in redistributing wealth and growing the Black entrepreneurship pool that is necessary to help the country grow the economy at a faster rate and foster redistribution.

In view of the failure of BEE to transform the economy wholly, the state has sought to find other means to intervene directly to assist in transformation. In the latter years, the African

National Congress (ANC), South Africa's ruling party, has stated categorically the need for the country to be Developmental in its approach, meaning that it sees the need to intervene in the economy directly. The Black Industrialist Programme (BIP), devised by the state through the Department of Trade and Industry (DTI), has been such a programme aimed, again, at catapulting many Black people in the country to be industrialists and to contribute to the expansion of the economy and also to increase employment and Black representation in business. The BIP departs from the preceding passive BEE programmes in that it intends to unlock Black businesses' manufacturing potential and fund existing Black Industrialists to raise them to the next level. The programme is a direct intervention by the state to alter the economic demographics of the country. Accordingly, this study sought also to investigate whether this new programme contributes towards building a developmental state.

By investigating the progression of SA's developmental state through Black Industrialist Programme, the study is to contribute to the building of a context-specific body of literature for the country's developmental state and development policies in general. The study observes that there is a gap in the understanding and also a lack of agreement on the approach with regards to South Africa's development trajectory, especially as far as race is concerned. In addition, the study also contributes to the contextual paradigm of the developmental state in historically economically segregated states. Also, the study establishes new knowledge on the Black Industrialist Programme research. The intersectionality of the economy, politics, and race is at the core of this research.

1.4. Research Methodology

This study applied the qualitative research methodology in order to examine the emerging policy of the Black Industrialist Programme as a form of economic development and how it relates to the progression of South Africa's developmental state and the imperative of Black Economic Empowerment. Black Industrialist Programme is a fairly recent policy, and therefore it is important to know qualitatively the *raison d'être* of the policy and what it can achieve in terms of industrialising South Africa, thereby getting the country to the developmental state. A point to be noted here is that BIP is a relatively new programme and there has not been so much written about it aside from newspaper articles and government reports (Manthata and Kwinda, 2015). Qualitative research, according to Rich et al. (2018), is concerned with gaining insights into specific cases from which they can construct a detailed understanding of broad phenomena. This method is based on inductive thinking, the reasoning that involves the identification of patterns in data set to reach conclusions and build theories (Leedy and Ormrod, 2021).

1.4.1. Data Collection Methods

This particular study was conducted in South Africa, and all target participants were interviewed in the country. For inquiry, this research reviewed the literature on countries that have the experience of developmental state; in addition, it looked at the Black Economic Empowerment in South Africa and the practice of empowerment in general since 1994. This is in line with the requirement of qualitative research, which according to Strydom and Bezuidenhout (2014), is to purposefully seek and select participants or sites that best assist the researcher in understanding the problem, the phenomenon, and the research question.

The research made use of interviews with the stakeholders that are involved in driving the policy both at a policy application level (government) and at a practical level (business associations). Open-ended questions were used to draw the primary data (personal communication) and also used the data collected from libraries and journals. For this study, a total of seventeen interviews were conducted. These interviews that were conducted assisted in refining the themes of research that emerged from these conversations. To ensure the confidentiality of each of the respondents, the names will not be divulged. This is done to protect the integrity of the research study and also respect for respondents' perspectives and independence. The interview schedule is attached as an appendix. Where they are quoted or referenced in the text, they are referred to as 'respondent one; respondent two, etc.'. These interviews were conducted live in a face-to-face conversational format, as well as telephonically. This made the use of probing questions easier to field, and this method is a useful tool in qualitative research, especially in cases where the respondents tend to be evasive, subtle, and vague with their responses (Leedy and Ormrod, 2021). This study used this method of probing as informed by the objectives of the study as this would have an impact on the empirical responses provided for this qualitative study.

Purposive sampling was selected to pursue this study because of its suitability for such academic inquisition. There were criteria that were used to select individuals and organisations because of their significance in the study. However, sampling techniques that were used meant that included were some of the organisations were not in the initial scope, and some were cast out that had been initially thought would contribute. This did not, however, handicap the study in any significant way, nor did it alter or weaken it. This undertaking was mainly informed by considerations of data saturation considerations, as some of these organisations overlap and duplicate duties (such as with the DFIs). Not all DFIs were interviewed because of logistical and time constraints. However, their input is important, and some considerations were taken that the information that they hold is readily available in publications, and they also have annual reports that they publish each year. So, ordinarily, their lack of representation did not hamper the study in a significant manner.

1.4.2. Population

This study selected the important stakeholders that are (and will be) important in the Black Industrialist Policy. The first interviewees targeted were those that worked for the government in their official capacity in the fields of transformation and economic development at the DTI. These individuals are central to both policy-making and the application of the policies advancing economic development through BEE. This is important, as individuals were interviewed for this matter, including a provincial departmental official (KZN EDTEA) and others from the national department (DTI). The second group that were interviewed were the business groupings in the country that are important in industrialisation (manufacturing) and are integral stakeholder as far as industrial policy-making is concerned.

Thirdly, the individuals with intimate policy-making experience in South Africa were interviewed. Those who have either worked for the state or consulted with the government in various capacities as academics or specialists. These people were selected for their knowledge and expertise on matters that deal with businesses, as well as their knowledge of BEE and economic development in general. There were no strict criteria in selecting these individuals. Lastly, the DFIs, which fund the small businesses that drive industrialisation in the country, were selected. DFIs were included as the main stakeholder, especially as far as developmental funding is concerned. The careful selection of these entities and individuals assisted in this research, especially in obtaining information that is not easily accessible in their published documents and secondary data sources.

1.4.3. Analysis and Interpretation of Data

Although there is no conventional prescript for compliance when analysing, interpreting, and evaluating qualitative data, all forms of qualitative analysis seem to be based on three procedures: data reduction, data display, and conclusion. This study applies the procedure of thematic analysis and interpretation of data, and this assists in getting to the aims and objectives of the research as elaborated on above. In doing data analysis in this particular thesis, thematic coding was used to produce the main reference points from empirical interviews. Regarding the main themes of transformation, manufacturing, industrialisation, skills development, government and business support, as well as economic development, developmental states. This undertaking begins with getting familiarised with the data, its content, and its context. This strategic process assisted in decreasing the time spent on voluminous and repetitious information. This process which involves selecting, simplifying, and transforming data to make it more manageable and understandable, requires the researcher's choice about the emphasis, minimisation and elimination of data from the further study. It also called on the researcher to be privy to words that might not be necessarily the same but may imply the same meaning in this research (e.g. empowerment and transformation), and thus these were consolidated. In this research, data analysis included the synthesis, evaluation, interpretation, categorisation, comparison, and pattern finding in the data collected. The research was then able to provide descriptions as served by the respondents' raw data, and they were then grouped together in categories to make sense of all the themes that emerged from this data. This study tabled all the data that was received and looked for threads of similar data received as well as recurring themes from the respondents. In the end, themes were developed around certain arguments of topics and analysed using the secondary data already tabled in the theoretical review sections in chapters two and three. This enabled the comparison of data to see where it fitted in within the broader literature or whether it brought in newer strands of information.

1.4.4. Ethical Issues

This research followed four basic ethical research underpinnings:

1. *Respect for persons* – this requires a commitment to ensuring the autonomy of research participants and, where autonomy may be diminished, to protect people from the exploitation of their vulnerability. The dignity of all research participants must be respected. Adherence to this principle ensures that people will not be used simply as a means to achieve research objectives.
2. *Beneficence* – this requires a commitment to minimising the risks associated with research, including psychological and social risks, and maximising the benefits that accrue to research participants.
3. *Justice* – this requires a commitment to ensuring a fair distribution of the risks and benefits resulting from research. Those who take on the burdens of research participation should share in the benefits of the knowledge gained; therefore, people who are expected to benefit from the knowledge should be the ones who are asked to participate.
4. *Respect for communities* – this confers on the researcher an obligation to respect the values and interests of the community being researched and, wherever possible, to protect the community from harm.

The people who participated in the study did so with the full intention to do so, and this was demonstrated by the signing of a letter of consent (Appendix B). Anonymity/confidentiality has been maintained by not revealing the names of those participants who may deem it inappropriate or uncomfortable to do so. All data collected will be securely stored at the University of KwaZulu-Natal for a period of five years as required, after which it will then be disposed of in accordance with instructions from the Ethical Clearance Committee and guided by the policies of the university.

1.4.5. Limitations of the Study

There were some limitations on this study that would have made the difference in data collection and analysis. This research selected participants guided by the objectives of the study, and this assisted greatly to the effect that there were major hindrances encountered. Most of the participants provided invaluable information for this study; their views, notwithstanding, may not represent the sentiments of other individuals in similar positions and entities that were not interviewed. The important limitation placed by a study such as this one is that it is not easy to access key decision-makers, be it in government, business, or consultants. There being high-profile makes it difficult to access and waiting periods tend to be longer, which then limits the study as some of the people that were supposed to be interviewed could not be accessed on time scheduled for the study. Also, the 'newness' of the policy made it impossible to establish contact with all the beneficiaries, as some had just started the process of being part of the programme, also surveying all potential beneficiaries could not happen because of costs associated with undertaking such a task. All these combined to make access to all the information related to the study a challenge.

1.5. Structure of the Thesis

Chapter One presents the introduction and background to the study. The chapter is laid out in terms of the rationale, objectives, and methodology. It furthermore gives the background to the whole research project, providing current developments around the concept of the developmental state and Black Economic Empowerment and briefly covering the literature. It elucidates the important points presented in the thesis and brings a background for the remainder of the study. The chapter moves on to lay out the methodology employed in this study and how it relates to the objectives of the study. It also states how the selection of participants was undertaken and how that data was analysed and presented. The chapter identifies the BEE policy as one of South Africa's home-grown ideas, and it has been operated under an interventionist policy regime that has been evolving since 1994. With the NDP in place, it is a big question whether this particular overarching policy will assist in the economic development of the country. Also, the introduction of the Black Industrialist Programme signals the state's continued attempts to impact the economy of those who were affected by apartheid and also in absorbing these people into the formal economic structures.

Chapter Two delves into state intervention by providing an extensive discussion on the relevant literature on the character of the developmental state. The chapter contains the presentation of literature about the rise of the East Asian economic concept of developmentalism and how it became a model such that there have been several countries attempting to be developmental states.

Chapter Three looks at developmentalism through recognising the context areas where it was implemented in East Asia as well as in Africa. It also discusses the interventions that were made by these states to effect changes to kickstart economic development. The chapter identifies the countries from East Asia, and these included Japan, South Korea, Thailand, Taiwan, Singapore, and Malaysia. The chapter also mentioned some countries from Africa (Ethiopia and Botswana) that are believed to have adopted the same developmental concept. The chapter provides insights into the possible lessons for other countries that may want to go a similar route.

Chapter Four examines the Black Economic Empowerment's Black Industrialist Programme literature, thus highlighting the importance of industrialisation in the economy of South Africa. This chapter considers the road that the BEE had taken and how it had faced challenges, from when it was not even inscribed into the constitution all the way down to when it was finally promulgated. It looks at the contradictions that have caused the policy to falter and what has made it look like an elite policy. This chapter is a foreground for the empirical chapters because it talks directly to the challenges that the country has faced since 1994 and how those challenges have been confronted.

Chapter Five presents the road travelled in South Africa with reference to attempts at state intervention. This chapter looks at overarching programmes that have been enacted in South Africa after 1994 and how these have fared in terms of moving the country towards industrialisation and developmentalism. Here the intersection of the South African development trajectory is presented through a look at these programmes.

Chapter Six is an analysis chapter and thus, looks at the data that was received on the BIP and BEE from both primary and secondary sources. It is centred on making meaning of all the data received and corroborated it by using both data sets (primary and secondary). The chapter presented the reader with a precise analysis of each of the themes that came out from the research.

Chapter Seven concludes the study and provides recommendations that are deemed valuable and capable of enriching future studies related to the study focus.

2. CHAPTER TWO: THE DEVELOPMENTAL STATE

> *The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist.*
>
> (Keynes, 1936: 383)

2.1. Introduction

The literature presented below focuses on the developmental state with respect to industrialisation and economic development. It does this by looking at the developmental state's theory and practice and what forms of industrialisation and economic development it engenders in different parts of the world, and what literature has been produced in that domain thus far. It begins by looking at the state and its formulations according to the literature. It then delves into the main issue of developmental state theory and how it has been conceptualised. The developmental state as a concept has undergone an evolution and has reflected an evolving world order. This has been reflected in the way that the concept has been adopted in development theory and has spread across the globe to be emulated. This trajectory has been coined to reflect the new-developmentalism that has been observed by recent theorist of the concept (Bresser-Pereira, 2006, Bresser Pereira, 2019).

2.2. The State: Definition, and its Role in Development

More than its geographical position, history, and population, the state has proven to be an enduring institution dealing with economic intervention (Lin and Monga, 2010). While the power of the state has largely waned in the past 21st century, a global order that supersedes it has proven elusive. Indeed, as globalisation was rising, it contradictorily substantiated the salience of the state in that enormous power still rests within it, and that power is instrumentalised in a variety of ways, including fostering economic development (Vu, 2010).

Indeed the developmental state as a concept has been greatly enriched by the state-centred approaches in terms of understanding state autonomy and state capacity (Kim and Kim, 2014). The global financial crisis of 2008 led to depressed markets and slowed world economic growth, and this resulted in a number of states instituting economic governance reforms to reignite their economies (UN, 2010). This had been happening already as support of state-led development shifted from the early 1990s (the height of neoliberalism) when the focus was on the 'right role of the state' into the present one (in post-2008 financial crisis), which looks at how states can become more capable and supportive of economic development (Kaletsky, 2010). This led to the call to revisit literature on state-building and the capacity of the state in general, especially in the 21st-century setting (Hsu, 2018). Moreover, in recent times, attempts have been made to ringfence against another international financial crisis. The state has become more interventionist in the past decade (Kurlantzick, 2016).

2.2.1. Definition of the State

Among the positive developments from the second World War is that opportunities and models of state intervention have increased to assist in using state power to promote national economic development (Skocpol (1979). The state has seen shifts from being believed to be the sole facilitator of economic development to the state being viewed as a hindrance to economic growth. The notion that the state has a role to play in economic development is now widely held; however, the debate is on when and how it should exercise this role and for whom. The state is a powerful social actor, and this is elucidated by Chesterman et al. (2005: 2), who views it as an "abstract, yet powerful notion that embraces a network of authoritative institutions that make and enforce top-level decisions throughout a territorially defined political entity". This definition talks to the legal requirements of the state structure as a corporate group that has compulsory jurisdiction in a Weberian sense exercises continuous organisation and claims a monopoly of force over a territory and its population, including all action taking place in the area of its jurisdiction (Weber, 1968).

Across much of literature, the ability of the state to effect development depends on its organisation and its capacity to set the agenda and objectives to be strived for in a given country (Gerschenkron, 1962, Evans et al., 1985, Jackson and Rosberg, 1986, Amsden, 1989, Evans, 1995, Haggard, 2018). The state must possess this capacity in order to bring about growth-conducive policies. The scholarly discussion on the state has centred on three sets of concepts: roles, capacities, and structure. Studies in the role of the state are aimed at showing that the state is vital in industrialisation and social reform. States hold substantial power to intervene in the economy and to spur industrialisation and create what Skocpol (1979) terms 'social revolutions', which are rare but momentous occurrences. The state has played an essential role in facilitating structural change and helping the private sector sustain this change across time (Chang, 1999, Chang, 2002, Aghion et al., 2012, Chang, 2013). The state is thus a great foundation in connection with shaping how social revolutions and economic development occur (Skocpol, 1979).

The State as an essential factor in economic development was covered extensively in the early writing on the developmental state. Regarding the power for economic development, Amsden's (1989: 11) thesis is that wherever development has lagged behind, it has been because of weaknesses in a state's ability to act; and where industrialisation has accelerated, this has happened "at the initiative of strengthened state authority". Countries trying to catch up like Japan, South Korea, Brazil, and India used state formulations to intervene directly through subsidies and deliberately distorting relative prices in order to industrialise, spur economic activity, and stimulate economic growth (Amsden, 1989). Even though there are contending viewpoints on the role in the state economy, intervention is a driver of economic activity in many countries as the state plays a developmental role as the coordinator of complementary investment decisions (Chang, 1999). This view concurs with Reinert's (1999) formulation of the state as having three sets of roles for its purposeful function: a provider of institutions, a national income distributer, and a promoter of economic growth.

2.2.2. State Intervention Options for Developing Countries

This section highlights some of the options that have been proposed and used by the state to exert its power in dealing with the subject of economic development and industrialisation. Whilst some states have managed to bring about development and prosperity to their populace, some have failed or, at worst, reversed latent development gains (Lin and Monga, 2010). In some cases, like the upper-middle-income states of Brazil and India, there has been an inconsistent but occasional striking success in promoting industrial transformation, whereas their peers (especially in Africa) have not fared as well (Lin, 2012).

Kelly (2008) sees the state as an activist development agent that drives the economy to assist with its national political goals. This means that the state must espouse a 'development agenda' for it to be accepted by the general population, with the economy serving the function of harnessing all the required resources and capital to achieve this agenda. Gerschenkron (1962), on the motivation for catching up with developed countries, did mention that the process of late industrialisation, in chronological history, shows that there will always be greater interventions in the economy by governments. Skocpol (1979) indeed mentions that modern social revolutions like those witnessed in France, Russia, and China have occurred in countries caught behind economically; thus, they are trying to catch up to developed competitor nations. Added to the catch-up incentive, economies are now faced with their own domestic problems that they have to address, and these are usually unemployment challenge and poverty. This has changed the face of economic development policy-making whereby the economies do not only have to copy strategies from other countries but have to be informed by domestic priorities to develop.

2.3. The developmental state

With approximately four decades that the literature on the developmental state has emerged, it has travelled from authors like Johnson (1982b), explaining a phenomenon that appeared in Japan, to the authors that discuss the concept's application in Africa (Mkandawire, 2001, Edigheji, 2010, Williams, 2014a). It has become the 'buzzword' in development literature and has made it into the government lexicon as developing country governments seek to emulate the 'miracle' of East Asia (Routley, 2014).

In terms of writings, notable amongst the authors on the developmental state are Johnson (1982), whose seminal work on Japan's industrialisation was instrumental in putting developmental states in the picture; Castells (1992) groundwork in East Asia looking at the forms of developmental states that helped that region's economy grow; Leftwich (1995) looking at the power of the state to effect development; Evans (1995) in explaining the role of the bureaucracy and its centrality in applying developmental state – an embedded autonomy; Woo-Cumings (1999) in relooking at the applicability of the concept and its potential for being replicated; and Mkandawire's (2001) work on Africa's economic development fortunes and demystifying myths about the continent's potential to become the next destination of developmental states. These writings established the developmental state literature and did more groundwork on the theory and practice of the concept. The time passed since Johnson's and other pioneering writers' work has given an opportunity to a new brand of writers to come in and critique their theories and have worked to expand the concept both in theory and in geographical reach.

This new era also makes clearer the fact that trying out models is over and lessons that speak to context and adaptation are more worthwhile (Williams, 2014b). Even more critical, the 21st-century challenges point to an increased need for developmental states as they are essential for the economic empowerment of the people (Evans, 2014). Among the new group of writers on developmental states are Fritz and Menocal (2007), who have looked at the concept in the new millennium and what it holds for developing countries in the 21st century. Ricz's (2015) work looks at Latin America and the 21st-century forms of the developmental state in light of globalisation and post-independence political economy; Bresser-Pereira (2016) looking at the evolution of the concept and how it has grown from protectionism to the present moment and what opportunities the concept provides in the neoliberal and increasingly financialising world. There is also Knight (2014), Su and Tao (2015), and Zhang (2017) work on the concept as it relates to China's rapid economic development and other post-communist states and how those states have embodied developmentalism without the concept being attached to them. Along with these scholars, there have been numerous others that have also contributed to fortifying the concept with empirical evidence from different countries, and these are also noted here. Conceptually, this section is organised through the evolution of developmental states as it has moved from what is now agreed upon as 'old-developmentalism' to 'new-developmentalism'.

2.3.1. Defining the Developmental State

The developmental state is associated with the developmental class coalitions that led to the formation of the nation-state and the industrial revolution - the capitalist revolution (Bresser Pereira, 2019). Although not always acknowledged, historically, some variant of developmental state has always been vital in the social transformation of nations since time immemorial (Kim and Kim, 2014). At its basic understanding, a successful developmental state has an ability to transpose from market-directed to state-directed growth, or vice-versa depending on geopolitical context and time, but also in its capability to combine these in synergy when the opportunity arises (Edigheji, 2010). Wade (1990) invoked the state-private-sector nexus in explaining the developmental state as a centralised state that interacts with the private sector 'from a position of pre-eminence' so that it achieves economic development objectives. Developmental state introduces the ability of the state to 'govern' the market and to rally business, labour and other social partners behind its efforts (Wade, 1990). The central thesis of the developmental state is essentially the relationship between the state, the business sector, and society. This is in contrast to the conventionally polar models of liberal free-market capitalism and the state-socialist planned economy. Developmental state is understood as the 'middle path' where none between the state and the markets outdo the other but rather work cohesively for the development and functioning of society. Markets, by themselves, are still not able to provide a good economic blueprint for each country, and thus, it is still a requirement that each state develops its own. The state, on the other hand, cannot operate businesses effectively and keep production going as it is in the competence of markets to handle this part of the puzzle (Syrous and Badeaux, 2007).

There is no one definition that wholly encapsulates the definition of a developmental state (Knight, 2014). However, as the theory of the concept has been widely debated and applied in various parts of the world, there have been notable attempts to define the term. Most explanations of the developmental state mention its importance for the country and what the government ought to do for the country to be taken as developmental. Castells (1992: 57) argues that a state is taken as developmental when:

> *"It establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy... therefore, economic development is not an end but a means for the developmental state".*

Developmental states define their mission primarily in terms of long-term national economic enhancement; they also view social and economic development as the over-arching purpose of government (Pempel, 1999). Thus, the state moves towards "the plan-rational capitalist developmental state… [which links] interventionism with rapid economic growth" (Woo-Cumings, 1999: 6). Bagchi (2000: 2443) builds on this by including that a developmental state is that which "puts economic development as the top priority of governmental policy, and is able to design effective instruments to promote such a goal". Moreover, the developmental approach means that the 'drivers' of developmental state put away their personal gains and work comprehensive developmental approach driven by the context-specific national development.

In addition, Loriaux (1999) mentions that it refers to the state bureaucracy, activated by the need to develop the economy, have ambitions for economic growth and decidedly clear and driven by national interest. Ergo, it is important to note, as Öniş (1991: 451) summarised, that:

> *"The type of intervention associated with the developmental state embodies three major components. First, direct ownership and control of industrial production are of secondary importance as compared with the process of building up economic infrastructure through education, training, and research. Second, the state performs a key role in the promotion of cooperative labour-management relations. Third and most significant, the state undertakes a leading role in the creation of comparative advantage. The state is involved in creating the conditions for economic growth and industrial adaptation, yet refrains from exercising direct control".*

It can be proffered here that developmental states are complex and thus are easier to describe rather than define. A developmental state is about prioritizing economic development above all else, with the state as the director, the bureaucracy at the forefront of implementation, and business as an equal but subordinate partner to the state. It is essentially state-led industrialisation, having taken cognizance of the political situation and development progress; the state builds itself up through targeted intervention and new economic, institutional structures to boost productivity and create rapid economic growth. Most of the recent writings on developmental states have used one, some, or a combination of these definitions. What is clear is that a developmental state is a state-driven political and economic system of organizing state affairs of a particular country. By this, the state is at the centre of economic growth and works to create institutions and establishes channels for economic growth and development. More elaboration is in section 2.3.5 below, detailing conditions that have to be satisfied in order to characterise the state as a developmental one.

2.3.2. Developmental States: The Evolution of the Concept

A number of studies around developmentalism usually draw inferences from East Asia as a beacon of developmentalism and where all other developmental approaches stem from. Since Chalmers Johnson's 1980s seminal work about the Japanese state-directed capitalism in the early to mid-19th century, there have been a number of theoretical contributions in the realm of developmental state literature. In analysing Japan's Industrial Policy (1925-1975), Johnson (1982b) concluded that the East Asian country's achievements were based neither on Soviet-type command economy nor laissez-faire free-market economy synonymous with Western liberal democracies. From 1946-1976 the "Japanese economy increased 55-fold, thus making it capture about 10% of the world's economic activity, although occupying only

0.3% of the world's surface and supporting about 3% of the world's population” (Johnson, 1982: 06). Japan thus industrialised rapidly.

The findings were that Japan’s economic development was a result of ‘market-conforming methods of intervention’ thus, being called a ‘capitalist developmental state’ (Johnson, 1982: 318). Woo-Cumings (1999: 12) agrees with Johnson (1982) in the context of Japan’s non-commitment to either socialist or neoliberal ideology, but points out that Japanese state development was “not *sui generis* but was a variant of the traditional norms of economic development that had started from Europe centuries ahead”. Johnson (2001) notes that replicating the Japanese model is not easy because, even in that region, the ‘Asian model’ did not apply evenly across but had its localized and adapted variants.

As the world evolved, it was necessary to note that the new era of developmental states cannot assume the aggressiveness that underlined the East Asian countries’ developmental states because the developmentalism of the 21st century is faced with heightened challenges and operate advanced and complex conditions (Evans, 2008). The developmental state, though, will expand instead of regressing because its need is still there (Evans, 2014). This will require the state to seek new and innovative strategies and tactics that will depart from the original developmentalism (Williams, 2014b). This has led to the expansion of the “old and new developmentalism” dichotomy as first registered by Fritz and Menocal (2007).

2.3.2.1. The Old versus New Developmentalism Observation

There has been a theoretical contribution of contrasting the ‘new developmentalism’ with the old ‘Cold-War’ developmentalism (Bresser-Pereira, 2006, Bresser-Pereira, 2009, Fritz and Menocal, 2007, Evans, 2014, Williams, 2014b, Bresser-Pereira, 2016). The 1997/1998 East Asian crisis ended the old developmentalism that had held that region together for close to five decades (Heo et al., 2008). There have been main features of new developmentalism that have been identified, which revises some of the notions that were held sacrosanct in the old developmentalism.

The first feature of the new developmental state is that it is realistically export-led and not protectionist and pessimistic. Unlike the old developmentalism, the new developmental state is not protectionist because most countries in the global periphery are already over the infant industry stage and are now export-oriented. Whilst the old-developmentalism was on industrial expansion through manufacturing and high growth models, the new-developmentalism looks at alternative means of justifying its existence and adapting to the neoliberal global order (Bresser-Pereira, 2009). The new developmentalism outlook of exports and globalization is not pessimistic and rather competition driven. It accepts the market economy as necessary and strives to move the nation from low value-added primary products to medium value-added manufactured goods or high value-added primary products (Dent, 2018). Indeed, Evans (2008 and 2014) captures it very well that with the global employment in manufacturing in the South shrinking, the world is moving from the physical manipulation of materials to make tangible goods. An increasing number of people's livelihood will depend on delivering intangible services, and therefore generating intangible assets will be vital than investing in hard machinery for tangible goods.

Secondly is the changing global environment that prizes human rights, unity and social cohesion. Old developmentalism occurred during the time when human rights were not at the top of the global agenda, and repressive states were not easily called into order. This allowed the states that were repressive to keep their populations under control and quell any revolt that may have happened. It also allowed the leaders of those countries to execute their socio-economic programmes effectively because there was little room for dissent. The new developmentalism operates in an environment where the observation of human rights is globally accepted. Also, the changing international and domestic political processes (expanded embeddedness and democratization) has risen to become one of the main factors of modern societies; so are the changes in the epistemic interpretations of development and environmental issues (limits to pollution and constraints brought by climate change) (Williams, 2014b).

The third is the issue of capacity; while the east Asian countries were adept at bureaucratic training and succeeded in driving through policies for economic development, the new developmentalism requires a focus on knowledge economy and improved healthcare. The issues of broad-based education and improved healthcare will have to be at the forefront as these bring benefits to the economy. Deep in China's developmental approach to industrialisation is the exceptionally broad-based education and health system, which made the country industrialize fast with fewer hindrances (Evans, 2008). The main challenges that will be faced by 21st-century developmental states are already observable (Williams, 2014b). These include -restructuring the world economy, and this will be important because of the economy shifting towards knowledge-based and service sectors. Indeed, the technological advances that have brought in a computerised global interaction will see significant changes as manufacturing (a hallmark of developmental industrialisation) is shrinking in many parts of the world (Evans, 2014).

In addition, the challenge placed by the rise in financial globalization and the long-lasting effects of financial and economic crises will rise to prominence as the world becomes prone to shock (Williams, 2014b, Ricz, 2015). Admittedly though, that there will be some continuity from the old developmentalism judging by the fact that macroeconomic stability is still significant, together with a stable investment environment (Ricz, 2016). Also, the reliance on active industrial policy from countries like Brazil and India is evidence that developmentalism endures (Ricz, 2016, Ricz, 2018).

Table 2.3.2.1: Old vs New Developmentalism Observation about Developmentalism

Old Developmentalism	**New Developmentalism**
A leading role from the state in terms of forced savings and investments in firms	The state has a subsidiary but essential role in both activities
Protectionist and pessimistic	Export-led and realistic
A certain fiscal lassitude	Fiscal discipline
A certain complacency towards inflation	No complacency towards inflation
Repressive and limited Human Rights	High levels of social unity and cohesion
Did not care about Nature and Climate and Conservation	Will have to be cognisant of Climate Change

Source: Author's own with reference to Bresser-Pereira (2006), Craig (2017), and Dent (2018).

As much as many of these state interventions worked in the 20th century, there is a continuous change in the 21st-century concept with changes in technology, as well as the shift in the focus of the economy from rapid manufacturing to the services sector (Bresser-Pereira, 2006). These changes will not alter the centrality of the state as a developmental state pillar but call on its role to be reconfigured (Evans, 2008). New transformations in the character of the economy will need states to adapt to more capital movements and globalized economic growth; otherwise, they will be economically marginalized. In a 21st century context of the developmental state, states must be "agile, active, resourceful and able to act independently of private interests, whose returns depend on restricting the flow of knowledge" (Evans, 2008: 18). In this context of a changing global political economy, a new developmental state may not be static or as necessarily robust as the old developmentalism was (Wylde, 2018).

2.3.3. Conditions for a Successful developmental state

This section seeks to put into perspective Kohli's (2004) question: what makes some countries succeed and others fail? Massi and Singh (2018) address the fact that the developmental state literature has oftentimes appeared almost prescriptive, having unrealistic expectations about the actual workings of states outside of the East Asian region. Massi and Singh (2018: 1135) elaborate that "sometimes states have key characteristics that may be believed to constitute a developmental state but the domestic political coalitions and the historical conditions that shaped national firms and their relationship with governments co-vary across space and time". However, this is not supported by history; as has been mentioned above, the developmental states have variegations; it is equally important to mention, however, the conditions that make a developmental state a success.

The students of East Asian developmental states point to identified differences even within these countries themselves; there were dissimilarities, and one cannot take one significant development in one single country as one-size-fits-all (Botlhale, 2017, Zhang, 2017, Kyle, 2017, Clapham, 2018, Dent, 2018). Literature supports the notion that there are many variables of developmental states and that the rise of South Korea, Singapore and Taiwan was not a result of an undifferentiated model of a developmental state but reveals differences that defy the single model doctrine when studying these states. East Asian countries were pioneers, but it is essential that it be acknowledged that the developmental state is not restricted to the institutions of these countries (Hay and Marsh, 2000, Hayashi, 2010b).

Although the theory is, to a certain extent, agreed on the indicated characteristics, there has not been a fixed universal model on how to construct a successful developmental state (Evans, 2010). East Asian countries provide most of the scope as to what a developmental state is and can achieve, but literature has spread to reflect applications in Africa and Latin America. The market 'guidance' in East Asia resulted from various combinations of factors such as land redistribution, control of the financial system, prioritizing industrialisation, promoting and acquiring technology (Hsu, 2018). These cannot be put into a single idea, and more importantly, is that the example of China has shown that developmental states are capable of re-orienting development focus to matters of social welfare by bringing in a variety of different stakeholders (Hsu, 2018).

Craig (2017) mentions that, as much as developmental states have special attributes and characteristics, it also has mechanisms through which it is facilitated. These are Industrialisation and domestic investment policies; Public-private partnerships; Human capital development; Macro-Fiscal Management; Redistributive social policies, and State-owned enterprises and central planning agencies (Craig, 2017). Haggard (2018) states that there are not yet agreed upon actual characteristics that can be accepted as replicable for the developmental state. In the construction of a developmental state, the pioneer states needed to have some specific historical endowments and the character of the surrounding social structure needed to complement these" (Evans, 1995).

Having discussed the definitions of a developmental state and the acknowledged variations within the pioneering countries (this is expanded on Chapter 3), there are some conditions that have to been taken as important to achieving a developmental state. These are discussed below because, from available literature and experience, especially based on Johnson's book: *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925 – 1975*, these are the conceptual elements that developmental states must adopt in order to be successful.

2.3.3.1. Development-Oriented Leadership and State Developmental Vision

At the top of the pyramid, there must be state leadership that is preoccupied with bringing forth rapid industrial development, and they must have a coherent development vision (Gumede, 2009, Evans, 2008). This must operate within a political system that capacitates bureaucracy to take the initiative and operate effectively (Johnson, 1982b). The government, in this regard, makes development its priority, encourages people to forgo current benefits from growth to maximize investment in order to achieve this goal. Beeson (2008) states that the paradox with the developmental state is that in countries where it is embarked on, there is incapacitation because of the lack of institutional infrastructure that would, in turn, have underpinned such successful development. The use of state capacity as a factor (less or more) does not ensure that the developmental state accomplishes its mission without hurdles (Beeson, 2008). Organising ministries like the MITI in Japan and MICI in South Korea were a direct contribution of the state that is development-oriented, and the successful results of *chaebols* and *keiretsu* strengthened the importance of such planning at a higher level (Mills et al., 2020). Political leadership is important in that much of the development that happens is drawn from the position of the leadership present in the country and how the statecraft is formed within that particular country (Weiss and Thurbon, 2020)

2.3.3.2. Autonomous, Efficient, and Effective Bureaucracy

It is a general view today to state that government must have the capacity to deliver on its policies (Saguin et al., 2018, Thorsen et al., 2016); however, pertaining to developmentalism, that capacity must be coupled with a degree of autonomy. Bureaucratic autonomy provides an avenue for the state and the bureaucratic elites to pursue national goals that can be translated into developmental policies and strategies. “The existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system” (Johnson, 1982: 45). A well-structured, efficient bureaucracy must be in existence; it must also be internally cohesive and sufficiently resourced. Furthermore, correct operational procedures will capacitate a state to implement its policies, and staff should not only be highly skilled, but hiring, firing, and promotion policies should also be strictly performance-based (Jung, 2011). The importance of this well-developed, meritocratic bureaucracy, which possesses the capacity and is relatively autonomous in relation to the political elite, was highlighted in the early literature on developmental states and has been one of the concept’s mainstays (Evans, 2008, Johnson, 1982b, Johnson, 1999).

Increasing the bureaucratic capacity means that there must be formal rules guiding the practice of state functionaries; emphasis must be placed on merit recruitment and promotion; and a well-organised bureaucracy that nurtures the “*esprit de corps* in the civil service (Chu, 2016b). The construction of an efficient and technocratic apparatus is not even concerned with the clean versus corrupt bureaucracy dichotomy. The work of this bureaucracy is clearly set for them. The first is to identify and choose the industries to be developed (industrial structure policy). The second is to identify and choose the best means of rapidly developing those chosen industries (industrial rationalization policy). The third and final is to supervise competition in the designated strategic sectors in order to guarantee their economic health and effectiveness. All three would be performed using market conforming methods (Castells, 1992, Johnson, 1982b). In looking at the East Asian model of bureaucracy, it can be clearly seen that they resembled an ideal type of Weberian bureaucracy, i.e. meritocratic and expert knowledge (Kohli, 2004).

The developmental state develops human capital, particularly the technical and engineering sectors, which are necessary to modern industry. Japan achieved a well-coordinated educational-industrial system that was reflective of their skills in important industries (Pempel, 1999, Abe, 2006, Rapley, 2007). Levels of education are important since they are deeply consequential for 'late-late industrialisation' as they influence not only the productivity of the workforce but also the capacity to absorb existing technology and to innovate, thus creating a country that is enterprising and ready for industrialisation (Kohli, 2004, Lazonick, 2008). However, Kohli (2004) cautions that on the part of education, the developmental state has to be strict on the type of education that is desirable for the developmental state to take off. Citing South Korea as an example, the type of education that enhances individual freedoms is not the same as that which promotes discipline and improved productivity. Focus on higher education could have serious payoffs. However, public spending alone is not a reliable guide nor a sign of how well educated a society's population is likely to become (Kohli, 2004).

Not all countries come endowed with the best bureaucratic capabilities; however, high-quality bureaucratic capabilities can be built fairly quickly with the right kind of policies on education and training (Chang, 2015). Education is important for economic development in a direct and Indirect way. Education increases human resources and stimulates technological advancement in a direct way. Indirectly, education assists in institution-building, social cohesion and improves social mobility regardless of income levels (SaKong and Koh, 2010b). Investment in education and skilling the populace is an important aspect of the developmental state, and commitment to such an undertaking is a hallmark of developmentalism because this has to be aligned to national goals (Ashton et al., 2005). In South Korea, for example, the government was led to creating a developmental state skills formation because of its industrial orientation towards export promotion. Countries have special niches and economies of scale that need to be exploited; these can only be exploited by well-educated people. There had to be proper controls over the educational colleges that were responsible for education and training in order to produce an ordinate amount of skills for the economy. Also important was that they had to be aware of the future needs of the economy and the trajectory of the skills needed in future (Ashton et al., 2005).

2.3.3.3. State Partnership with Production-Tailored Private Sector (Embedded Autonomy)

The need for a production-oriented state and private sector is one of the pivotal points to the success of the developmental state. This approach is built on the partnership between the state, labour, private sector and civil society. The developmental state exhibits a characteristic of embedded autonomy which can be described as: “autonomy of bureaucratized states from social entanglements that gives them a capacity to direct social change, and social “embeddedness,” in turn, especially the links these states forge with business and industrial classes, enables state elites to incorporate these powerful groups in the state’s economic project” (Kohli, 1994: 1287).

The autonomy has to be "embedded in a progressively dense web of ties with both non-state and other state actors (internal and external), through which the state has been able to co-ordinate the economy and implement developmental objectives" (Evans, 1992: 42). This organizational link is crucial, to harmonize policies and generate consensus on goals (Onis, 1991). There are “unusual degrees of bureaucratic autonomy and public-private cooperation” that underlie these successful state interventions in the economy (Öniş, 1991, 121).

The state-market relationship must be paramount but also characterised by state bureaucracy’s active role in economic growth and industrial transformation (Lim and Jang, 2006). Another important addition needed for developmentalism to work is the ‘embedded autonomy’ as propounded by Evans (1995). How the embeddedness is, and the extent of it, becomes the measure of how developmental states succeed (Gumede, 2009, Evans, 1995). It is important that there be institutionalized connections between elite bureaucracy and private business for consultation and cooperation, an embedded autonomy (Evans, 1995).

In addition to pursuing this goal, a state has to be responsive to the needs and wants of the capitalists. The state uses different kinds of instruments to force the private sector to transform and urging it to meet high production levels, improving its technical capacity, and conform to international business standards (Loriaux, 1999). These instruments can range from the careful use of protectionism to the benefits of industrial subsidies and the better rewards on targets tied to performance. This is what Wade (1990) proposed as a “governed market theory of East Asian industrialisation,” thus an “alternative to the neoclassical ‘free market’ or ‘simulated markets’ explanations” (Onis, 1991). The most important and starring critique in this regard is a common corruption that usually exists in key industries that are supported by the state because of this nexus. There are good, effective and productive relationships initially between the private and state interests, "but when relationships become too cosy, or insufficiently autonomous, the dangers of collusion, corruption, and non-transparency are all too real" (Beeson, 2008). This is especially the case where such relationships have been in place for decades and where the very success of the developmental state means that there is potentially more largesse to distribute amongst privileged insiders (Beeson, 2008).

The state has no "certainty of realizing its developmental goal since the attainment of this objective depends on whether it can convince the private sector to invest too" and in order for this to happen meaningfully, there has to be a pay-off matrix where the government and private business each got two possible economic strategies: co-operate in investment or to defect (Huff, 2001: 148). The most important party here must be the state because the private sector has no guarantee that the state is acting in economic faith. The state has to have some checks so that the private sector can be assured of the state's bona fides. The Singaporean experience is instructive in this instance since most of its development was spearheaded and controlled by foreign multinational companies. But both parties were honest in honouring contracts, and the Singapore economy soared with less hindrance than there might have been (Huff, 2001). In that country, the government was able to carve out an idea to make the foreign nationals feel free to own and provide products for the nation and for exports but was also keen on protecting the local firms and people through redistributive policies.

Developmental states are known to be characterised by a high-level relationship between the state and the business class, which makes it easier for symbiosis to occur for the benefit of the country. However, it is criticised how the developmental state was constructed to benefit the political elites and capitalist bourgeoisie in the states wherein it was instituted (Chibber, 2002, Mollaer, 2016). The failure of some countries to effect a good developmental state is due to them being unable to understand and visualize this problem because they do not have the capacity to make the industrial policy work properly when there is such embeddedness (Chibber, 2002). Evans (1995) states that there will be a need to re-examine the developmental state, which will also mean that embedded autonomy will have to go through a rethinking. This might open up a move whereby the developmental states shift the connectedness and ties with industrial elites and be built around ties to other groups.

The basic argument is that the scope of state-society links will have to include a broader range of other groups and classes, and this would result in a more politically robust and adaptive version of embedded autonomy (Evans, 1995). Evans (1995: 248) concludes that the state's power has to be curtailed because predatory ideals are easy to approximate; thus, embeddedness is required to assist the state in becoming developmental. According to Evans,

> *"Embeddedness provides sources of intelligence and channels of implementation that enhance the competence of the state. Autonomy complements embeddedness, protecting the state from piecemeal capture, which would destroy the cohesiveness of the state itself and eventually undermine the coherence of its social interlocutors".*

Meritocratic recruitment and qualified bureaucracy, and long-term goals create commitment and a sense of corporate coherence. In turn, this corporate coherence gives these apparatuses a certain kind of 'autonomy'. However, they are bound by embeddedness "in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies. Either side of the combination by itself would not work only when embeddedness and autonomy are joined together can a state be called developmental" (Evans, 1995: 12).

2.3.3.4. Industrial Policy – Picking Winners and Losers?

There is one thread that runs across all developmental states, and this is industrialisation. The accurate analysis of the matter, according to Kelly (2008) and Hayashi (2010b), is that the primary essence of the developmental state model is state-led industrialisation. For industrialisation to happen, state capacity matters critically, and it fulfils this by implementing industrial policy (Hayashi, 2010b). At its simplest, industrial policy can be described as a "policy by which governments attempt to shape the sectoral allocation of the economy" (Stiglitz et al., 2013: 1). Industrial policy is used to correct market failures, assist in situations where markets by themselves do not lead to efficient, or desirable, resource allocations, and in some cases, even to correct other government failures where the government has no choice but to apply its resource allocations (Stiglitz et al., 2013). According to Sanjaya (2004), there are two related sets of tensions in industrial policy: government picking and supporting winners and an open architecture approach where support is informed by market-based mechanisms. Most countries utilise both approaches, as seen in

Malaysia and South Korea. The occurrence in South Africa has been that, in reference to industrial transformation, the country has focussed more on the picking and supporting winners that it has utilised market-based approaches. Bam and De Bruyne (2019) mention that identifying industries that the state needs to support is difficult because of the lack of tools for such analysis, which leads them to end up selecting certain sectors over others. This paucity of tools does not made governments to consider concentrating on more market-based approaches, rather in many instances it has increased its. In the case of South Africa this process moves a step higher leading government to choose which businesses to support.

State role, structure and capacity is important for industrialisation. In all the countries that have been studied as developmental states, none of them did industrialise (Vu, 2010). Through various economic policies since the Park regime, South Korea rapidly industrialised government-led export promotion policy (SaKong and Koh, 2010a). The move to industrialise is driven by the need to create employment, fight poverty and bridge the inequality gap in the economy. Where countries have diversified their economies and industrialised, there has been a positive result in achieving the three challenges that most economies face. Manufacturing has been considered to be the main engine of economic growth and development (Szirmai, 2013). Industrialisation, at a basic level, is defined by a move from the economy depending on agriculture to an economy dependent on industries and is able to manufacture goods massively. Industrialisation is generally understood as a process whereby the share of industry in general, and of manufacturing in particular, in total economic activity, is increased (Weiss, 2002). Two types of industrialisation strategies have been pursued by states, import-substitution industrialisation (ISI) and export-oriented industrialisation (EPI) (Weiss, 2014).

Industrialisation and deindustrialisation are part of the same process as countries develop their economies. During industrialisation, the industry’s share of employment and gross domestic product (GDP) grows until economic maturity, after which this declines relative to the service sector (Tan, 2014). Then there is a shift into higher value-added sectors, which is parallels the manufacturing activities being outsourced to less developed countries. Positive deindustrialisation and negative deindustrialisation are the two types of deindustrialisation identified. Positive deindustrialisation occurs as labour productivity growth in manufacturing results in the graduating of labour from industry to services and the subsequent decline of industry’s share of employment and GDP; this is thus associated with full employment and rising real incomes. Negative deindustrialisation happens as labour shifted due to a fall in manufacturing output (or higher manufacturing productivity) but not reabsorbed into the service sector; this thus results in unemployment and stagnant or falling real incomes (Tan, 2014).

Lin and Monga (2010) introduce an important distinction between the two types of state interventions on industrialisation implemented by governments from both developed and developing countries. First are those policies that are aimed at facilitating structural change by overcoming information, coordination and externality issues that are intrinsic to industrial upgrading and diversification. This is important in that they aim to provide information, compensate for externalities, and coordinate improvements in the 'hard' and 'soft' infrastructure, that are needed for the private sector to grow in sync with the dynamic change in the economy's comparative advantage.

The second one comes in the form of those policies that are aimed to protect some selected firms and industries that defy the comparative advantage determined by the existing endowment structure - either in new sectors that are too advanced or in old sectors that have lost the comparative advantage. In focusing on a few industries and intervening extensively to build them up for export, the state must protect and nurse these industries until they catch up with others in competition and output. Japan used such a dual strategy when it grew its economy in the early 20th century. For example, there was a concomitant dual strategy of the developmental state, which put export expansion and import substitution at the forefront (Chu, 2016b).

The strategies that were used were successful in that they made it easy for the officials to see which industries to support and how much and for how long. Equally, it must not be taken as wholly true that globalization has robbed the state of the ability to control capital movements, and this overlooks the fundamental elements of the developmental state. In all advanced economies, the government supported the acquisition of foreign technology, "sometimes by legal means such as financing study tours and apprenticeships, and sometimes through illegal measures, which included support for industrial espionage, smuggling of contraband machinery, and refusal to acknowledge foreign patents" (Chang 2003: 18).

Governments are often on the brink of capture by vested interest when they directly involve themselves in the market or try to pick winners and name losers. The dilemma that states find themselves in is rather difficult to manoeuvre. The objection against state-led industrialisation is that it is commonly used to protect vested interests rather than achieve national economic development for all (Johnson, 1999). This argument has put the governments/state in disrepute over their selection criteria, but even more so, the questions arise as to whether any intervention is warranted (Aghion, 2012). The most potent contention against government's industrial policy is that governments are not particularly good at picking winners, and thus, the capture will be easy through the emergence of the culture where lobbying is accepted for a particular industry to be taken seriously by government agencies (Aghion, 2012, Aghion et al., 2012). Another important part of industrialisation is funding; this is discussed below.

(a) Funding Industrialisation

An important factor in the developmental state is the state's ability to fund industrialisation. The need to fund industrialisation is key for developmental states and economic development in general. Industrialisation and innovation takes time and is often riddled with uncertainty and thus 'patient capital,' as Mazzucato (2015: 149) states, is "required for the full development of radical innovations." Zysman's (1983) seminal work argues three distinguishable types of financial systems that link financial structures and the ability to pursue industrial policies. First are those exemplified by the financial markets in the UK and US, where the main duty of the banks is to furnish short-term lending, and the prices are set by the market, and their central banks are almost exclusively concerned with the control of monetary policy. This type puts banks, firms, and governments in independent positions from each other, and they meet as sovereign bargaining entities. The second type is the credit-based system commanded by state-controlled prices. Here, capital markets play a limited role in the acquisition of corporate funds, but the government is allowed to issue its own funding. The state facilitates bank lending and determines prices to drive economic development. This creates disequilibrium as the state interferes with establishing a balance between borrowers and lenders. Thus, according to Zysman (1983), the state's entanglement with industry becomes part of the financial system and the line between the public and private blurs. The third type is a credit-based system, but it is dominated by a limited number of financial institutions that are independent of state aid, and thus, it is marked by a lesser degree of government intervention. In this system, the state lacks the instruments to dictate allocative choices to the financial institutions and consequently, it has no independent apparatus to use in order to influence companies. However, it needs to be pointed out that there can be a fourth type of system that combines the credit-based instruments with the state-ownership of the dominant financial institutions (Heep, 2014b).

Zysman (1983) posits that the government’s control over the credit resources is an important discretion that is required in all state-led industrial strategies because it affords the state the power to enter the industrial sphere of private companies from time to time. Here Zysman (1983) states that there is a possibility of industrial policy-making placing other mechanisms aside from the control over financial resources, however in a state in which developmental orientation predominates, the state can only pursue its comprehensive industrial strategy if it can exercise control over the allocation of financial resources (Johnson, 1982a). It is thus argued that, only in a credit-based financial type of a system, where the government can exert some form of control, that a comprehensive industrial strategy can be allowed. This type of industrial financing happens through Development Finance Institutions (DFIs). This part of the section discusses the DFIs and their importance in financing development especially industrial financing.

(i) Development Finance Institutions

Development Finance Institutions (DFI) is the term used generically to refer to a range of alternative financial institutions that are developmental in approach; they mostly specialise in microfinance and business support. These are institutions that are assisted and supported by the state, “mainly to provide development finance to one or more sectors or sub-sectors of the economy” (Adesoye and Atanda, 2012: 4). In many parts of the developed world, DFIs have played a catalytic role to accelerate industrialisation, push economic growth and encourage human resource development; they have also mobilised financial resources for developmental purposes through investments in risky markets (Gumede et al., 2011). They effectively finance development projects, and they play an important part in the industrialisation and economic development strategies of their countries by extending their roles to include transformation, facilitation, organisation and idea generation (Bell et al., 2018). DFIs are key in identifying and developing important and longer-term profitable sectors and steer long-term industrialisation, and they also help expand infrastructure development. The Korea Development Bank (KDB) was key in financing development in that country during its rise to an economic powerhouse, and its sister bank - the Industrial Bank of Korea (IBK), was key in funding the chaebols and providing surety to markets.

As mandated by the state, DFIs are bound to intervene in the businesses they support and in line with the strategy of the state. These banks grew out of the need to ‘bank the poor,’ as commercial banks found it unprofitable and undesirable to do so (Sherbut, 2008). They also provide project-specific and general technical assistance and promote standards for the funds or firms in which they invest (Kingombe et al., 2011). Worldwide, about 600 of these institutions are development banks, which tend to focus primarily on providing long-term finance to projects with large social benefits. They also provide developmental services such as research, advocacy and technical assistance (Bruck, 2003, Bruck, 2005). Lazzarini et al. (2011) posit that these banks are seen as an important tool to solve market failure that leads to suboptimal productive investment. Therefore, development banks can solve market imperfections that would leave either profitable projects or projects that generate positive externalities without financing. This can, in the end, make markets work for the poor.

Most countries have more than one DFI; many have a complex system comprising a range of private and public institutions. DFIs have first-hand knowledge of the market as these banks hold much of the information on financial as well as non-financial needs. This is because these banks finance small businesses that are risky and often in need of non-financial help. The DFIs are theoretically mostly concerned with providing a financial and non-financial hand where the state cannot or when the commercial banks decline. Financial firms and banks are key to sustaining world economies today, and the trend did not subside with the 2008 crash. The crash not only upturned developed economies but also threatened the survival of smaller economies. The crash not only destroyed big firms but also shut down smaller firms, and it slowed down economic growth. With the role of the state in the market being debated and commercial banking on the back-foot reputationally because of the crash, the argument for development banks is stronger than before (Adesoye and Atanda: 2012).

Small businesses need more than just money; they need technical assistance, markets, general support, etc. Development Finance Institutions (DFIs) have risen to prominence with their pro-poor stance to development and servicing the poor (Adesoye and Atanda, 2012). The persistence of these DFIs is due to their importance in offering banking services and loans to SMMEs that are undercapitalised (Goga et al., 2019). Adesoye and Atanda (2012) saw the role of development finance as being to identify the gaps in institutions and markets in a country’s financial and development sector and act as a ‘gap-filler. These banks are mandated by their respective governments to undertake a developmental role in financing and facilitating projects, including those that render industrial and infrastructure elements (Chandrasekhar, 2016). Development banks as institutions were clearly inspired by the Japanese experience, which financed the export-led industrial expansion with support from and direction by the Bank of Japan and the Japanese Government (Calcagno et al., 2015).

During apartheid isolation and biting international sanctions, the state was forced to intervene aggressively in the economy through DFIs. In the post-apartheid period, the DFIs have attempted to finance development generally (Khadiagala, 2015). The country has many DFIs, but the most important ones are the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the National Empowerment Fund (NEF). These institutions are important for industrialisation and for the sustainment of the SMMEs in South Africa.

2.3.4. Criticism of and Challenges for the developmental state

Like any other political economy concept, Developmentalism has had its critics. Whilst some berate it as bending towards authoritarianism, some question whether the said developmental credentials are applicable to other parts of the world. There are two categories of criticism of the developmental state that have been forwarded. The first is offered by the neoliberals, and the other is offered by those that were at one time proponents of the developmental state. The neoliberal criticism is targeted on the efficacy of the developmental state model itself, and it posits that the model was not even that important a factor in East Asia to be even considered for analysis. This notion states that the adoption and mainstreaming of industrial policy would prove negative for the economy (Sanjaya, 2004).

The other criticism (which does believe partly in the notion of a developmental state) is that the model has outlived its usefulness and is no longer able to drive economies. The shortcomings of the developmental state are thus illustrative of the big political-economic question it carries – economic development. Three things happened that worked against developmental states and bred for their eventual abandonment later in East Asia. (1) The Asian crisis of 1997/1998, which was sudden and unanticipated, turned the miracle into a mirage, and all its underpinnings came to be questioned and nullified as it triggered questions over the utility of the idea. (2) The assault by neoliberalism was becoming less pronounced, and the Washington Consensus paradigm had ceded way, which caused the positive points of the developmental state to be absorbed and diluted down. (3) Academic literature evolved to suggest that the developmental state had brought about its own demise because of the state's interventions that were seen to be in contradiction with this project (Fine, 2007, Fine, 2011). Discussed below here is the critique offered against the developmental state.

2.3.4.1. Criticism of authoritarianism in the developmental state

East Asian development was grounded on the practice of development that disregarded human rights. Repression was the order of the day in East Asia at the time their economic growth was soaring to unprecedented levels (Castells, 1992). The developmental state does not necessarily prize the rule of law (Landman, 2006). The states that became developmental ranged from authoritarian (South Korea) to repressive and brutal (Taiwan). Although it is not claimed that all authoritarian countries, in general, are successful, democracy was either more restricted or non-existent (Tadjoeddin and Chowdhury, 2019). South Korea, Taiwan, Singapore, Thailand, Indonesia, and Malaysia were governed by authoritarian governments at least at some point during their high growth period (Hayashi, 2010b). For instance, the key pioneer of development in South Korea was Park Chung-Hee (president from 1961 – 1979), a military general who seized power through a *coup d'état*. Park was considered a typical authoritarian development-oriented political leader because of his strong will to promote capitalism under strong state guidance. It was under this rule from 1961 to 1979 that South Korea experienced rapid growth and high productivity rates (Hayashi, 2010b).

However, to look only at the repressive nature of these developmental states as a simple tool for economic growth is to overlook the credentials (and characteristics mentioned above) that these states contained for economic prosperity (Evans, 1995). There were a number of repressive regimes in the world that failed dismally to develop their economies successfully. Most African and Latin American countries were authoritarian in the second part of the 20th century, yet, they all failed to translate that into fast economic growth (Kohli, 2004). In Latin America, for example, the authoritarian state was assumed to provide industrialisation through solid continuity of public policy decisions regarding key economic areas, especially in the promotion of industrial exports and exchange rates. Furthermore, the authoritarian state was assumed important for keeping peace and order, especially to prevent worker's movements from gaining traction (Ferraro and Centeno, 2018b).

It is a contentious argument whether states move towards more democratic policies as a result of economic growth and development (Simutanyi, 2006). The claim is that many authoritarian states could solve the many problems that democracies cannot, like resource mobilization and allocation (Haggard, 2018, Hayashi, 2010b). Also, it is a known argument that economic development is not as smooth as always thought to be but is often turbulent and transformative, and there are many things that cannot be agreed upon easily and which could only be done under an authoritarian regime or a dominant-one-party state democracy (Leftwich, 2005). These states may be called 'cohesive capitalist states' because they are able to collect resources and drive development with few institutions of checks and balances in their midst (Kohli, 2004).

As it is argued that states can fast-track development when they become repressive, it is an equally contentious argument whether states move towards more democratic policies as a result of economic growth and development. Repression gets trumped eventually by economic development in the developmental state (Castells, 1992). The effect of economic development in East Asia did not only change the economic face, but it also painted the society anew; "the society they helped engender through sweat and tears are indeed industrialized modern societies" (Castells, 1992: 66). However, Amsden (2003) notes that the constraints on government promotion of industry are mostly reinforced by neoliberal domination of the global economy.

2.3.4.2. Neoliberal Reservations about Developmentalism

The criticism of developmentalism by proponents of neoliberalism is not so much about the concept but is informed by its general distaste for state intervention (Harvey, 2005). Developmental states' interventions were driven by the understanding that, when the market is unguided, it will lead to failures and is unlikely to kick-start economic development and will miss the immiserating effects on poorer countries wrought by free trade, capital movements and migration with wealthy nations (Wade, 2018). As is the belief from neoliberals that unfettered markets allocate resources efficiently and increase productivity, state intervention is unnecessary. The main assumption by the neoliberals is that the market is fair, and the state distorts markets and corrupt politics, thus creating a situation that is not ideal (Chang, 2000).

Neoliberal thought holds that the state should be rolled back as much as possible to allow for free markets to flourish (Gilpin, 2001, Harvey, 2005, Radice, 2008). According to its proponents, neoliberalism, capitalism, or the free-market system, is still the most effective way of organizing the production and distribution in the economy (Rajan and Zingales, 2003). This is the form of economic liberalism, rooted in "market mechanism and competition-driven processes of capitalist development… and the liberalisation of formerly strictly regulated and government-administered markets" (Denzau et al., 2007). After the fall of the communist states of Eastern Europe, the neoliberals have expressed reservations about the developmental state in particular (Plehwe et al., 2006).

The *World Development Report* was one of the first documents to question and discredit the use of the state to advance economic development and growth in East Asia (Gilpin, 2001). The World Bank Report (1993: 13), for example, while noting the advancement made by the East Asian economies, stated that "Developmental State models overlook the central role of government-private sector cooperation". In this analogy, one of the global economy's foremost institutions contended that the state played a minimal role, even in East Asia, thus questioning the role of the state. This is the theme punted through neoliberalism that in order to curb poverty and to enforce development, there has to be freedom to choose, and people must not be fed answers by the government; however, developmentalism puts the state back into the forefront (Wade, 2005, Moore, 2007, Easterly, 2007).

One of the enduring and frequently used arguments against the developmental state is the one against the industrial policy. This is counter to the fact that the East Asian countries used this route to become industrially competitive. Therefore, countries that seek to follow the footsteps of the East Asian regimes must believe that stronger states, state-directed economy are necessary tools for economic development. This notion is questioned because countries in the less-developed world have a small private sector and less autonomy, but nonetheless, their performance on economic growth is minuscule (Pempel, 1999). However, industrial policy is one of the strongest pillars of a developmental state. Chang (2003) counters this criticism against the state as baseless. Developed countries are bad Samaritans, according to Chang (2008), because they did not get to where they are now through the policies and institutions that they recommend to developing countries, and thus, are kicking away the ladder by which they climbed. As Chang (2002) states, the fact that developed countries do not know the history of how they developed may be the greatest tragedy of our time.

A deeper epistemological challenge for the concept of developmental state has come from the political-economic characterizations of countries. This has basically shown the literature to be more biased towards market economies when characterizing developed economies without taking into consideration the state's role in their development. An even more important point is the tendency of literature to define the countries which are poor as being hampered mostly by their own policies, which are state-led. This has opened a wide gap in the literature in explaining the exact policies that could transform less-developed economies into developed ones. The supporters of neoliberalism advocate for a small state; however, neoliberalism does not sufficiently account for states still being influential and some being capable economic managers (Hundt, 2015).

All states have to be defined by their actions in the public and private sector, and the aggregated result of these activities should be the basis with which to judge the state. The normative definition through built-in and predetermined policy debates do not account for many factors that differ from state to state. It is important to note this because not acknowledging it could make the pursuit of analysing the state and its relationship with its citizens and businesses leave out important narratives.

2.3.4.3. Elitist Inclinations of developmental states

The centrality of the state is said to be paramount to the success of a developmental state. This view is grounded on the elite theory of the state, which views the state as governed by the ruling class, who impose rules on a submissive and restrained society (Heywood, 2007). The elite state bureaucracy set the goals of society, "but in order to implement the goals, they must enter the market and manipulate and structure it so that private citizens responding to the incentives and disincentives make the market work for the state" (Johnson, 1982: 34).

The developmental state, through its centralized planning, is able to exert power over all the tiers of government thus, making a true elite governed regime. According to DiCaprio (2012), the rule by elites provides negative governance outcomes and does show that their interests may frequently deviate from those of the majority, and many a time, they have sought to circumvent them. This is in line with Vitalis' (1994) assertion that the capitalist class organizes collectively into interest groups in order to contest for state power (to 'capture the state'). The problem with elitism, as with authoritarian rule, is that it insulates the government from civil society and other societal groups, thus breeding repression and social discord. The Ministry of International Trade and Industry (MITI) in Japan, for instance, was made up of government and business leaders with no public representatives, and that insulated it from the general populace. To support this claim, Pempel (1999: 144) submits that:

> *"…the developmental state privileges the political and economic role played by the state bureaucrats. To assert a dirigiste form of control over the private economic actors requires an elaborate economic bureaucracy that not only commands a wide array of policy instruments and has extensive control over production resources but also possesses substantial informational resources has a high degree of analytic competence to formulate and implement decisions, and is organised around a centralist chain of command".*

The developmental state is, therefore, a product of the elite and is driven by this group which trounces democracy and pluralism, causing state-society relations to be constrained and limited to government and business, thus structured as 'an elite coalition', Edigheji (2006: 08). The concern with the developmental state model, especially in South Korea, is that it was an elite project. This predatory behaviour associated with the developmental state is questionable and cannot be compatible with Weber's notion that bureaucracy and capitalism 'belong intimately together'. The relationship between the state and dominant elites is, thus, the same in developmental states as it is in predatory states (Hayashi, 2010b). This behaviour by the state puts danger to capitalist society because it seeks to insulate the capitalists from the responsibility of labour relations whilst pushing for rapid industrialisation and high economic growth. This, as a result, produces a strong labour force. However, being either excluded from the theoretical concerns or theorized as subordinated to the state, the labour force combined with rapid economic growth starts challenging the autonomy of the state. This, thus, brings the demise of the developmental state since it cannot survive without a strong autonomous state and bureaucracy (Mollaer, 2016).

The seeds of developmentalism and its sustenance are, eventually, the plots for its own demise (Chibber, 2002). Successes of the model showed that it had internal contradictions, which forced it to its early disintegration in many countries, especially in Latin America. The model, and the kind of political-economic alliance that was required to support it at the beginning, once removed over time because of economic development, imposes new freedoms for the rest of the people. Therefore, the concessions that would have been agreeable at the beginning under desperate conditions end up not being applicable in a more economically independent future (Chibber, 2002). However, the gains from economic development outweigh the political factions and many negative internal dynamics; and implementing a developmental state proves to be a better choice than not doing so.

2.4. Concluding Remarks

Developmental states are complex, which has made them predisposed to being described rather than being defined. Whilst some states have managed to bring about development and prosperity to their populace, some have failed or at worst reversed developmental gains made previously; this elicited a look into the state. The state, as observed by the scholars cited above, is very much a contentious terrain. The state has been credited with being a catalyst for development post-WWII in many parts of Europe and East Asia; however, that enthusiasm has not been felt in Africa and indeed across many other parts of the world.

The concept of the developmental state as a framework for economic development has been cited as a middle path between market mechanism and statist approaches. The conditions for developmental states to take shape are that there must exist development-oriented leadership, a bureaucracy that is autonomous and efficient, there must be state-private sector partnership, and also industrial policy. All these facets are important state-directed economy to deliver balanced economic development. The above can be achieved if the states are willing to implement them, raise the capacity of the bureaucracy through training and development, and this also assists with equipping the bureaucracy with abilities to implement industrial policy – knowing how to pick winners. This extends to the important matter of funding industrialisation and what forms of instruments states have used to achieve this goal. Whilst all other conditions are important, that of industrial policy is pivotal for the developmental state to happen. Indeed, most states can have one or two other conditions present, but if they cannot shape their industrial policy to be effective, they cannot be called developmental.

As such, the developmental state has also benefited from a new group of theorists who have impacted its development as a concept. This has elicited a comparison between the old (classical developmental state) and the new developmental state. The new developmental state is what the less developed countries, as well as the developed countries, has been attempting in recent times. This remodelled concept still has the tenets of the middle way like its progenitor but is also realistic about challenges of the day like human rights, fiscal discipline, and climate change. The developmental states likely to take shape from this new developmental will have to be cognizant of these matters.

The case made with the review of the literature part is that, notwithstanding challenges against the developmental state and surrounding the state in general, such measures still hold much hope to facilitate industrialisation and economic development in much of the developing world.

3. CHAPTER THREE: DEVELOPMENTAL STATE IN PRACTICE: A COMPARATIVE DISCUSSION

3.1. Introduction

Whilst the previous chapter provided a literature review on developmental states, and this chapter is concerned with the countries that adopted various models of the developmental state. Evidently, developmental states have variations – they are not identical in countries across societies and throughout time (Gebremariam and Bayu, 2017). The East Asian model of economic development is contentious and looking at what was important with each nation, and these models vary to this degree (Lincoln, 2016). There is a degree of agreement that favourable initial conditions like colonial legacy are important but also the Cold War context within which these Newly Industrialising Countries (NICs) of East Asia flourished with the express support of countries like the USA, and this makes difficult the task of national leaders to repeat the industrial policies that helped these states grow (Mollaer, 2016). These initial conditions cannot be repeated, nor can they be assumed as being the same starting point for every country.

This section will cover a selection of East Asian states and a selection of African states (Japan, South Korea, Japan, Indonesia, Taiwan, Thailand, Malaysia, Philippines, Singapore, Ethiopia, and Botswana). It will look at developmental tools that those countries used to industrialise and transform their economies. It covers the political institutions that were present at the time of their industrialisation as well as the initiatives that were taken by the leadership in those states. By looking at developmental states that existed, the aspects of developmentalism that these states initiated is discussed, and it can then be deduced what form of developmental states can take shape in a country like South Africa.

3.2. The Cradle of Developmentalism: East Asian Experience

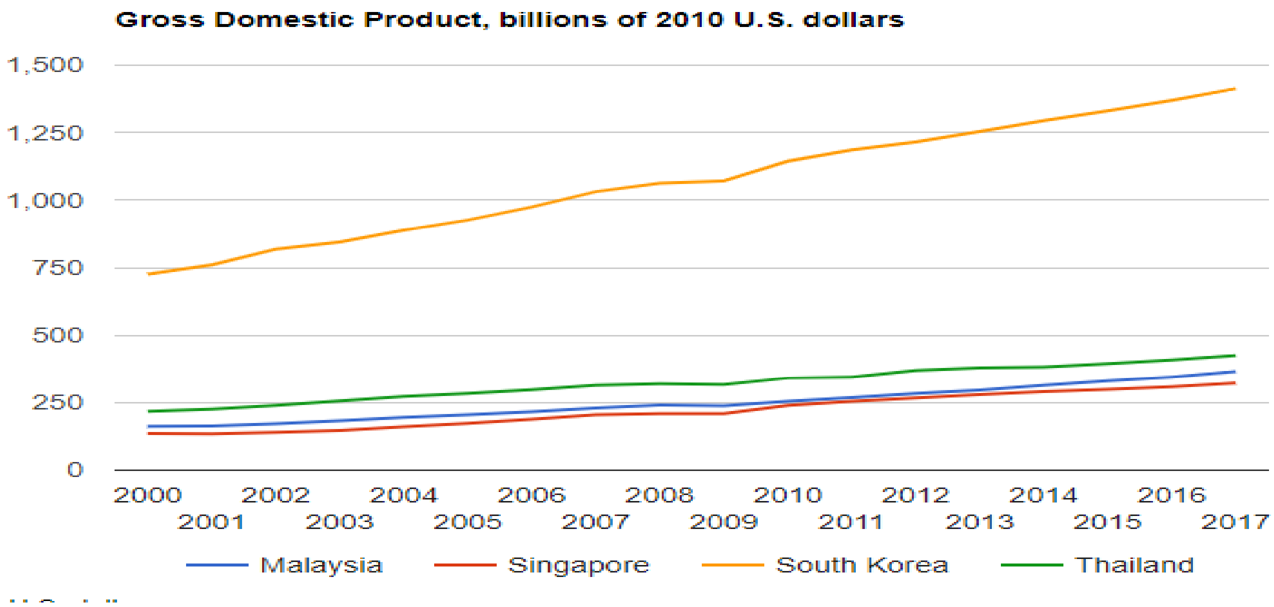
East Asia has proven to be a laboratory of thinking on the developmental state. The Tigers, as they were colloquially known, used industrial policy to develop their technological capabilities, promoted exports and built domestic capabilities to manufacture goods locally (Stiglitz, 1996). It is from this phenomenon that the questions arise: What caused these countries to industrialise rapidly? What can other countries do to emulate them? What were the factors that contributed to their developmental state? Is their experience generalizable?

The type of ideology that sparked the industrialisation of those East Asian countries has not been properly interrogated.

Indeed it has to be noted that East Asia is not a singular undifferentiated region and that each of these NICs emerged under different contexts to achieve their respective industrialisation, and the danger of shoehorning its development “into a general explanatory framework ignores the extent to which national contexts play a critical, perhaps even defining role” (Rigg, 2003: 11). Whilst not usually the focus of these studies, East Asian differentiation has been part of the literature on developmental states, and these have covered their cultures, respective governments, and history. Gârdu (2015) argues that East Asia must not be confined to stereotype.

The reflection of East Asia’s growth is reflected in the whole region as ASEAN is one of the most economically viable regions in the world today, with an estimated GDP of USD3.11 trillion in 2020 (Statista, 2020). The proportion of the region’s population that lives on less than USD1.25 per day has been consistently declining from 47% in 1990, 22% in 2005, to 14% in 2015 (ASEAN, 2018). The East Asian Tigers, as they are known, became the fastest-growing economies, and they were in a class distinguishable from other parts of the world – these are the real developmental states (Wu, 2007). For example, according to World Bank Data (2018), in 1960, the East Asian and Pacific countries had a combined GDP of USD153.255 billion; the same in 2017 was USD23 996 trillion. The GDP per capita in those countries rose remarkably as well from 1960 to 2017 (see the graph below: Figure 3.2.). The East Asian model of industrial support relied on targeted assistance to firms and had punitive mechanisms to maintain fairness for the performance of economic actors (Singh and Chen, 2018). Such measures became the hallmark of the East Asian model’s industrialisation drive, and it was aided by a strong bureaucracy that is educated and a leadership that is development-oriented.

Figure 3.2: GDP per capita for selected East Asia Countries: GDP per capita, constant dollars



Source: The Global Economy (2019)

3.2.1. Japan

Japan was a small and insignificant open economy during the 1920s and 1930s that depended heavily on overseas countries in terms of trade and finance. However, by the 1970s, it had moved from this low economic activity and growth to be counted as one of the richest nations (Shizume, 2009). Japan went through two periods of economic development since the Meiji-Restoration[2] , the first was from the mid-19th century to WWII, and the second began around 1945 and extended into the 1980s (Chandra et al., 2013). The first period was dedicated to modernisation and westernisation; this was done through educating the youth by sending them to Western universities and coordinating a scheme of hiring more than three thousand teachers to spearhead the teaching of subjects such as foreign languages, technology, mathematics, and science (Amsden, 2001). In this period, the state expanded the infrastructure by investing in railroads, highway roads and kick-started a programme of land

[2] Meiji restoration, that happened circa 1868-1869, is a Japanese revolution that took place to bring down a military dictatorship. The period around that time became known as the Meiji restoration because of the far-spanning movement that took place to reconstitute the imperial rule to bring about modernization and economic stability. Spearheaded by Emperor Meiji, the restoration had far reaching consequences in education, military, and the economy of the country and these catapulted Japan to the global prominence.

reform, all of which lay a good foundation for economic development and industrialisation (Robinson and Acemoglu, 2012).

The second part of the development phase in Japan involved an active government intervening in the economy. The government invested in factories that were sold to private businesses afterwards, for a small amount and also built shipyards and; in this, the government was the guide, and the business sector partnered it as a producer (Hundt and Uttam, 2017). This assisted the country's economic growth, and during the 1960s, Japan registered growth rates surpassing 12%, achieving the greatest economic expansion at that period (Ferraro and Centeno, 2018a). The successful strategies that were used in Japan depended on officials being able to see which industries to support (Vu, 2010).

Johnson's (1982) work on Japan shone a light on Japan's phenomenal development. The focus of the Ministry of International Trade and Industry (MITI) was on looking at the right institutions that were installed by the state to govern and drive economic development. Indeed, the exact developmental state features elicit much debate and Johnson's (1982) focus only on MITI as a driving force has been viewed by Tonami (2018) as being restrictive. This is because it evades questions of the politics and the economic structure that have to be present for developmental states to occur.

3.2.1.1. Interventions

The Japanese developmental state had four key success factors that were evident. The first was the establishment of a **political system** strong enough to support the bureaucracy and anchor industrial growth (Johnson, 1982a). The Japanese state was organised with a high degree of market presence but exhibited an equal degree of state coordination. The level of intervention in the economy varied at different times and with different sectors. Sometimes the state could relax rigorous interventions and use its resources for coordination; however, in many instances, the state played an active role. The state could therefore be simultaneously both 'strong' and 'weak' depending on the level of the state's involvement in managing the process of development (Tonami, 2018).

The second success factor was the development of **bureaucracy** to support, plan, construct, and supervise the industry. However, the state's important role here was dependent on the capacity of an industry to coordinate and regulate itself, and government could complement that effort (Tonami, 2018). Education was important for this development, and the Ministry of Education, Culture, Sports, Science Technology (MEXT) introduced nationwide, fully supported projects and large-scale research programmes to equip the country with skills for the future (Tonami, 2018).

The third success factor of the developmental state in Japan was the **political direction** that was given by institutions such as the Ministry of International Trade and Industry (MITI), which provided effective control over state functionaries, especially when it concerned the economy (Johnson, 1982a). Through Ministries such as MITI and MIC, the Japanese were able to monitor the shortcomings in terms of bureaucratic support and therefore made efforts to strengthen these.

MITI was integral in that its vertical organisational model had all the strategic sectors (steel, shipbuilding, iron, mining) represented and making important inputs. Japan's economic development was rooted in mercantilism adapted to its own localised version of capitalism that had a strong role for the state as a player (not a referee) in the economy, with the philosophy leaning more towards protectionism than to liberalism (Hundt and Uttam, 2017). Its leaders were focused on ways to improve the country's economy, and that depended a lot on the way that their policies were synergised with those of the private sector, which allowed the developmental state to flourish.

Japan's interventions in the private sector were aggressive but targeted towards high tech and big producing firms through the Ministry of Industry and Commerce. There was also the Economic Planning Agency (EPA) which was a planning organisation within the government. An important pilot agency for developmental programmes was the MITI, and this organisation was vital in that it was solely charged with the economic development of the country. Its selective industrial policy was key, and the MITI was able to contribute immensely to transform Japan's economy. The Ministry of Finance was vital in making sure that funding was secured for developmental programmes even though the Japanese banking sector was largely in private hands (Tonami, 2018).

The fourth success factor was the involvement of the **private sector** and their buy-in in terms of the interventions in the economy. The function of bringing the private sector to the table and negotiating questions related to the economy rested on the Ministry of Industry and Commerce (MIC), and it played a vital part in stabilising the policies and giving directives. The private sector was pivotal for Japan as they were involved in training as well as research and development for technological advances. The Japanese developmental state was also instrumental in its coordination of the private sector through funding by the Bank of Japan and loan agreements through the Fiscal Investment Loan Programme (Mazzucato, 2011). Indeed, as the world moved into the 21st century, the pioneering developmental state of Japan evolved from catching up to keeping up (Chandra et al., 2013).

The presence of the *keiretsu* was important for achieving industrial growth and faster production of steel and cars (Hundt and Uttam, 2017, Tonami, 2018). *Keiretsu* is a Japanese term referring to a business network made up of different companies that have close relationships and sometimes take small equity stakes in each other, all the while remaining operationally independent. These have interlocking business relationships, although they are an informal business group. They are loosely organized as alliances in Japan's business community. By most accounts, there were six of them: Mitsui, Mitsubishi, Sumitomo, Fuji, Daiichi Kangyo, and Sanwa (Hundt and Uttam, 2017, Tonami, 2018). The keiretsu maintained and achieved dominance over the Japanese economy for the second half of the 20th century and, to a lesser extent, 21st. They became a key element of the manufacturing industry in Japan. For example, in 1955, Japan produced 5 million tons of steel and 3000 cars. The USA, on the other hand, produced 90 million tons of steel. However, by 1970 Japan's steel production had overtaken that of the USA, and around 1975, Japan had caught up with West Germany as the largest manufacturer and exporter of cars globally and overtook the USA as the largest producer of cars in 1980 (Singh and Chen, 2018). The presence of industrial conglomerates (the *keiretsu*) and the state's management of industrial policy became a strong pillar for industrial development and expansion. The expansion of exports driven by direct investment from abroad established not only Japan but the whole region as 'the factory of the world' (Nakaso, 2015).

In essence, Japan's developmental state was through the strong political-institutional backing that was able to support bureaucracy with also the ministries and institutions that were able to direct the economy. Important for the Japanese was also investments in education to equip the country with educated bureaucracy and to make its civil service capacitated. This was an important cog that placed Japan in a better position than most countries in the world as their educated civil service were able to make better decisions regarding public investments as well as driving industrial policy. Another benefit of an educated civil service is that they were able to coordinate the economy for the benefit of everyone. The state was important in setting policy, the civil service key to driving it, and the private sector vital in buying in and partnering with the state. The state-private symbiotic relationship was what drove Japan's industrialisation.

3.2.2. Republic of Korea

The Republic of Korea, or South Korea, was an occupied colony of Japan from 1910 – 1945 and was one of the poorest nations in 1948 when the first government was installed (SaKong and Koh, 2010b). From 1961 onwards, the Park government intervened heavily in the economy in an authoritarian and coercive way. The years of Park's administration saw impressive economic strides; Kim and Vogell (2011: 84) posit that it was a miraculous development:

> *"here did not exist in May 1961 a proto-developmental state waiting for new political leadership to awaken its technocratic potential and harness its latent institutional capabilities for the modernization of the country… the developmental state was not a given, but a human artefact that was to emerge out of Park and his inner circle's political risk-taking, policy experiments, and transnational networking with the United States and Japan".*

South Korea's development after World War II and after the ravages of wars and colonialism is nothing short of miraculous. The colonisation of South Korea by Japan is, in some texts, credited as a positive development in Korean history, as it laid the foundations for later rapid economic growth (SaKong and Koh, 2010b). South Korea had a comparatively favourable legacy upon which to begin, as Japanese colonial rule had established a strong administrative state structure and inhibited dominant classes (Huff, 1999). Although it might have been favourable in comparison with other countries, the severance of ties with Japan impacted the economy in a vast way. Many business people, managers, technicians and people of varying expertise returned to Japan, and this left the country reeling and bereft of technical expertise, but also a big market for Korean goods was lost (SaKong and Koh, 2010b).

After the devastating Korean War, South Korea had a GDP of USD1.5 billion in the mid-1950s, and its per capita GDP stood at a mere USD70; the country was poor and had a big peasant population reliant on agriculture and primary sector economy; and was an insignificant economy (Heo et al., 2008). However, by the end of the 1980s, South Korea had transformed into a modern industrialized country, and by the mid-2000s, its GDP stood at

USD949.7 billion, and its GDP per capita had soared to USD19,624 billion, an ‘Asian miracle’ (Heo et al., 2008).

Through a coup in 1961, the government of Park Chung-Hee installed a military dictatorship that would intervene in the economy, and through economic growth and industrialisation change the course of Korean history forever as the per capita income grew from 1,342 dollars in 1960 to 19,227 dollars in 2008; life expectancy rose from 52.4 years to 79.6 years; and infant mortality declined from 70 deaths per 1,000 births to 3.4 deaths in the same period (SaKong and Koh, 2010b). The share of manufacturing in gross value-added rose from 12 % in 1953-1960 to 23 % in 1971-1980 (SaKong and Koh, 2010a).

One of the main frontiers of South Korea’s economic development was its **land reform** process through the Farmland Reform Act of 1949 (amended in 1950). The land reform instituted went against property rights as the compensation granted to landlords was lower than the market price (Kim and Lee, 2004). However, the government was empowered to buy land on behalf of those that owned little land of below 3 hectares, and indeed this policy increased farm household ownership from 16.5 hectares in 1947 to 69.5 in 1965 (SaKong and Koh, 2010b). This assisted in reducing inequality and contributed massively to state-building; however, the restrictions that were placed by the policy hampered the growth of large-scale farming and lessened productivity rates of farming in later developmental years (SaKong and Koh, 2010b).

The Korean model of developmental state was anchored mainly on the pillars of a strong authoritarian state; support for industrial conglomerates (*the chaebols*); backing a strong financial system channelling capital to productive sectors through foreign borrowing; and effective agencies leading investment in new sectors and set standards for judging corporate performance (Mathews, 2001, Jeong, 2004).

3.2.2.1. Interventions

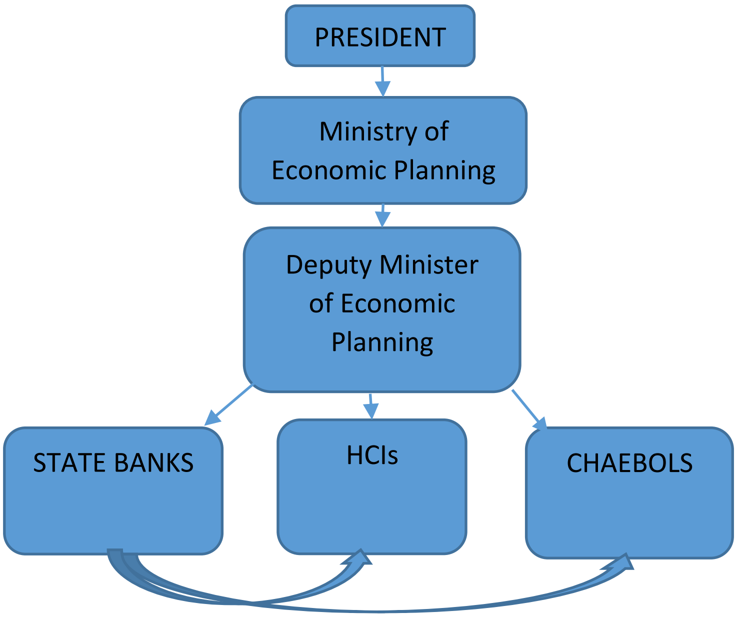
Industrialisation and globalisation are two words that describe the South Korean economic transformation (SaKong and Koh, 2010a). The government of South Korea followed the example of MITI in Japan and established the Ministry of Commerce and Industry (MICI). MICI had a five-year plan dedicated to improving the country’s commercial interests. Through this ministry and later the Economic Planning Board (EPB), the state was able to intervene in the economy and direct policies to drive rapid economic growth (Caldentey, 2009). EPB, in particular, was in a privileged position as a pilot agency and was headed by a Deputy Prime Minister; it was preferred by Park to become ‘superagency’ as far as the economics is concerned (SaKong and Koh, 2010b).

The government, through its five-year plans, applied drastic economic changes in the country and state-banks were created to support these development plans commercially. The first plan granted 34% of gross investment to mining and manufacturing; it also opened up the industrial sector and international competitiveness and identified and expanded key industries, and promoted export and import substitution industries (SaKong and Koh, 2010b). Furthermore, the South Korean government focused on the **creation of industrial parks** to develop technology and contribute to industrial growth. The government sought to support those firms that were exporting exponentially because the industrial policies favoured import substitution and were important in nurturing local developing firms (Kim, 1999). Thus exports from these companies grew from less than 5% in the 1960s to more than 35% by the 1980s (Kim, 1999). These became the precursors for *chaebols. Chaebols* were then initiated and supported as a central vehicle of economic growth and development. *Chaebols* are the long-time pillars of South Korea’s ‘miracle economy’ and were instrumental in the growth of the nation’s economy. According to Kang (1992), a *chaebol* could be defined as a family-controlled group of businesses operating in many unrelated industries. Prominent features of a *chaebol* include the ownership structure controlled by one or a few families and the degree of business diversification. Characteristics are:

- doing business in several industries that are not interrelated,
- being owned by a specific family,
- depending on outside money,
- having centralized control,
- having a paternalistic management philosophy, and
- depending on foreign management resources

The *chaebols* that dominated the South Korean economy were, in particular, these five: Samsung, LG, Hyundai, SK, and Lotte. These companies were placed in a better position because they were export-oriented and contributed massively to the economy. Another company *Daewoo* grew at an annual compound rate of 122% within ten years (1967 to 1977) (Kim, 1999).

Figure 3.2.2.1: South Korean developmental state diagram: links between the state and industry



Source: author's own

The **nationalization of banks** also helped create a good support mechanism for Heavy and Chemical Industries (HCIs) after the second development plan (1967-1971) (Kang, 1992, Kim, 1999). Nationalisation was necessary so that government could control where investments had to take place. There was a strong link between the state and firms, and DFIs were also key (see figure 3.2.2). The state targeted these HCIs, including steel, machinery, shipbuilding, electronics companies and petrochemicals (Suh and Kwon, 2014). A raft of Acts was enacted to support the HCIs to give the companies involved tax exemptions and offer subsidies and financial and non-financial support. Firms were incentivized, and firm-level performance measures were conducted as support was contingent on it. These Acts were the: Textile Industry Modernization Act of 1967; Steel Industry Promotion Act of 1969; the Shipbuilding Industry Promotion Act of 1967; the Machinery Industry Promotion Act of

1967; the Electronics Industry Promotion Act of 1969, the Petrochemical Industry Promotion Act of 1970; and the Nonferrous Metal Producing Business Act of 1971 (SaKong and Koh, 2010a). As stated above, the importance of national banks or Development Finance Institution was paramount in South Korea. These DFIs were able to grant loans and guarantees to *chaebols* and HCIs with the full support of the state (Zysman, 1983, Heep, 2014b).

The South Korean emphasis on **education** was central to skill formation, and it was conducted by the strong direction of the developmental state. The national education system became centralized, and the developmental state intervened in many instances to modify and modernize education. Therefore, South Korean education has been described in five periods: organizing the education infrastructure (1945-1959), supporting industrialization (1960-1979), education reforms (1980-1999), and globalizing the education system (2000-present). All these periods contributed to the country's economic development and showed the state's awareness of the needs that the country's youth required to elevate the country to the next level (SaKong and Koh, 2010b). Literacy rates rose from 22% in 1945 to virtually 100% in the early 2000s, whilst tertiary education expanded and is ranked among the highest in OECD countries (SaKong and Koh, 2010b). The emphasis was on skills formation, dedication to values and moral education, and there was central control of the system. In fact, this allowed the South Korean policies as a whole to be flexible and adapted to changing environments, and their education was always ahead of these changes, as it contributed largely to research and development (R&D) (Kim and Kim, 2014).

3.2.3. Thailand

The Thai monarchy had instituted reforms in the country as soon as 1855, where slavery was abolished, and reforms (although weak) were made to modernize the country. But it was not until a century later, in 1957, when Sarit Thanarat took power through a *coup d'état,* that economic development started to take shape (Rock (2015). The country's institutions became centralized with a weak political party system. The state and political elite started to promote economic development where within a short space of time, the Sarit government developed good relationships with the World Bank and other world economic technocrats and also created close ties with the Thai bureaucracy (Muscat, 1994). However, Sarit forced the government to reduce dependency on and growth of state-owned enterprises. This, in turn, made the state dependent on the private sector for economic development, with the state's role as that of coordination (Muscat, 1994).

The Thai state played an important role in the capitalist development of the country, as it helped open up its economy to outside investment and trade. In addition, there was a drive towards modernizing the infrastructure that would assist with investment in its outward-looking economy (Satidporn and Thananithichot, 2012). The one damage that was observed with the developmental state in Thailand is that, instead of it performing as in South Korea, it spurred developmental authoritarianism and serious state corruption. Thailand had been relatively stable, and it was with the economic development that signs of repression began and increased (Takagi and Khoo, 2019).

Scepticism over Thailand's developmental state was also visible as that country was troubled by the fact that, unlike in the comparatively homogeneous Northeast Asian societies (Japan and Korea), there was palpable racial hostility between the Thai population and the Chinese population who owned a significant part of the economy. This is comparable to South Africa, where the economy is perceived to be in the hands of a minority race. Difficulties were exacerbated by the fact that the state intervened half-heartedly to halt this. The Chinese were enterprising, and most of the businesses in the country belonged to them, which caused resentment from the Thai population, which was overwhelmingly poor. This followed a historical legacy of the country where the monarchy had essentially encouraged a dichotomy; whereby the political scene was controlled by the native elites (Thais), but the economy was dominated by the Chinese, foreign capital, and the aristocracy (Satidporn and Thananithichot, 2012). This brought about the notion of a 'pariah capitalism,' which is a situation where an economically dominant yet, socially discriminated-against ethnic minority seeks patronage from native politicians in return for business opportunities and accumulation of wealth (Satidporn and Thananithichot, 2012).

3.2.3.1. Interventions

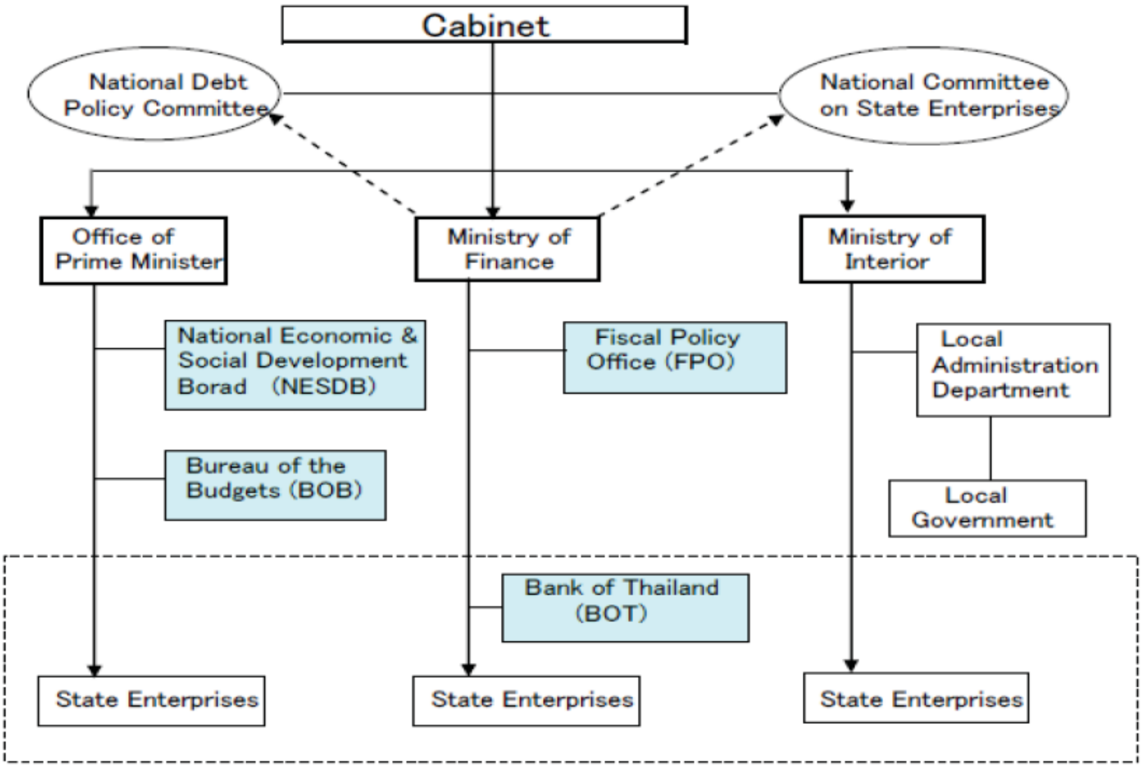
The Thai government's interventions were focused on **government institutions and agencies**. The most important institution that was created was the Fiscal Policy Office in the Ministry of Finance which controlled the fiscal plan, and together with the Bank of Thailand, came to dominate economic policymaking in successive Thai governments (Muscat, 1994).

The other institutions that were created in Thailand and complemented the economic development programme of the Sarit government were:

- The National Economic Development Board (NEDB), which dealt with all the economic development issues in the country as well as formulating an industrial strategy,
- The Bureau of the Budget, which directed finances towards promising industries that had been identified by the NEDB, and
- The Board of Investment assisted with ideas to attract investments from overseas (FDI).

The Thai government focused on **attracting FDI**; this they did diligently. Between the years 1960 and 1997, when the Asian crisis struck, the economy had averaged a 7.5% annual growth. As a percentage of GDP, FDI stood at 0.58 or USD0.09 billion in 1975, and by 1998 this figure stood at USD6.43 billion and accounting for USD7, 31 billion in real terms (TGE, 2018). Scores of people have been lifted out of poverty as it declined from an incidence of 67% in 1986 to 7.8% in 2017 (Mills et al., 2020). In the main, this attests to the fact that there is ‘differentiation of developmental states’ that has to be taken into consideration. In Thailand, the regime constructed several economically enduring and growth-enhancing institutions, which included competent but insulated public sector bureaucracy, especially in macroeconomic management and fiscal planning (Douglass, 1994).

Figure 3.2.3.1: Policymaking Structure and the Four Core Agencies of Thailand under the Thaksin administration



Source: Won (2014)

The Sarit government used its policy instruments to **protect domestic infant manufacturers** and assisted Chinese merchants by instituting import-substitution industrialisation (ISI) through tariff barriers and price controls, which in turn aided the relationship between government and private sector (Hill and Fujita, 2012). Importantly, the ISI strategy helped bring about the development of big firms, although most of them were subsidiaries of the main commercial banks owned mostly by Chinese traders or bankers. This relationship and understanding between the government and private foreign-owned firms led to the economic development of Thailand in spite of corruption, clientelism and patronage politics (Won, 2014). The country built into a developmental state, and to that effect, their government planning was established, as depicted in figure 3.2.3.1 above on Thaksin's administration between 2001 – 2006 (Won, 2014).

3.2.4. Taiwan

In contrast to other developmental states, Taiwan, like South Korea, had a comparatively favourable legacy from which to launch their developmental state. When the conquest of mainland China by the Communists led by Mao Zedong was complete in 1949, the island of Taiwan became an independent state with its own government. Established by Chiang Kai-shek, it relied heavily on the assistance of the United States that had a Cold War outlook to counter Soviet Union expansion in that region. This resulted in an authoritarian political structure which was mainly a defence against an invasive China. The state is a former colony of Japan; it had an *émigré* elite (Wu, 2004). This nationalist government held power in that country up until 1987. From 1949, Taiwan was under Martial Law with the military decree: Mobilization for Suppression of the Communist Rebellion, which was only lifted in 1987 (Yeh, 2008).

The decision-makers were, in the main, the premiers (Presidents of the Executive - Yuan). These technocrats came from a military background, and some were well-educated engineers or economists (Yeh, 2008). In their quest for high growth, the Kuomintang Party (KMT) instituted and fulfilled developmental state constituent factors, and these include state autonomy from society, elite consensus on developmentalism, competent and effective bureaucracy, and market-conforming industrial policy (Wu, 2007). Throughout the high growth period, the KMT maintained a repressive structure and intervention in the economy. Civil society in Taiwan was weak and almost non-existent (Wu, 2007). The priority among politicians and economic bureaucrats was legitimizing the government through economic development, comprising growth with equity (Levi-Faur, 1998). The KMT had lacked legitimacy among the local populace because it was originally from mainland China and was fleeing persecution from there; thus, they had to shore up regime legitimacy with economic development. Therefore, directing economic growth was important because of security threats from mainland China, such that developmentalism was a non-negotiable for the survival of the regime. All organizations representing industry, commerce, and labour were mere extensions of the state rather than independent entities with autonomous interests. The KMT regime was highly resourceful and impeccable in industrial planning and policy drive (Wu, 2007).

There were three categories of economic bureaucratic agencies in Taiwan that gradually evolved into that country's core planning institutions in the 1960s. These bureaucratic agencies comprised the one economic planning, agencies for controlling foreign exchange and trade, and agencies for US aid and assistance (Lee-Makiyama and Messerlin, 2014).

3.2.4.1. Interventions

The Ministry of Economic Affairs (MOEA) and the Ministry of Finance (MOF) were crucial in economic policy-making. They were supported by agencies such as the Industrial Development Council (IDC), the Economic Development Board (EDB), the Council for US Aid (CUSA), and the Council for International Economic Co-operation and Development (CIECD). However, the Taiwan experience of the developmental state was curious in that most of these, unlike those in Japan and South Korea, did not last long. For example, the IDC, EDB, and CUSA lasted five years, and CIECD was in for ten years. Institutional continuities were fragile; however, the presence of a dominant party allowed for stability and some continuities, especially as far as policy-making and ideas were concerned. Also, the industrial policies in Taiwan were scrapped repeatedly, as they failed to transform some of the industries that they were intended to transform (Cheng et al., 1998).

The Taiwanese economy had a successful **Small and Medium Enterprises** (SME) sector that was not directly linked to direct control of the agencies of the state (Wu, 2007). Unlike the counterparts in South Korea or Japan, the Taiwanese government concentrated on the growth of the SME sector and not big *keiretsu* or *chaebols.* This has had a hand in Taiwan not having big global brands like Sony or Samsung, but it has cushioned its firms from the vagaries of global trade as it has been labelled the 'subcontractor of the world' (Mills et al., 2020).

The intertwinement with China presents a perpetual risk that the Taiwan government must always be aware of (Moldicz, 2017). Although having had differences in the past, Taiwan's advantage is its close proximity and historical ties with China, which has catapulted it to a high growth economy and as the Chinese economy has soared, so has the Taiwanese (Moldicz, 2017). Taiwan's economy is dependent on China, and the growth of Taiwanese firms (the so-called Chiwan) in mainland China is significant. Taiwanese companies account for about 25% of total Chinese exports, with these firms employing between 13-23 million workers in mainland China. The companies' combined GDP is around USD700 billion making Taiwan the most significant investor in China (Lee-Makiyama and Messerlin, 2014). This has made the tiny country build up a global hub in electronics and technology. The

Taiwanese developmental state has a strong capability to enforce the policies of the state, and its growth strategy has been dependent on its ability to adapt and be flexible with the changing conditions of the world (Moldicz, 2017).

Taiwan has had a policy mix based on the developmental state application. They have practised pragmatism that has seen them succeed not only in regional terms but on the global stage as well. Its state interventions were in building political institutions that are capable and able to withstand the Chinese regional superpower status. Their business structure does not resemble the ones in Japan and South Korea but has been successful through SMEs and multinationalism. In essence, the Taiwanese developmental state is a great pot of policy pragmatism mixed with state direction.

3.2.5. Singapore

Singapore is a small city-state with a total land area of 660 km^2. It gained self-rule in 1959, being a former colony of Britain. Singapore was a colonial *entrepôt* in the late nineteenth and early twentieth centuries and changed after colonization to become one of the most modernized city-states that specialize in high-value-added manufacturing and international financial and business services (Yeung, 2005). Singapore leaders designed an authoritarian developmental state model with the rationale that this was an essential vehicle to shepherd the march towards socio-economic development.

The then primary architects of this authoritarian developmental state “castigated democracy as anathema to development” (Kieh Jr, 2015: 6). The state had no natural resource endowments and low population numbers; its viability in terms of economic development was questionable. This reality pushed Singapore into a merger with the Malaysian Federation in 1963. The two countries severed ties in 1965 unceremoniously because of ideological dissonance between Singapore’s People’s Action Party (PAP) and the leaders of Malaysia. An important factor from the colonial legacy of the country was that it was almost certainly the only place in Asia where there really was a substantial middle-class population, thus creating good initial conditions for success (Huff, 1995). In addition, as an island city-state, Singapore was able to shut its borders and regulate labour flows, thus preventing rising per capita erosion by immigrants from the surrounding regions (Huff, 1995).

Initially, an independent Singapore was beyond the contemplation of its founding leaders with the assumption that it would be a permanent part of the then newly-formed Federation of

Malaysia. Differences in subjects of race and citizenship proved irreconcilable, resulting in separation and independence in 1965 (Neo, 2007, Liow, 2011). When Singapore came into existence, its agenda became distilled and conceptualized by the PAP into a case of the 'survival of the nation' that could be resolved by successful capitalistic industrial development (Liow, 2011).

The main purpose of the state in Singapore quickly switched to striving for economic development. Economic development was immediately attempted because of that country's small size and also an economic vulnerability which left no margin for error, and thus planning had to be hands-on. The vision, scripted and planned by the government, included the "right" of the government to aggressively and physically develop the island state in the name of growth (Neo, 2007). This included starting up state-owned companies to facilitate the growth of the economy, as well as actively providing the necessary logistical and infrastructural support for foreign firms to invest in the country.

3.2.5.1. Interventions

The state **established its capacity for economic development** by starting several institutions. The Economic Development Board (EDB) was founded in 1961 as an investment promotion agency to assist foreign firms in their operations in Singapore and was tied with the Ministry of Trade and Industry. This agency played a major function in influencing the Singapore economy through its efforts to solve the "unemployment problem, promote investment, train manpower and develop the industrial sector" (Yeung, 2005: 90). The developmental state in Singapore was entrenched through 'soft authoritarianism' where there was economic development, but one political party - the People's Action Party (PAP) - maintained a virtual monopoly over politics. After the ascent of PAP, the primordial intention of its government in Singapore was to transform the economy from being a trade *entrepôt* into a manufacturing hub for the world.

The economy inherited from the British administration had been weak in terms of industrialisation; indigenous entrepreneurship was poor and could not industrialize Singapore. Therefore, from the onset, the government's goal was to orient and look outward into the global economy. They, like Taiwan, created an Economic Development Board (EDB) whose offices were also established in Europe, the USA and Asia to promote the agenda of the state and to support their industrial sector. The country has benefited immensely from FDI, as it attracted over 10% of all FDI to non-Organisation for Economic Co-operation and Development (OECD) countries. The main source was its former colonizer Britain but also a large amount also originated in Japan, the USA and other global economies, with cumulative FDI in Singapore soaring to USD196 billion in the early 2000s (TGE, 2018). By 1997 Singapore was a host to some 16 190 multi-national companies (MNCs) (Lucero et al., 2015).

Manpower and Training Unit (MTU) was established locally to concentrate on industrial training. This was a significant and smart move in Singapore’s investment promotion drive. This was buttressed by the Overseas Training Programme and Joint Government Training Centres with companies Tata (India), Philips (Holland) and Rollei (Germany) assisting the Singapore youth workforce with apprenticeship programmes for the exchange of knowledge and skills (Lucero et al., 2015). The island state has worked on its economic development continuously, and its economic policies have evolved tremendously into what today is known as the Knowledge-Based Economy (KBE), where the focus on scientific research and the cultivation of intellectual capital (Liow, 2011).

The Singapore Tourism Promotion Board (STPB) was also formed in 1964 to promote the island as a tourism destination. There was also a move to create industrial cities and high-tech clusters, manufacturing hubs and science parks in Singapore. The Science Park was set up to stimulate R&D and complement activities by the private sector and was situated next to the National University of Singapore. The industrial strategy was fine-tuned to synergize activities at the firm and industry tiers. Cluster creation was developed through the identification of mutually supporting industries by niche areas, e.g. engineering, electronics, petrochemical, etc. (Lucero et al., 2015).

The formulation of clusters was on the basis of competition through core capabilities (Lucero et al., 2015). Important for this task was the establishment of Jurong Town Corporation (JTC) in 1968 to woo foreign investment into the city-state’s manufacturing sector. This organization was chiefly responsible for the construction and management of industrial estates, which were aimed to allow for low-cost production sites for foreign manufacturing firms. Also important for Singapore was the close alliance of the PAP and the state bureaucracy, and this has been aided by the fact that the PAP has never lost a single election to the opposition party, and this has ensured an uninterrupted dominance of the party’s ideology and its fixation with the economic development of the city-state. Although, this has created a monopolized political power and has encouraged repressiveness, leading to a stable environment (Yeung, 2005).

Singapore was a quintessential developmental state characterized by a **strong, authoritarian state** with little division of state and broader society. Until the recession of 1985, Singaporean life was satisfactory with high and decent-to-high quality of life (Low, 2001). Between the year 1966 and 1990, the economy of Singapore grew exponentially at a remarkable 8.5% annually, while the per capita income grew at a rate of 6.6% rate (TGE, 2018). Also, employment grew from 27% as a share of the population to 51%, with a drastic shift in the quality of the workforce, making its effort to become an 'intelligent island' a reality (Jessop, 2016). Much like in Taiwan, interventionism succeeded in Singapore because of a great degree of pragmatism and a government not beholden to rigid ideological allegiance to either free market or to the state-led economy (Chu, 2016a).

3.2.6. Malaysia

Malaysia is considered one of the most developed economies in South East Asia; it boasted a GDP per capita of USD 10,876.73 in 2015 (Ong and Ong, 2017). Malaysia became independent from Britain in 1957 and had a precariously dysfunctional economy dependent on two primary commodities: rubber and tin. The British had left Malaysia with a relatively strong central government and a small but highly effective civil service, serious in its commitment to basic macroeconomic fundamentals (Rock, 2015). However, there were no strong institutions either to drive economic development or to achieve economic growth. When a federal Malaysia gained independence in 1957 from Britain, it faced many challenges as a multi-ethnic new state. This resulted in racial tensions, which resulted in the expulsion of Singapore from the Malaysian federation in 1965 (Victoria and Ameer, 2018). As a British protectorate, the country's indigenous people (*Bumiputera)* were disadvantaged because of the lack of economic opportunities. Also, the presence of the Chinese population, who were better at trade than the indigenous people, made it difficult for *Bumiputeras* to be successful and own businesses in that economy. Under British protection, Malaysia's Chinese traders and business people had prospered. Thenceforth, Malaysia has become revered for its economic transition from a poor disorderly state on independence to one of the most successful socioeconomically developed countries in the world. For purposes of this research study, the thrust of policies summarised here pertains to how the Malaysian government dealt with wealth inequalities that characterised it after freedom.

The Malaysian regime is undoubtedly a strong state, although its power is curtailed by the dominant forces in society, mainly its multi-ethnic demographics and its global spread of its economy (Hazis, 2012). Malaysia found a delicate balance between competing interests as Jesudason (1997) states:

> *"The market is partitioned to serve different functions and interests. An internationally competitive sector dominated by multinationals generates growth and employment to secure the interests of a generalized constituency, while protected markets serve the interests of key supporters and allies. This effort requires a powerful state under the control of a powerful chief executive who is able to ensure that no one segment overextends itself, which can produce ill political consequences".*

The Malaysian state dedicated itself to governing and directing the market economy. Also, they dedicated themselves to solving racial tensions in the country. This reproduced a sort of developmental state with clientelistic politics where the state and a coterie of people used resources to advance their business interests. Malaysia's case teaches that there is developmental clientelism able to manage the economy and whereby leaders attempt to achieve various politico-economic goals, not excluding their own self-interest and wealth accumulation (Jesudason, 1997).

3.2.6.1. Interventions

The Malaysian government's intervention in the economy was pervasive and ubiquitous. The primary planning body that formulated and outlined the grand plans was the Economic Planning Unit (EPU), reporting directly to Prime Minister. These plans were then refined into five-year plans. The First Malaysia Plan's (1966-70) aim was geared to the promotion of agriculture and industrial activities so as to diversify the economy and create employment, the focus being on export substitution (Lucero et al., 2015). The intention of the independent government was to apply **the land policy in agriculture** through the establishment of the Ministry of Rural and Regional Development. Its assignment was focused on the cultivation of rubber or palm oil and creating a class of smallholder, land-owning Malay farmers to execute this mission (Kyle, 2017). This was done with the intention of assisting the Malay population, who made up the majority of the populace (Varkkey, 2018). Furthermore, government-created agricultural specialised institutions like the Federal Agriculture

Marketing Authority (FAMA, to organise public and private marketing), the Malaysian Agricultural Research and Development Institute (MARDI, to modernise agricultural research), and Federal Land Development Authority (FELDA, to coordinate land policy and eradicate rural poverty) (Varkkey, 2018). The Ministry of Rural Development was created in 1959 and was headed by the then-Deputy Prime Minister. Its function was to coordinate matters and operate as a 'super-ministry' with its tentacles spread over other ministries like public works and agriculture (Lucero et al., 2015).

The Second Malaysia Plan (1971-75) was dedicated to **export-oriented industrialisation** and brought the government into the industrial planning space. Like their South Korean counterparts, the Malaysian government invested heavily in industrializing the country. Through this investment, they established a Heavy Industries Corporation of Malaysia (HICOM) to improve their competitiveness. However, its industries did not perform particularly well as South Korea's and were inhibited by high production costs, heavy debts, market glut, and excess capacity being some of the challenges faced; but also these were beset by big losses and controversy (Jesudason, 1997). HICOM was a public-sector holding company for many businesses, which partnered with many foreign companies to set up industries in paper products, iron, and steel, petrochemicals, cement, machinery and equipment, building materials, etc. This resulted in a boom, and by 1987, there were some 867 corporate public enterprises in the country, with more than a third concentrating in manufacturing (Kyle, 2017).

In the Third Malaysia Plan (1976-80), attention was on **establishing new and improving resource-based industries**, and these were buoyed by the discovery of oil and gas in the Malay region. It also stressed education and training in the fields such as industrial engineering in order to fight the skills problem (Lee, 2018b). In the Fourth Malaysia Plan (1981-85), there was a drive to promote productivity, enlarge the industrial base, and also dedicate the government to modernize the services sector. Also, small-scale industries began to be responsive by improving the provision of training and financing facilities. Malaysia faced a recession in 1985 (with -1, 03% drop in GDP growth) which prompted leaders to conceive of a fifth plan (The Global Economy: 2018). In total, there have been five plans after the recession: Fifth Malaysia Plan (1986-90), Sixth Malaysia Plan (1991-95) Seventh Malaysia Plan (1996-2000). Also, there were two Industrial Master Plans (IMP: 1986-1995 and IMP2: 1996-2005). These were there to cluster the industries and their subsectors and promote and encourage small-scale businesses in manufacturing to prepare them for exports (Ariff, 1998).

The economic growth experienced in Malaysia helped with the reduction in the incidence of poverty and spurred the growth of the middle class in a single generation, especially those of Malay ethnicity (Aziz, 2012). The NEP was successful in transforming the economy of the country from poor to NIC economies. From 1961 to 2011, the country's economy grew at a rate of about 6.5% on average, making it one of the fastest developing countries in the world (Felker, 2018). The Malaysian developmental state was anchored by the idea of redistribution. Malaysia managed to increase its per capita income from a paltry USD304 billion in 1965 to USD4 465 billion in 1996 (Ariff, 1998). Poverty incidence was decreased from half the population on independence to just less than one-tenth of the population in 1995. The mean income was raised and also reduced income disparities between rural and urban dwellers by 1995 (Ariff, 1998).

3.2.6.2. Malaysia's Redistribution Policies

The Malaysian government had faced racial riots after the general elections of 1969 because of its skewed ownership of the economy but even more so the continued poverty of ethnic *Bumiputera* or 'sons of the soil' (Jarvis, 2017). Because independence had had no immediate impact on the socio-economic structure of the Malay society, the government intervened and introduced the twenty-year New Economic Policy (1971-90), which was to "remedy ingrained economic inequalities and socially engineer national unity by eradicating poverty and achieving interethnic economic parity between the *Bumiputera* and the ethnic Chinese population" (Jarvis, 2017: 210). The policy included a slew of proposals designed to accelerate the Malay middle class and increase the representation of the Bumiputeras in the ranks of the capitalists. These included affirmative action, preferential access to loans, government contracts, access to higher education, and easy access to commercial licences.

The *Bumiputera* provision also covered what Malaysians refer to as 'quotas', regarding scholarships, educational or training privileges, positions in the civil service, special facilities, permits or licences for trade or business activities (Victoria and Ameer, 2018). Through a flagship programme called Perbadanan Nasional (Pernas) and later Permodalan Nasional (PNB), attempted to facilitate the development of the *Bumiputera* business enterprises. These drives targeted the transferring of 30% of the nation's wealth to ethnic

Malays in 20 years (by the year 1990) (Felker, 2018). *Bumiputeras* had little access to education and owned only 2.5% of the country's corporate assets, against the over 30% for the Chinese, and foreigners, mainly the British, owning the rest (Lee, 2018a).

The introduction of the New Economic Policy (NEP) became a long project that included social engineering (Felker, 2018). The policy was mostly towards commitment to the reduction of poverty irrespective of race, and also to the restructuring of Malaysian society to decrease the identification of race with economic function (Lim, 2000). In addition, the Malaysian government were going to create employment in more modern sectors and make that reflect the composition of ethnic demography of the country. But the most significant aspiration of the NEP was its assumption that the economy needed to expand and grow rapidly and that the Malays would then share the expanded economy instead of just redistributing meagre resources (Kyle, 2017).

Subsequently, the Malaysian government applied National Development Policy (NDP) and the National Vision Policy (NVP), and these were with the aim of achieving a "balanced development" goal of rapid growth with equity as its primary thrust. In particular, the NVP sought to achieve at least 30% *Bumiputera* (who make up 64% of the population) participation in all industries in the economy and many state departments were tasked with helping to achieve this by 2010 (Ong and Ong, 2017).

Economic development was going to be critical in this venture since the economy was owned by a minority group, thus creating racial tensions. Also, the state enhanced its capabilities and implemented a spectacular and growth-oriented affirmative action programme that would assist in the creation of a Malay capitalist class (Rock, 2015). Through the NEP, a programme called the Bumiputera Commercial and Industrial Class (BCIC) was created and became the main feature of the state’s redistribution aspirations. The policy was aimed at nurturing entrepreneurs and increase their participation in lucrative businesses as well as inserting them at all levels of entrepreneurship that was dominated by non-Bumis (Hamid et al., 2019). It was paramount for the Malaysian government to address the growing discontent about the economic inequalities between the races. Although the Chinese agreed that the policy was important to bring political stability to the country, they held that the policy had not benefitted the majority of Malays and also felt that it created a dependency syndrome (Chin, 2003).

The objective here was to eradicate poverty regardless of the ethnic groups, and poor people had to be assisted and equipped with training and necessary resources; and also skilled to improve their living standards (Yusoff et al., 2000). The strategy was undergirded by a strong focus on economic growth, with import substitution and growth of manufacturing as a big pillar. The policy also ensured that the *Bumiputera* would be empowered without disrupting the other ethnic minorities (Zainal, 1994, Ariff, 1998). Malaysia moved from being a primary sector economy to a highly advanced economy committed strongly to services and manufacturing.

Table 3.2.6.2: Malaysia's Sectoral Contribution in Malaysia (selected before the 1998 economic crash)

SECTOR	**YEARS**						
	1970	1975	1980	1985	1990	1995	1997
Agriculture	29%	29.8%	22.9%	20.8%	18.7%	13.5%	12.2%
Mining	13.7%	4%	10.1%	10.5%	9.7%	7.5%	6.8%
Manufacturing	13.9%	16.4%	19.6%	19.7%	27%	33.1%	35.5%
Construction	3.8%	4.6%	4.6%	4.8%	3.5%	4.5%	4.8%
Services	36.2%	46.5%	40%	43.5%	42.3%	44.3%	45%

Source: (Mansur, 2005)

Another important matter in distribution and restructuring is an affirmative action and employment figures. According to Jomo (2004), these statistics were generally achieved. In fact, *Bumiputera* people's employment in the public sector and the primary sector is higher than their demographic share, although they are still largely underrepresented in lucrative professions. Although the goal of restructuring employment by ethnicity has been met, the attempt to create *Bumiputera* entrepreneurs, especially in the industrial sector, largely failed. Jarvis (2017) points this failure to the patronage politics rampant in Malaysia. The selective patronage was not efficient as the criteria of 'picking winners' was not transparent. The need for selective patronage tampered with the good choices of selecting good businesses to fund and doing so along ethnic lines and channelling these rents to businesspeople aligned to government leaders suggested abuse of affirmative action (Gomez, 2009). The other factor that hampered the development of industrialisation through redistribution policies in Malaysia was that the ruling party, the United Malays National Organisation, was concerned about Chinese corporate ownership growth and ensured that they slowed it down. This effectively made very difficult the job of diversifying the economy as businesspeople simply leaned to their racial proclivities rather than collaborate (Gomez, 2009).

The picture painted above (Figure 3.7) about Malaysia's economic development is impressive; however, the country has faced its own problems regarding redistribution. Many ethnic Malays had the belief that their economic underdevelopment was because of ethnic Chinese and British ownership of their economy. However, the Malaysian state engendered an interwoven system of patronage and corruption between top politicians and business people, leading Jarvis (2017) to call Malaysia a 'political business' state rather than a classic bureaucratic-driven developmental state. In fact, and comparable to South Africa, this political business state (1) created protected economic sectors, justified on the basis of the NEP and the development of *Bumiputera* business and capitalists; (2) creating, in essence, a series of sanctioned monopolies, generating vast resources, power and influence, fuelled patronage politics, clientelism and the cycle of money politics, diverting economic resources to unproductive ends; (3) emerged lucrative nature of networked access to the political business state also made for intense political competition, factionalism and disputation over the division of rents, creating tensions within political parties (Barisan Nasional, UMNO and Malaysian Islamic Party) and intensifying the problems of political management; (4) the division between party, state and corporate entities became increasingly conflated, interpenetrated through complex, mostly opaque, networks of ethnicity, patronage and vested interests (Jarvis, 2017). This case above is comparable to South Africa in that since democracy, the government has attempted to use policy to create a black business class that is able to stand on its own, and this has produced a mix of success and failure.

The main restructuring target aimed at increasing the *Bumiputera* share of corporate stock ownership from 1.5% in 1969 to 30% in 1990 (Lim, 2000). Although the economy had grown rapidly in that period, the *Bumiputera* ownership rose to only about 18% in 1990 and marginally over 20% in 2000 (Jomo, 2004). Admittedly, however, the share of the market held by ethnic Malays could be significantly higher, but it is suspected that government over exaggerates the controversy of foreign ownership of the economy in order to keep its political clout over society (Jomo, 2004). The Chinese-Bumiputera partnership in technology-based industries has, however, increased because of collaboration and industry-specific training (Whah, 2007).

Leadership was important in driving these policies because of the awareness of the effects of their distributive policies on economic growth and their perceived interference in the economy. The leadership often oscillated between hard implementation and a flexible approach to achieving its goals. Also, in recent times and more importantly, has been the problem of intra-*Bumiputera* inequality. Economic imbalances within this group tended to be higher than when the policies were enacted. This introduced a new and immense challenge to the political leadership of the country because other ethnic groups were experiencing the shortening of the gap. Whilst the form of development that took place really catapulted the country into an industrialised economy, racial challenges simmered, and they were not fully addressed. The Bumiputera commercial integration remains a challenge for the government as they have not been fully absorbed into the industries envisaged by the state. Through the rising tide of economic development, the state has been able to forestall any uprising from the Bumiputera, but also because that same group now has its own internal inequalities and economic diversities that make it incongruous. The government believed that there would be a greater socioeconomic payoff if the *Bumiputeras* caught up with incomes of other groups than competition within itself. Also, the usual matters of unhappiness regarding the awarding of government contracts, government-funded projects, and the perceived beneficiaries of privatized projects and licenses were apparent. These points have combined with rising discontent among the *Bumiputeras*, as political connections seem to play a hand in choosing beneficiaries in this increasingly globalised Malaysian economy (Yusof and Bhattasali, 2008).

In conclusion, the Malaysian version of a developmental state rested heavily on redistribution. The phases of economic growth, diversification, and distribution were also taken seriously, and this helped them structure a workable solution to their societal problem of economic underdevelopment and racial exclusion in economic participation (Yusof and Bhattasali, 2008). Beginning with an institutional setup for land reform and trying to build more institutions for interventions in the economy, Malaysia is a quintessential developmental state.

Table 3.2.6.2.: East Asian Comparative Table, Source: Author's own

COUNTRY	POPULATION	LEGACY	GDP 1960/2010 (constant dollars)	NATURE OF GOVERNMENT	TYPES OF INTERVENTIONS
Japan	Homogenous Population	Favourable legacy but a long history of war and occupation	1960: USD796.2b 2010: USD5.4742tn	Democratic and economically mercantile	Strong bureaucracy, political direction, involvement and buy-in of the private sector, Investment in education. State Institutions such as MIC, Ministry of Finance, Economic Planning Agency, MITI, and the *keiretsu*.
South Korea	Homogenous Population	(Favourable) Colonial Legacy	GDP (constant dollars) 1960: USD3.96bn 2010: USD1094.5bn	Military Nationalistic Dictatorship	Institutional Capacity through – RPB, Chaebols, HCIs. **<u>Other Areas of Importance</u>** Successful Land Reform Process; nationalisation of banks; investment in education Protectionism - different Acts of the legislature to promote exports and infant industries
Thailand	Non-homogenous country	Monarchical Legacy of 'Pariah Capitalism	1960: USD2.76bn 2010: USD341.11bn	Authoritarianism coupled with Corruption	Institutional Capacity through – National Economic Planning Board. The Bureau of Budget, etc. **<u>Other Areas of Importance</u>** Government agencies; Attracting FDI, Strong

					Bureaucracy insulated from politics Protection of infant industries, import substitution. Strong Relationship between private foreign-owned firms and the state
Taiwan	Homogenous country	Fugitive State – Chinese legacy – Fleeing Mao Zedong	GDP: USD19,662,211 Per Capita GDP: USD27,298	Authoritarian – Martial Law rule by decree	Institutional Capacity through different economic planning agencies for Taiwan. **Other Areas Of Importance** Focused on SMEs; Educated technocrats and well-educated engineers and economists KMT Party fears against Chinese take-over
Singapore	Diverse population	Merged with Malaysia and after this dissolution emerged as a city-state	1960: USD5.6bn 2010: USD236.42bn	Authoritarian developmental state	Institutional capacity through KBE, FDI, MNCs. But also, the EDB-STPB — Science Park and JTC. **Other Areas of Importance** An *entrepôt of East Asia*[6]; cluster establishments; PAP – survival of the nation the utmost important

Malaysia	Diverse population	British Colonial Legacy	1960: USD1.92bn 2010: USD255.02bn	Strong Nationalistic State	Land Reform; export-oriented industrialisation; creating new and expanding existing resource-based industries; Institutional capacity ran through the EPU but not limited to it – others such as the IMP were key as well. **<u>Other Areas Of Importance</u>** FELDA was key in driving development through land redistribution and cultivation Race Riots – NEP – Economy had to expand rapidly to quell problems Growth-oriented affirmative action Investments heavily on industrial parks – HJCOM EPU was critical in the policy structure and application Malaysian Economic Plans

3.3. The Experience of the Developmental State in Africa

The possibilities of African states becoming developmental states has elicited interest for many scholars (Mkandawire (2001), Edigheji (2010), Chang (2013), and others), development organisations (UNECA) and African leaders (Zenawi, Khama, etc.). When one speaks of the developmental state, almost all literature comes from or invokes East Asia. As much as the East Asian experience was remarkable, what is more noteworthy is the failure (or reluctance) to follow suit from other states. There is an increased interest in scholarly circles for an African developmental state (Mkandawire, 2001, Maphunye, 2009, Qobo and Motsamai, 2014, Qobo, 2016). As mentioned above, Johnson (1999: 43) stated that the developmental state "…actually exists in time and also exists as an abstract generalization about the essence of the East Asian examples… it is both particular and generalizable". Context is everything when one deals with the developmental state. Some African scholars believe that a developmental state is appropriate for African countries within the context of modern era emphasis on democracy, good governance, human rights, and a whole range of features that are often associated loosely with democratic rule (Maphunye, 2009, UNECA, 2013).

The resurgent developmentalism debate in Africa in the 2000s was an important admission that policymakers were starting to trust the state again and that neoliberal orthodoxy of the 1990s would not be the main ideology (Saunders and Caramento, 2018). Stiglitz et al. (2013) believe that Africa has an opportunity in the current global climate as many developed and fast-developing (like China) countries move towards the services sector the manufacturing jobs may be for Africa to seize. Couple with a growth in working population that is expected to reach over 1 billion in 2040, the continent will have an opportunity to insert itself at a global stage.

The cause for hope is justified; however, a lot still needs to be addressed. In almost every human development indicator, African nations remain behind other comparable countries (Mabasa and Mqolomba, 2015). For example, in 1960, the GDP of Sub-Saharan Africa, Latin America, and East Asia and the Pacific was USD30 billion, USD82, and USD153 billion, respectively. The same in 2017 was USD1.67 trillion for Sub-Saharan Africa, USD6 trillion for Latin America and the Caribbean, and for East Asia and the Pacific, it was USD24 trillion. Also, Sub-Saharan Africa's GNI per capita was USD120 billion in 1960, Latin America and the Caribbean's was USD492 billion, and that of East Asia and the Pacific was

USD143 billion. In 2017, however, this figure was USD1.5 trillion for Sub-Saharan Africa, USD8.3 trillion for Latin America and the Caribbean, and USD10 trillion for East Asia and the Pacific (TGE, 2018, Data, 2018). This shows impressive strides in East Asia, Latin America, the Caribbean, and the Pacific, but strides in Africa have been slow (World Bank Data, 2018). Although primary education enrolment had been steadily increasing from 82% in 2000 to 98% in 2018, access to schooling equipment and building infrastructure is still lagging behind, and SSA's poverty eradication strategies are not effective as a majority of the population continue to live below USD1 ratio per day (World-Bank, 2019b).

The notion that the developmental state approach is neither viable nor applicable in Africa has been phrased as the 'impossibility-theorem' (Mkandawire, 2001). There are three points that serve this argument; the first is The Impact of Globalization on National Governance as observed through the changed geo-political context (Routley, 2014). The second pertains to the Problem of Transferability of Institutions. This view is not directed only at Africa but has been advanced more vociferously against African states because it is believed that their lack of institutional resources may not be conducive to developmentalism. The third point is on the Absence of Institutional and Governance Capacities. This point argues that the reproduction of the East Asian developmental state model was, to a great extent, determined by the capacity available in those countries, and the aspirant developmental states must have the same complement of capacity (Beeson, 2008). The currently available capacity in the state bureaucracy and political leadership does not follow the superiority that East Asian economies had in this regard due in part to the persistence of neo-patrimonial inclinations (Meyns and Musamba, 2010, Haggard, 2018). The state is predatory when few elite individuals that govern use their positions to get income from private citizens and use it for their own benefit (Lucero et al., 2015).

After the success in East Asia, many developing countries sought to use the same model to grow their economies, and Africa was not left out. After independence, most African states began the journey of transformation of respective inherited economies with different success rates. There was also a great deal of state involvement in these processes, partially owing to the lack of native private capitalist class and the structural patterns wrought by the colonial economy (UNECA, 2013). However, the poor performance of most African economies that led to the subsequent 'economic crisis' of the 1970s called for a re-evaluation of the role of the state in the economy in the 1980s (UNECA, 2013). The developmental state in Botswana and Ethiopia brought stability and economic growth to those countries and also raised hopes that the developmental state is applicable generally to the rest of the world (Biedermann, 2015). This section will look at these two countries in Africa that have attempted to use a developmental path.

3.3.1. Botswana

When Botswana acquired independence in 1966, it was one of the poorest countries in the world. With a per capita income of just USD500 (constant 2010 US$), Botswana by 1990 had risen to an income per capita of USD4133,458 and by 2015 had climbed further to USD7613,698 (World-Bank, 2019c). Other than its desert and vast land (almost twice the size of Germany), Botswana is famous for its mineral wealth, particularly its diamonds, which is what has powered this nation's economy of just over 2 million people. Also, its economic growth between 1966 and 1990, its GDP grew by 10% annually, and its GDP/GNI per capita at a rate of 8.4% per year (Meyns and Musamba, 2010). In the 1980s, its economy was growing at rates surpassing the East Asian economies, averaging 10%, with real per capita income increasing ten-fold between 1966 and 1999. The state in Botswana actively plans its economic development policies through a number of institutions (Shumuye, 2015). The Ministry of Finance and Development Planning (MFDP) is a crucial institutional pillar that drives this process, comparable to MITI of Japan and EPB of South Korea (Meyns and Musamba, 2010). This ministry is based in the Vice President's office and ensures harmony in planning and budgeting, effective execution of goals, and driving private foreign investment in congruence with national economic development goals. Economic development in Botswana, therefore, is not only state-led but is also state-directed, with this body, the MFDP, acting as its economic high command and directing the economy (Sebudubudu, 2005).

Botswana's government has been able to contribute to the cultivation of skilled and politically neutral bureaucracy that is able to apply policies. Furthermore, the leadership has been able to channel the resources of the country in the sectors that will encourage economic development and the wellbeing of the nation. The country has National Development Planning (NDP), which is a deliberate campaign by the state to provide coordination of economic decision-making in order to achieve the goals of development. The developmental character of the Botswana state in economic development started at independence when the first NDP was established. This put the state in the centre of economic and social planning at that time because there were no other sources of development that were evident or readily available (Shumuye, 2015). The longevity of this important institution has helped catapult the country to good economic stability and development. Botswana embarked on the national planning route after independence, and this was done within the free-market economy (Craig, 2017).

The planning process in Botswana's developmental state is rather a central part of their development progress. They do this by careful planning and going with worthwhile and useful projects and discarding or avoiding useless and fruitless projects (Shumuye, 2015). Diamond mining and its revenue contribute more than 50% to the economy, and the government managed to use this to support its infrastructure programmes, as well as investments in education and other sectors. Moreover, pilot institutions were created to support economic development and stimulate private sector growth (Shumuye, 2015).

3.3.1.1. Interventions

The Botswana Development Corporation (BDC) was established in 1970 as Botswana's main agency for commercial and industrial development and a Development Finance Institution (DFI) owned by the government. Its functions are to support businesses in the country by **financially supporting them through grants and targeted contracts**; provision of financial assistance to investors through tax breaks and incentives; building partnerships with and supporting investors with commercially viable projects to generate employment opportunities (Taylor, 2002). To achieve this, the BDC provides assistance through short and long term loans, investment advice, management services and factory buildings, and they also fund viability studies and encourage citizen participation in business (Sebudubudu, 2005). Also, the Botswana Export Development and Investment Authority (BEDIA) was created to promote investment in Botswana and promote export-oriented manufacturing through the identification of markets for Botswana products. The Financial Assistance Programme (FAP) also was established to aid business enterprises that produce or process goods for import substitution or for export. Taken as a non-sustainable project, it offered tax-free grants and fixed capital assistance for investors (Taylor, 2002, Mbabazi and Mokhawa, 2005). However, the majority of investors only joined it because of these incentives rather than on sound business plans or hope for growth and to develop the economy of the country, and there was widespread abuse of this platform. These were mainly fly-by-night entrepreneurs who left the workers and Botswana as soon as their fortunes waned (Taylor, 2002).

The unfortunate experience with FAP led the government to devise a new scheme called Citizen Entrepreneurial Development Agency (CEDA), to assist in the development of citizen-owned businesses, and implemented through entrepreneurial and management skills training, monitoring and mentoring, as well as through the provision of loans at subsidised interest rates with shared risks (Taylor, 2002, Mbabazi and Mokhawa, 2005). Sebudubudu and Mooketsane (2016: 168) credit four factors for what has made Botswana's economic development and political stability be sustainable, which are - "strong and committed leadership; ability to manage ethnic diversity; a competent, representative, and meritorious bureaucracy; and the ability to forge a public-private sector coalition".

Some factors that have been critical for Botswana's developmental state, according to Shumuye (2015), are the geopolitical location, the socio-political structure; minerals endowment; market-friendly institutions and development policies; a small and homogenous population; transparent and committed political leadership; and good relations with international institutions. The country boasts of a history of democratic governance since independence although, only one party (Botswana Democratic Party) has always won elections (Silve, 2012). The primacy of politics is critical, and BDP dedicated itself to the economic development of Batswana, as the party decided on a developmental state trajectory. This was strategic and was followed by the nationalization of the country's minerals to extract rents, to establish and fund a developmental state. The party was also instrumental in the furtherance of its objectives, as they ensured proper balanced planning and the training of its cadres to adhere to and drive its policies diligently (Botlhale, 2017).

3.3.2. Ethiopia

For much of its history, Ethiopia had been a monarchy until the Derg, backed by the Soviet Union, overthrew the rule of Haile Selassie in 1974. The Derg rule was also overthrown in 1991 by a coalition, the Ethiopia People's Revolutionary Democratic Front (EPRDF) (Alemayehu, 2009). However, it was not until 2005 and the election of Meles Zenawi when the country's policies began clearly to be aimed at economic development, and as the President himself put it, a democratic developmental state. Zenawi was also bullish that many African states could gather external support that they could realign internal conditions in compliance with the requirements of a developmental state (Alemayehu, 2009).

Zenawi's government was direct in saying that the pursuit of neoliberal policies had not yielded much-needed development on the continent, and thus 'democratic developmental state' was needed in Africa to put the history of underdevelopment to an end. This will lead to Democratic Developmentalism (or DD), explained as "a political regime in which a developmental party remains in power for a long time, by consecutively winning free elections, which permit multiple parties, under which policies that punish rent-seeking and encourage productive investment, are implemented with a strong state guidance" (Ohno, 2009). ERPDF declared that the worst enemy of the country and its people, was poverty and they galvanized society to fight to end this scourge.

Ethiopia is an African country and has a population of about 109 million, 80% of which lives in rural areas (World-Bank, 2019d). The institutional capacity in Ethiopia lacks because of low education levels, less dedicated staff, and low apolitical bureaucracy. This is not really a matter of recent development but a matter of historical neglect in Ethiopia, which is education (Ohno, 2009). Education is very important for the developmental state to take shape. In a country that had a 39% adult population who can read and write in 2015, education has been highlighted by GPE (2019) as a big challenge for the Ethiopian government to address, even more so, because bureaucracy is such a strong pillar of a developmental state. However, a positive is that there is an 85% net enrolment for primary schooling in 2019 from 62% in 2011, meaning that access is being addressed (World-Bank, 2019). FDRE (2002) mentioned capacity building is a critical imperative to ensure rapid, broad-based development and poverty reduction. The program was planned to be an integrated and holistic framework and targets the capacities of the public, private and civil society organization to optimize the synergic effect, to strengthen democracy, accelerate development and poverty reduction. In subsequent times, what has been highlighted as a cause for lack of capacity is the absence of adequate higher education institutions and low literacy rates that makes the task of improving the country difficult (Gebremariam and Bayu, 2017). Furthermore, Ethiopia has not been able to attract highly qualified skills to achieve its developmental state and has also failed to use the little existing skilled workforce that it has effectively. This is a result of a non-merit based system of employment that rewards party loyalty and affiliation over skills, and this presents a fault-line in the country's quest to become a developmental state (Gebremariam and Bayu, 2017).

Clapham (2018), on Ethiopia's challenge in the 21st century, and if it can sustain the economic development, states that the challenge that the country has, is whether it can transition to a very different kind of state whereby the major economic initiatives are driven by the private sector, and the state becomes adaptable to those changes that may come. The second is to carve out a political system where the state is accountable, something that has not happened in Ethiopia before (Clapham, 2018).

3.3.2.2. Interventions

In 2002, the government of Ethiopia presented the Sustainable Development and Poverty Reduction Program (SDPRP). This programme was established because of the realisation from the Federal Democratic Republic of Ethiopia (FDRE) (2002: i) "that in the absence of proactive development policies, it is impossible to create an enabling environment for accelerated development, and attainment of improvements in the standards of living of the people". Being a majority rural area, the Ethiopian government established Agricultural Development Led Industrialisation (ADLI) as their policy principle to promote national development (Ohno, 2009). The government identified this as a conduit for economic development as that would bring in more people to participate and not be bystanders in the development of their country. Thus, the SDPRP sought to promote agricultural development and poverty alleviating measures in rural areas through the strengthening agricultural extension services; the training of extension agents in Technical Vocational Education and Training (TVET) and the training of farmers in Farmers Training Centres (FTC); water harvesting and irrigation; improved marketing opportunities; restructuring peasant cooperatives; and supporting micro-finance institutions (FDRE, 2002).

The DD and ADLI have become complementary policy tools in Ethiopia, with the former dealing with the political side of development and the latter attending to the economic and industrialisation side of it. Furthermore, the government developed the Industrial Development Strategy (2002), which lists the conditions under which Ethiopia's industrialisation must be carried out. It states that the private sector must be the leader in this path, and there must be parallel development of agriculture and industry by mutual dependence. The economy must be export-orientated with a focus on labour-intensive industries. It also mentions the identification and proper roles of local and FDIs and having this through very strong state guidance and mobilization of all social groups, including government-capitalists, capitalists-small farmers, and labour-management (Ohno, 2009).

In addition to this, the government developed the Sustainable Development and Poverty Reduction Program (SDPRP). This program was aimed at promoting agricultural development and poverty reduction in rural areas. This was to be achieved by training and strengthening agricultural extension services, improving water harvesting and irrigation measures, marketing; restructuring of cooperatives; and providing support to micro-finance institutions. Another strategy - Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 2005/06 - 2009/10 was developed to address challenges encountered with the first one (Ohno, 2009). It had been observed, however, that there was a disconnect between the deeply rural-focused industrialisation with the linkages that it is trying to impose in the more urban and modern kind of export-oriented industrialisation (Ohno, 2009, Gebremariam and Bayu, 2017).

The Ministry of Finance and Economic Development (MOFED) is the institution charged with the responsibility of the planning, controlling, monitoring and execution of the plan, and had a responsibility of making Ethiopia a middle-income country by 2025 through a comprehensive five-year Growth and Transformation Plan (GTP) (Woldegiyorgis, 2015). Records showed that Ethiopia had registered a high economic growth rate since it adopted the developmental state as a model (Asayehgn, 2012). From the year 2000 to 2015, the country had an impressive 10,482% GDP growth, and even more impressive as – it moved from USD8 billion in 2000 to USD80 billion in 2017 (The Global Economy: 2018; and World Bank Data: 2018). The poverty reduction levels measured by poverty headcount have also declined from 41.9% in 2005 to 29.6% in 2011 (Meisenhelder, 1997, Asayehgn, 2012).

Table 3.3.2.2: African Comparative Table, Source: Author's own

COUNTRY	POPULATION	LEGACY	GDP (constant dollars)1960/2010	NATURE OF GOVERNMENT	STATE INSTITUTIONS
Botswana	Homogenous population	Colonial Legacy	1960: USD0.3bn 2010: USD29.3bn	Democratic	Institutional capacity through – BPP – National development Planning was paramount BDC – BEDIA – FAP, CEDA. **<u>Other Areas of Importance</u>** MFDP the crucial state institutional pillar
Ethiopia	Legacy of Monarchs	Royal Kingdom history	1981: USD7.32bn 2010: USD29.93bn	EPRDF and President Zenawi Democratic Developmentalism - DD	SDPRP was instrumental, ADLI – Industrial Development Strategy (IDS) Institutional capacity through -, PASDEP, MDFED, GTP

3.4. Concluding Remarks

The ministries such as MITI in Japan was instrumental in coming up with developmental policies, and so was the MICI in South Korea or MOEA in Taiwan; these ministries were the political buttress for the developmental state implementation. More than the ministries shoring up the political-institutional infrastructure were the institutions of economic planning and agencies that were key in driving specific developmental goals. In all countries where developmentalism has existed, these economic planning agencies existed. They form the institutional core of what developmental states are about. In Japan and South Korea, it was the Economic Planning Agency; in Thailand, there was National Economic Development Board; in Taiwan and Singapore, it was Economic Development Board; and in Malaysia, it was the Economic Planning Unit. In the main, these were charged with overlooking economic plans. Also, sectoral institutions were set up to bring about specific administrative rules and regulations to support the developmental state. Economic plans are the feature of the East Asian and African developmental states, and these are what the agencies and planning units administer. These are the real developmental specific programmes that span sectors and spheres of governments where developmentalism occur. In Malaysia, they had the numbered Malaysian Plans (first, second, third, etc.). It is these programmes that have been credited to have assisted with industrialisation and expansion of economic development in these countries. Education is one of the important factors in these countries; this is to assist in the creation of an educated and apolitical bureaucracy.

Industrialisation is a bedrock of developmentalism, and without it, many of these countries discussed above, especially from East Asia, would be considered for inclusion in the developmental state discussion. The creation of chaebols and the keiretsu are instructive for South Korea and Japan, and they were key in assisting those countries in export-led industrialisation. What is important with industrialisation is the economic plans cited above; these help with laying out what is important for these countries in terms of development needs and industries they can identify as the potential for growth.

There has been no developmental state that has operated without a functioning and active industrial policy. As stated above, industrialisation is a hallmark of the developmental state, and this happens with the encouragement of an active industrial policy. Countries like Malaysia and Thailand offer an interesting case of developmental states mixed with redress and are comparable to the South African case. In Thailand, the hostility between the Thais and the Chinese was palpable. However, this pariah capitalism practised there has succeeded in developing the country's economy. The attraction of FDI has been an important mark for the Thai state. The economic growth and expansion of economic development have happened, although the minority Chinese own much of it. The Thai government has not really executed clear policies of redress, but they have focused on economic development in a belief that a 'rising tide lifts all boats.' Malaysia's example is instructive with regards to the argument of developmental state and redress. The *Bumiputera* people are the majority group in Malaysia, and the state has used quotas to address the economic subjugation of this group of people. Through these quota policies, they committed to transfer 30% ownership of the Malaysian economy. These were, to a high degree, achieved. But inequalities within the Bumiputera is still present. This speaks to the challenge of racial exclusion and the difficulty in addressing such matters.

For countries seeking to emulate developmental states, this chapter offered a view on the states that have been developmental. Although the context is important and each country has different capacities and capabilities, the developmental state is clear on the set of structure and systems that ought to be there for it to exist. So, it is crucial to tying the practice with theory on conditions for developmental states. The importance of institutions, which is driven by development-oriented leadership with a developmental vision, is important. The sub-structures of agencies and economic planning units are a job of an autonomous, efficient, and efficient bureaucracy. The creation of plans and sectoral programmes is a challenge that is set for the partnership with the production-tailored private sector, where there is a correlation between the interest of the state and the private sector in a mutually beneficial way. The whole ecosystem has to work in a synergised fashion. Lastly, industrialisation cannot happen without an active industrialisation policy. Developmental institutions will not be produced by weak leadership. If institutions are not produced efficiently, then the bureaucracy will suffer and will not execute duties diligently. If this is the case, then economic planning unites, and development agencies will not have the right system to spur economic development and administer a developmental state. In the end, industrialisation will not occur, and thus the developmental state cannot happen.

For countries like South Africa bearing their context in mind, it is important to look at the institutional setting that developmental states of East Asia and Africa have had and glean what could, in the context of their country, work. Adopting a suite of developmental policies has to be complemented with qualified bureaucracy and apolitical state functionaries who will be able to carry out state functions.

4. CHAPTER FOUR: BLACK ECONOMIC EMPOWERMENT – FROM TRANSFORMATION TO INDUSTRIALISATION

"We, therefore, make bold to say that South Africa is a country of two nations. One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal; the second and larger nation of South Africa is black and poor, with the worst affected being women in the rural areas, the black rural population in general and the disabled. This nation lives under conditions of a grossly underdeveloped economic, physical, educational, communication…. has virtually no possibility to exercise what in reality amounts to a theoretical right to equal opportunity."

(Thabo Mbeki, 1998)

4.1. Introduction

Black participation in the economy of South Africa has historically been minimal. From the time that colonisers arrived in South Africa, Black people have been marginalised through various legislation. The Dutch and British in South Africa imposed their policies upon black South Africans through the first dispossession and then through segregation (Murray, 1982). In fact, during the period of British colonialism, South Africa fell under the yoke of the Colonial Laws Validity Act of 1865, which was used to nullify any act by a colony that was deemed offensive by Britain (Williams, 1990). Further years of colonial and apartheid rule created a large sect of society that did not contribute meaningfully to the economy of the country. It was not until 1994 that things changed with the election of the first democratic government (Harvey, 2016).

In the Convention for a Democratic South Africa (CODESA) in 1990-1993, political parties negotiated an inclusive political system; however, a deeply exclusionist economic structure was not negotiated (Mbeki, 2009). The ANC government that took over in 1994 set out to incrementally effect transformation and redistribution in the economy (Mofokeng et al., 2018).

The marginalisation of black people was not an accident of history but rather years of poised and deliberate institutionalisation of racism and segregation in the political and economic fibre of the state. Dating back to the 19th century, labour laws were a tool affecting black subjugation in South Africa. The policies used to achieve this spanned education, employment, healthcare, housing, finance, and more (Seekings, 2011). With the democratic rule in place, the ANC sought to introduce BEE in an effort to transform the economic fortunes of the previously excluded majority peoples. The presence of the policy of Black Economic Empowerment in South Africa continues to shape debates on black people's economic inclusion, and many writings about it have been about either invalidating it or praising it. The task of redress emerged with the backdrop of a deeply racist apartheid system that structured the economy to benefit white people and eliminate and restrict the black majority's participation (Chabane, 2003).

Starting from when the African National Congress (ANC) gained political power in 1994, South Africa's economic transformation has always been a paramount goal, and this has explicitly implied racial, economic redistribution (Mattes, 2015). For instance, six years into democracy, President Mbeki (RSA, 2000: 10) remarked:

> *"…the social and economic structure of our society is such that the distribution of wealth, income, poverty, disease, land, skills, occupations, intellectual resources and opportunities for personal advancement, as well as the patterns of human settlement, are determined by the criteria of race and colour".*

Although policies have been enacted and the government pouring resources into programmes aimed at it, the transformation in terms of black people actually owning the economy has not emerged as envisaged (Mofokeng et al., 2018). In 2013, the spending on BEE spending share by the JSE to 50 listed companies on suppliers was at 6%, and only a percentage point went to those that were both back and female-owned. As of 2015, the published black holding by JSE on the top 100 listed companies amounted to just 3% (JSE, 2015). However, there are other instruments of ownership through mandated investments that are substantial than mere ownership that pays dividends (RSA, 2017). While these are important, they have proven impotent in facilitating transformation in terms of chairmanship and CEO at the top of the pyramid in JSE. Among the top 40 companies at JSE, roughly 90% of chief executives and 85% of board chairpersons are white men (Oliphant and Short, 2020). There have been calls for these mandated investments, such as pension funds, to be regulated and, for example, be required to be managed by financial services providers (FSPs) that reflect SA demographics (Oliphant and Short, 2020). Also, in 2015 the financial sector, after 11 years of its promulgation of a 10% target of transformation, had only achieved 6% black ownership across the board (NEF, 2017). The highest black empowerment results by the sector have come from mining with 11.8%. Retail has the lowest penetration of black people at a meagre of 1.8%. This highlights the challenge that transformation policies are against (Intellidex, 2015).

This chapter deals with the history of Black Economic Empowerment, its history and its application in South Africa. The literature review seeks to showcase the way that Black Economic Empowerment has been practised as well as position the new Black Economic Empowerment within that prism and how it might contribute to black ownership of the economy. It begins by looking at the literature on the general history of black capitalism in South Africa and different epochs in black business. Black Economic Empowerment as practised in South Africa will be discussed, looking at its evolution from the fall of apartheid to the Black Industrialist Programme. It will concentrate on some of the achievements as well as challenges and critiques of the policy. The section starts by looking at the history of black business.

4.2. Brief History of Black Capitalism in South Africa

> *"…recorded history fails to show the achievements of black people in the business. Most of recorded history depicts black people as an indolent and commercially unimaginative lot that should be grateful to the civilising mission of the colonial conquest"* Mafuna (, 2007: 34).

South African history is usually (incorrectly) viewed as distinguishable from other African countries affected by imperialism even though it is evident that apartheid descended directly from colonialism and its traditions (Decker, 2010). Political and social repression of black people before 1910 in Southern Africa was similar to colonial repression in other parts of the world. At the heart of black economic history in South Africa, recorded and documented, is the effects of disempowerment and dispossession - all of which were key to the annihilation of the black economy (Mangcu, 2007). After the arrival of white people, there was sporadic but sufficient growth of Black entrepreneurs who took advantage of white development, and they were pretty much on par with the white people (M'Paradzi and Kalula, 2007).

4.2.1. Black Economic Participation after the 1910 Union of South Africa

Although the 1910 Union of South Africa provided for white South Africans a fillip to enact laws that would make them amass massive wealth at the expense of black people, the first of these laws passed by The Union was the Mines and Works Act of 1911 and amended as Act of 1926 (Ross, 1993) this was. Colloquially known as the Colour Bar Act, this was established to prevent black people from doing certain job categories that were a preserve for white people. The 1913 Land Act was enacted to rid the country of communal land rights and resulted in many Black people losing their land and livelihoods. The Riotous Assemblies Act of 1914 was used to give powers to the Minister of Justice to prohibit any person from being in an area if the minister deemed that person as promoting feelings of hostility between white people and other segments of the population. The Industrial Conciliation Act of 1924; the Wage Act of 1925 were created to safeguard the employment of white people and to limit wages for black people, respectively. The 1927 Bantu Administration Act introduced pass laws and acted to restrict and control black 'reserve' labour. This legislation made it an offence to utter or publish any word with the intent of promoting feelings of hostility between the natives and Europeans (Williams, 1990). This was followed by the 1930 Natives (urban areas) Amendment Act which sought to stop Black people from farms moving to urban areas. Lastly, the 1936 Native Trust and Land Act acted to facilitate the removal of Black people from any white farms if they were not labourers. These laws were directed at black people and for the purpose of cementing white economic supremacy.

The laws were a precursor for the later application of racial, social policies by the apartheid state. The segregationist policies of apartheid called the Group Areas Act of 1950 and the Population Registration Act of 1950 were key in creating divisions identities and forcing them to be apart. The Black Urban Consolidation Act of 1945 and Natives Laws Amendment Act of 1952 became known together as influx control laws or pass laws; and the Promotion of Bantu Self-Governing Act of 1959 would follow later with arguably the same viciousness in crippling Black people and their business potential (Butler, 2007a). This was a difficult period for Black people as in a short space of a generation, and they had lost all of their power and resources to fend for themselves (Ross, 1993). Looking at this part of the history of the South African racist policies, it could be seen how the dispossession of land from Black people was taken, and Black people then coerced to work it to the benefit of white people (Innes, 2007).

The apartheid state was effectively able to exert control over the people and resources that were important to the country and trade (Tangri and Southall, 2008). The result of that was black capitalism that could only operate at the fringes of the main economy. Black capitalism was condemned to Bantustans, where very few businesses could thrive because of a lack of infrastructure (business support, funds) (Innes, 2007).

When combing through the literature, it is evident that the struggle waged against colonialism and apartheid was more political than economic. There were no economic alternatives to how the apartheid economy worked. Understandably, like most liberation movements, the ANC theorised more about politics than economics during its prosecution of the struggle (Mafuna, 2007). The economic liberation policy that prevailed was the Freedom Charter. It was to lament the state of rapacious poverty, terrible labour conditions and its advocacy for the nationalisation of economic resources (COPE, 1955).

The Freedom Charter, a futuristic document that was a result of a wide range of consultation in the country between the ANC and its allies, was the first official document to locate the struggle as emanating from land dispossession and the skewed ownership of resources (COPE, 1955). This is because the Charterists (as people that followed the Freedom Charter were called) believed that white minority rule had facilitated the monopolisation of the economy in a way that eventually benefited a group of powerful white capitalists. With regards to the economy, the charter, through the Congress of the People that was organised by the leaders at the time, declared that the people should share in the country's wealth (COPE, 1955). Furthermore, it stated that the national wealth of the country would be restored to the people; mineral wealth, banks, and monopoly industry be transferred to the ownership of the people as a whole; all other industries and trade be controlled to assist the well-being of the people; and all people would have equal rights to trade where they chose, manufacture and enter all trades, crafts and professions (COPE, 1955). Also, the Freedom Charter alluded to problems faced by black people regarding labour-related matters. The document declared that all who work should be free to form a trade union and negotiate the wage agreements with employers; the state should ensure the right and duty for all to work and draw full unemployment benefits; ensure that all races and gender receive equal pay for equal work; grant national minimum wage; paid annual leave; sick leave for all workers; ensure that miners, domestic workers, farmworkers, civil servants have all the same rights enjoyed by other workers, should abolish child labour, compound labour, tot system (used by wine farms), and contract labour. Moving to the subject of land and settlements, the Freedom Charter stated that it would abolish land ownership restriction, and divide it amongst those who work it, help peasants with farming implements, guarantee freedom of movement for all races, provide rights for people to occupy the land they chose to and put an end to people being robbed their cattle, forced labour, and farm prisons (COPE, 1955).

Although the Charter is brief, simple and transparent, it is fraught with contradictions, and this led to the charter being interpreted in a variety of ways as they involved fundamental theoretical and strategic questions (Hudson, 1986). For example, when the African National Congress Youth League instigated the state to nationalise the mines, they invoked the Freedom Charter even though the document makes no mention of nationalisation (Begede, 2012). Furthermore, even for such an esteemed document, it did not define details and the parameters of the ideal of an inclusive non-racial economy (Butler, 2007a). This omission of economic thought from liberation ideologues left a gap in the literature and prevailing thought at the time (Butler, 2007a). The first opposition to the Charter happened at its adoption Congress of the People in 1955, where the Africanists in the ANC rejected it as socialist and not responding to African needs.

4.2.2. Black Capitalism during Apartheid

The 1960s and 1970s witnessed the crippling of Black peoples' political revolt through the banning of political parties, imprisonment of leaders, and general repression toward Black people. However, this was met with uprisings from the Black townships and this spurred realisation from white business circles that apartheid was unsustainable if Black people kept being excluded (Innes, 2007). Also, there was a big debate about whether apartheid was a hindrance to capitalism.

Economic interventions in the market usually make use of restricting prices, wages, profits, and controlling market access. These may include taxes, apprenticeship laws, regulation of profits, minimum wages, licences, environmental regulations, levels of unionisation. The apartheid state used some of these laws to carry its system of oppression against black economic advancement. For business, it was tricky, as they were divided over the matter of protection. For example, established Chambers of Commerce that was dominated by the big import-export houses supported the mining sector's free-trade stance. On the other hand, agriculture, together with the local manufacturing industry, tended to defend protectionist policies (Handley, 2008). The South African businesses operated in such a cloud of both protectionism and sanctions placed on South African goods.

The emergence of the Black professional organisations was particularly marked in the 1980s. The writings of Luhabe (2002 and 2007), based on this period concentrating on the rise of the Black managerial class, provided a sense of developments that happened in the late 1970s and 1980s. It was during this time that entrepreneurial Black people had taken it upon themselves to shake off prejudice and face apartheid with its limitations to Black capitalism (Luhabe, 2002).

As apartheid was reaching its apex, Black people were trying (through permitted means) to establish themselves in business and engage in capitalistic activities. The Bantu Investment Corporation Act of 1959 had been established and used to create and service Black businesses in the homelands to promote the economic development of Africans in African areas through the provision of financial assistance and technical support (Peires, 2007). The policy's aim was "to promote and encourage the economic development of Bantu persons in the Bantu areas and shall include(a) the provision of capital or means, technical and other assistance, the furnishing of expert and specialized advice, information and guidance" (RSA, 1959: 3). Whilst the funds were disbursed to black businesses, the allocation of contracts to them by the state was not forthcoming, and the policy proved inadequate (Davies, 2017). Although it was created for the native peoples, in the years it operated (1959 - 1968), the programme gave more money to white-owned businesses than to Black people and had only disbursed R2.5 million to Black people as opposed to R300 million to white-owned businesses (Hirsch, 1984). The reason was that the policy mostly centred around the buying of trading stores and other small ventures from white people and selling them through subsidised loans to African entrepreneurs (Butler, 2007a).

When apartheid began to tear apart because of Black peoples' revolt, white capital responded by beginning to absorb Black labour (skilled and semi-skilled) as it faced a skills shortage. The black business experience started taking a positive shape when democracy was looming as the question of the 'Black problem' was being discussed by the government and apartheid's fall inevitable (Luhabe, 2007). It is by then that the National Party began viewing the creation and presence of the Black middle-class as a deliberate bulwark against political unrest and upheavals. Another response to the volatile political situation, skills shortage, international sanctions, and disinvestments, the apartheid state began doubling down efforts to build a pro-capitalist Black middle class through the modest lifting of restrictions for Black businesses (Southall, 2007).

4.3. Black Economic Empowerment

To understand Black Economic Empowerment completely, it will help to first explore the concept and theory of empowerment. There are many theories on empowerment divided to fit different disciplines and aspects of life so as to understand empowerment in terms of the development discourse (Cornwall and Eade, 2010). The word itself has lent itself into somewhat of a buzzword in development discourse but what remains important is that the word signals ‘power’, and it is about shifts in political, social, and economic power between and across both individuals and social groups (Batliwala, 2010). The concept of empowerment highlights the importance of progress from the position of lack of capability to a position of self-determination and freedom. Although a term that can be inserted in many disciplines, empowerment has come to symbolise not only individual progress and advancement but has also been incorporated to explain groups or sections of society that have advanced from poverty and segregation to positions of self-actualisation and development (Kasmel, 2011). Pease defines empowerment as a quantifiable increase in the amount of power possessed by an individual or a group, and these can include rights, knowledge, money, or goods. The main aim of the concept of empowerment is to improve lives through the transfer of power resources which may entail structural changes. Important to note is that empowerment is seen as a positive change; thus, the transfer of power will lead to greater agential options, which in turn lead to control and self-efficacy (Weidenstedt, 2016). It has been used interchangeably with participation, emancipation, development and progress because of its association with the discourse on post-colonialism and development in general (Leal, 2010). Problems with its use in developmental discourse are that it infers duality between categories, e.g. ‘advantaged versus disadvantaged’ (Jonsson, 2010).

With respect to economic development, empowerment is even more contentious since it connotes redistribution and redress. Economic empowerment implies the policies that seek to provide opportunity and empowerment to the downtrodden, stimulate the private sector through incentives, community participation, self-reliance, and long-term growth in all aspects of society (Leal, 2010). Thus, the difference between affirmative action and economic empowerment is that, whilst Affirmative Action may make the previously disadvantaged fit into the current structure, whatever it is, economic empowerment seeks to alter the very structure of the economy to cater for everyone and not exclude the poor (Weiss, 2014).

4.3.1. The Concept of Black Economic Empowerment

In this section, the prevailing developments regarding economic transformation and the evolution of BEE from the time of democratic negotiations to the promulgation of the Black Industrialist Policy (BIP) in 2015 will be discussed. The role of the state and Black entrepreneurship development has always been contested. The need to direct economic resources towards the upliftment of a certain group of people is not the first in South Africa, nor is this unique to it. The apartheid government used much of its resources to uplift the Afrikaner community, and internationally countries like Taiwan and Malaysia have attempted to institute programmes aimed at empowering their indigenous people. Therefore, the idea of BEE and its attendant connotations fits directly in the realm of state intervention in the economy and, therefore, developmentalism. Prior to 1993, nearly all South African firms had white owners, and in 1995, black people still owned less than 1% of the total market value of the Johannesburg Stock Exchange (JSE) (Alessandri et al., 2011).

The need to emancipate Black people was always tied to the liberation struggle goals through the National Democratic Revolution (Jeffery, 2016). There have been a number of studies on BEE, assessing how the policy has transformed or failed to transform the economy of South Africa. This section deals with BEE in great detail and draws from the inspiration of authorities in black business (Vuyo Jack, Lott Ndlovu, Wendy Luhabe, Saki Macozoma, and Cyril Ramaphosa) and writings from political economists, sociologists, political scientists (Innes, Southall, Iheduru, Ponte, Mbeki) have concentrated on looking at BEE as it has been designed and emerged as a public policy to empower black people.

BEE is the process by which previously disadvantaged South Africans are being empowered through the transfer of ownership, management, and financial control of companies, the multilevel transference of skills and the widespread creation of jobs (IDC, 2013). Although ideally, this is how BEE is supposed to be, in action, it has been seen as a hindrance to economic growth and liberalisation (Brunette et al., 2019). The repurposing of SOEs to serve corruption and redirection of funds meant for BEE led to corruption that has culminated in the commission of inquiry into allegations of state capture, corruption and fraud in the public sector, including organs of the state (Klaaren, 2021). This has been the bane of BEE since its inception. There has also been reflections that the policy is cumbersome for businesses and thus poses a hindrance to the country's economy and prospects for transformation (Krüger, 2011). This thus led to calls for the government to "seriously reconsider its transformation agenda and specifically the adoption of BEE practices which appear to have little credibility and to receive little support from the managers of companies in South Africa" (Krüger, 2011: 232).

The ideal purpose for BEE is to bring the majority of South Africans into the mainstream economy. The Reconstruction and Development Programme (RDP) was the first document that discussed economic empowerment for Black people. The ANC's RDP, in no uncertain terms, stated that the domination of business activities by white business and the exclusion of Black people and women from the mainstream of economic activity had to cease (RSA, 1994). This would enable the reconstruction and development process to begin. A central objective of the RDP was to deracialise business ownership and complete control through focused policies of Black Economic Empowerment (RSA, 1994). This was a particularly significant juncture for Black business, as it was believed at the time that it was on the brink of unprecedented growth after years of being crippled by apartheid imposition (Tangri and Southall, 2008).

The intention of the government with BEE is to create Black businesspeople that are not confined to bottle stores and butcheries and general dealers but looking to thrust themselves into the heart of the economy to change it from white-owned and controlled to Black-owned (RSA, 1998). BEE sought to improve the lives of all South Africans by emancipating black entrepreneurs to challenge poverty and unemployment through land reform that involves Black ownership of productive land; Black participation in owning the commanding heights of the economy; development of Black professionals and skilled individuals across all aspects of society; support and growth of Black-owned small businesses and multiplication of entrepreneurs; and provision of more opportunities for workers to acquire a stake in the economy (Innes, 2007).

BEE has traditionally been analysed as being part of three waves, and this points out the changing approach of government to BEE promotion as having been evolutionary. The first wave was a narrow BEE which was primarily about share transfer and empowerment through the acquisition of stakes in already established white companies. Here, well-connected Black people could be instant millionaires by being roped in by big white businesses as shareholders in order to curry favour with the new political elite. The second was about defining expanding BEE and giving it a broad-based scope. It also contributed immensely to BEE codes and scorecards but also added industry charters for sectoral compliance purposes. The third wave is the current one that is based on the Black Industrialist Programme. The BIP is part of BEE and an escalation from the two waves before it, a leap to industrialise the economy with Black people at the forefront. Each of these waves is discussed in detail below.

4.3.1.1. Waves of Black Economic Empowerment

(i) First Wave of BEE: Assimilation of Elite Black people into the Economy

After the fall of apartheid, there were some business entities that had the potential to engender transformation, like the State-Owned Enterprises (SOEs). The ANC government had identified these entities to be the drivers of BEE (Southall, 2003, Butler, 2007b, Southall, 2007). The ANC sought to utilise these the same way that the National Party had used parastatals to fuel the growth of Afrikaner businesses. SOEs, the government believed, would be the best vehicle to wrest back control of the economy immediately, enlarge the black middle-class, and encourage BEE through privatisation and targeted procurement (Phillips, 2004). The ANC was trying to pursue a private sector version of the Freedom Charter by looking to transform institutions in mining, energy and finance (Southall, 2003). So in pursuing the goal of transformation, the ANC government increased Black executives in these parastatal institutions (Southall, 2007).

The major problem, as observed by Kurtz (2001), was the capital injection needed for the privatisation of these heavily indebted, previously white-government owned entities into private business hands. So, to make sure that transformation was infused in all sectors, the government embarked on a strategy to kick-start Black Economic Empowerment. Black people had absolutely no resources to capitalise on their empowerment, so capitalisation came from loans and gifts from white corporations (Butler, 2007a). Also, if Black people had to get such capital, they had to have a proven track record in the private sector or the demonstration of political connections and some capacity for business. These were the factors that marked the ground for the narrow scope of BEE witnessed at the beginning of the democratic era in South Africa, but also, in a grave way, it made fertile the ground for corruption (Southall, 2007).

Special Purpose Vehicles (SPV) were created by the South African financial institutions to facilitate BEE (Mandla, 2006). These were to support BEE through facilitating Black investors' voting control of the SPV through ordinary shares although, a large portion of the advantages lay with the financial institutions. This process would work only for a certain period until the financial crisis of 1997/1998. This benefited the elite black people who were well-connected individuals. However, more than 200 transactions for BEE happened during this time; the companies that were participating in these transactions could stand alone and claim to have contributed to creating jobs and improving the skills level in the country (Mandla, 2006).

Under this narrow BEE, the notion was that once the Black people owned the resources or acquired equity from the corporations that they sought, they could then achieve transformation by employing more Black people in higher positions and thus, the transformation could materialise (Luiz, 2006, Mafuna, 2007, Andrews, 2008). This could not be further from the truth, both in theory and practice. In the end, the first wave became the mere assimilation of few Black people into the Johannesburg Stock Exchange (JSE) through the purchase of equity stakes from white-listed companies (Mbeki, 2009).

In this period, BEE mainly became about the transfer of shares from corporations to politically connected individuals who would amass large sums of wealth and company directorships, but in the main had very limited business entrepreneurship, acumen, and skills to drive the economy for the benefit of other Black people (Luhabe, 2002, Tangri and Southall, 2008). This was inevitable, as Mbeki (2009) notes that this was the case because this type of BEE was the brainchild of white oligarchs, especially from Sanlam, that wanted to curry favour with the new Black political elite. This plan was hatched before democracy and executed when the new government took office in 1994. Mbeki (2009: 29) further notes:

> *"The object of BEE was to co-opt leaders of the Black resistance movement by literally buying them off with what looked like massive assets at no cost. To the oligarchs, of course, these assets were small change".*

The racial profile of the organised business in South Africa reflected the past, and this was always going to pose problems in the post-apartheid setting in the matter of business-government relations (Handley, 2008). Thus, the democratic vote of 1994 was vital for organised business for stability and certainty. The white capital lenders, buoyed by the optimistic 1994 political agreement, promoted alliances with aspirant Black capitalists by lending them money (Mbeki, 2009). The big business needed to limit and mitigate their political exposure by aligning themselves with Black aspirant capitalists (Terreblanche, 2002). The approach by big business was to lure the ANC into the capital sphere by recruiting Black people into companies through employment as managers and board members and facilitation of quick expansion of ANC-related Black-owned businesses. For example, scheme the smooth entrance of black people into the mainstream economy without upheavals in the market as the Afrikaners had done in the 1940s (Mbeki, 2009). The initial BEE outburst resulted in the capture by black shareholders of 10% of JSE in three years from 1994. So, in addition to buying political connections with share transfers and equity, the white oligarchs bankrolled BEE through funding schemes and business support mechanisms (Mbeki, 2009).

The era of the first instalment of BEE was short-lived when the stock market crashed in 1998, slashing half the shares of Black shareholders at the JSE. This, coupled with economic liberalisation, meant the reversal of the ownership patterns towards economic empowerment and also employment equity moved backwards (Ponte et al., 2007, Ponte, 2008). The narrow-based BEE measures were also not adequate to bring in skills and training for Black people (Ponte et al., 2007). The reason for BEE shareholders losing value in their stocks was, simply, that this was a politically connected business. The key aspect of the launch of these Black firms was the mere fact that they were connected to the ANC elite and very little else. The unfortunate development would be that the new black capitalists focused principally on creating a share for a minority of black people within big business without unduly affecting the scale of industrialisation (Fine, 2011).

Secondly, but an even more important charge is the fact that the investment routes that these black capitalists had inserted themselves in were very volatile. The financial markets and commodities are a better bet in the long term but, they are highly volatile on a short to mid-term basis (Kurtz, 2001). The major reasons proffered for this demise of many Black shareholders in this period is that the majority of these transactions happened at the time when the economy was growing steadily and maturing on high valuations, thus increasing the amount repaid. Black people lacked liquidity, and after they had inserted themselves in risky investments and shares, they could not outmanoeuvre the dangers of volatile market movements, and most of those shares were indisposable in the short term (Kurtz, 2001).

Another reason is that, at less than 20% equity that Black aspirant capitalists had, it meant that they could not hold controlling stakes where they had invested in, thus making it difficult to add value, and their input was highly disposable (Southall, 2007). Also, financial institutions made a lot of money out of these. Because of their indebtedness, very few Black people could wriggle themselves out of this trap.

This wave of BEE was predicated on the already established corporations merely changing faces and not real and meaningful expansion of the economy. In conclusion, this period of the first five years of democracy and BEE created an emergent binary of black businesspeople. On the one hand, were BEE pioneers. These were self-made businesspeople and tended to be more independent in their pursuit of wealth. They were distrustful of the black politically connected class, the unemployed, and the labour movement. On the other hand, were politicians turned business people who, while pursuing wealth, advocated for more state intervention. The latter advocated for the state to use more legislation and policy power to steer the economy towards helping Black people (Iheduru, 2004). What was also clear was that the state did not envision a policy of bringing black people into industrial spaces like manufacturing in its ideal BEE; the notion of Black Economic Empowerment in this era was too narrow and self-serving for the politically connected business elite. It could not create new wealth in the country and therefore needed a reconsideration. As this first wave began to peter out, a coterie of black business people led by the Black Management Forum (BMF) and Black Business Council called for the state to develop a clearer path for the economic empowerment of Black people in the country (BEE-Commission, 2001). The narrowness of this policy and its application meant that even with support through overarching programmes of RDP and GEAR, the policy could not achieve desired results.

Table 4.3.1.1: BEE Waves/ Phases since inception

First Wave of BEE (Narrow BEE)	Second Wave of BEE (Charters and Scorecard)	Third Wave of BEE (Black Industrialists)
• Assimilation of Black people into the economy • Share Transfer • Few Individual 'Oligarchs'	• Industry Charters • Broadening of Base and Scope • BEEComm	• Recognition of BEE high failure rates • Concentration on expanding the economy through industrialisation • BIP

Source: Author's Own

(ii) Second Wave - BEE Commission and Charters

The first wave of BEE was important because it immediately alerted the government to the fluctuations of economic sentiments and growth, thus making it aware of a need to create a more sustainable and targeted BEE policy. The dissipation of the first wave left the government's struggling with a BEE policy that would effectively boost Black participation in the economy. The problems that afflicted the country's BEE intervention in that period mostly revealed the limits of political bureaucracy. For example, Seekings and Nattrass (2011) mention that governments are effective at regulating certain industries, but they cannot enforce the policy in such a way that shows results sooner. In effect, the government may be good at enacting the policies but weak at applying them for the benefit of all the people intended. This reveals the limits within which all government interventions happen. This prompted the government to rethink its plan of transforming the economy. If the new strategy was going to be successful, it now needed to be broad-based, inclusive, associated with good governance, and form an integral part of overall economic growth.

A commission called the Black Economic Empowerment Commission (BEEComm) was established, bringing together the private sector, government and civil society (BEE-Commission, 2001). It is from this commission that a more forceful and targeted state intervention was recommended for transformation to happen (Freund, 2007). The Commission's terms of reference were inter alia: developing a clear and coherent vision and strategy for BEE, locating the empowerment project as part of the transformation of South African society, and examining ways in which Black business could speak with a united voice. Some BEE deals had already commenced but, there was no coherent strategy and clear goals that would make BEE practicable and easy for new (unconnected) aspirants to enter the economy as entrepreneurs or partners. The commission was important in that it changed the way BEE was practised as it introduced legislation to go with empowerment (Acemoglu et al., 2007).

This was critical as the Commission took it upon itself to mitigate all the flaws that might come with a comprehensive BEE strategy. The commission recommended a Broad-Based Black Economic Empowerment (BB-BEE) (BEE-Commission, 2001). The Broad-Based Black Economic Empowerment Act of 2003 was then promulgated following the commission's conclusion. The objective of this Act was to promote economic transformation and provide meaningful participation by black people in the economy, thereby altering the racial composition of ownership and management in the economy (Jack, 2007). Thus, the Broad-Based Black Economic Empowerment Amendment Act, 2003, came to define BEE as meaning the viable economic empowerment of all Black people including, in particular, women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies. These may include:

(a) increasing the number of Black people that manage, own and control enterprises and productive assets;
(b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises;
(c) human resource and skills development;
(d) achieving equitable representation in all occupational categories and levels in the workforce;
(e) preferential procurement from enterprises that are owned or managed by Black people; and
(f) investment in enterprises that are owned or managed by Black people

(RSA, 2003).

The BEE Commission's intellectual thrust came in its calls for broad-based empowerment rooted in the understanding of Black disempowerment and the need for de-racialisation whilst in addition calling for the accommodation of full diversity of SA businesses (Southall, 2003).

At the conclusion of the commission, the government set out to expand the scope of BEE and put pressure on businesses to transform the scope and become broad-based (Butler, 2007a).

This second wave was more meaningful in that it tied BEE into Departments and industry transformation charters in the commanding heights of the economy like mining (Jack, 2007). The government then implored respective ministries to develop (in collaboration with industry captains) the charters that would speed up transformation. This was a way for the government to instil collaborative governance on transformation (Hamann et al., 2008). The empowerment charters brought in pressure to constitute partnerships with black business putting in targets such as black representation at the board level, at an executive level and of procurement expenditure (Desai and Maharaj, 2008).

Also, there were seven elements that were promulgated that would be important in the transformation equation. These elements are directed at every firm to comply with concerning BEE practice. The elements were chosen to achieve empowerment, and the enterprises that comply with them are seen as committed to transformation and are better placed to get government contracts. The elements are ownership, management and control, employment equity, skills development, preferential procurement, enterprise development, and socio-economic development (see Figure 3. 2).

Table 4.3.1.2: The Weighting of Each Element of BBBEE Scorecard

B-BBEE ELEMENT	**WEIGHT**
Ownership	20%
Management	10%
Employment Equity	15%
Skills Development	15%
Preferential Procurement	20%
Enterprise Development	15%
Socio-Economic Development	5%

Source: BBBEE Commission, 2020

This also brought about BEE Scorecard (Figure 3.3) that is used by the government and other entities like SOEs vet companies that want to do business with them. The BEE scorecard is a tool to quantify transformation and ensure that companies cannot circumvent the empowerment policies. However, the government lacks the enforcement mechanisms that should make this a reality.

Table 4.3.1.3: BEE Scorecard

BEE Contribution Level	Scorecard Points	Procurement Recognition
1	100 or above	135%
2	85 to 99.99	125%
3	75 to 84.99	110%
4	65 to 74.99	100%
5	55 to 64.99	80%
6	45 to 54.99	60%
7	40 to 44.99	50%
8	30 to 39.99	10%
NON-COMPLIANT	< 30	0

Source: BBBEE Commission, 2020

There are also complaints about the accountancy-filled BEE compliance (Du Toit et al., 2008). The problem is that it gets concerned with technical matters such as auditing, certification and accreditation processes without having addressed the fundamental structural, racial and power inequalities. Policies like BEE prove that the use of instruments and codifications are inadequate to cause transformation, and policymakers need to intervene in a holistic way (Du Toit et al., 2008). Also, because it has no punitive measures, the government cannot enforce it. Firms that do not enter or benefit from government contracts are not incentivised to conform. This impotence from the state to act against non-conformers and the realisation that some industries will just not transform without a push have all combined to make the third wave of BEE necessary. (Black, 2002).

(iii) Third Wave – Promotion of Black Industrialisation

By the end of the first decade of the 21st century, there was a realisation that BEE had not effective enough to insert a large number of black entrepreneurs into the business world (Matumba and Mondliwa, 2015). This matter was compounded by the world economic downturn of 2008. However, there were clear signs that redistribution could not happen without increasing the size of the economy itself and that this could only be achieved through industrialisation (RSA, 2015b). Indeed, in order for this to happen, BIP policy expressly stated that its objectives would be:

- To promote diversification beyond the economy's current reliance on traditional and non-tradable services via the promotion of value-addition, characterised particularly by the movement into non-traditional tradable goods and services that can compete effectively in export markets and against imports;
- To promote a labour-absorbing industrialisation path, with the emphasis on tradable labour-absorbing goods and services and the systematic building of economic linkages that create employment;
- To promote industrialisation characterised by increasing participation of historically disadvantaged people and marginalised regions in the industrial economy;
- To contribute towards industrial development in Africa, with a strong emphasis on building the continent's productive capacity and securing deeper regional economic integration; and
- To ensure the long-term intensification of South Africa's industrialisation process and movement towards a knowledge economy (RSA, 2015a: 11).

There was a need to balance and correct the elitist and passivity of the BEE project that had been emphasized by Southall (2007). The most important event that caused that realisation was at the ANC's 2012 Mangaung conference, where the party acknowledged that the 1994 agreements were in politics and not about the economy. This realisation called for what the party described as the 'Second Transition' (ANC, 2012). For instance, in its 2014 January 8th statement (where the ANC presents to their supporters its policy plans for the year), the ANC stated that it was resolute that "this will bring about the economic emancipation of our people. We call on all our people, government, business, labour and social organisations to contribute to economic transformation actively" (ANC-NGC-Report, 2015: 11). Hence a call for industrialisation that is black-led.

In view of, and in response to the slow progress of transforming the private sector in South Africa, the strategy is now two-pronged – to transform and industrialise the economy simultaneously. There are systemic challenges, however, with such strategies. While it can be admitted that transformation ought to take place, black capitalists have not been the centre of the transformation debate in order to drive the process towards fruition.

(iv) The Black Industrialist Programme

The Black Industrialist Programme is a South African government intervention meant to fast-track BEE and South Africa's industrialisation simultaneously. The Industrial Policy Action Plan (IPAP) Strategy of 2013 pronounced that it should be "a priority of industrial policy to foster a stratum of majority-owned and - managed Black manufacturing enterprises with a long-term interest and commitment to the manufacturing sector" (RSA, 2018b: 13). The document placed the Black Industrial Programme (BIP) as the quintessential vehicle to assist potential Black businesspeople in growing. This initiative will be underscored by a purposeful and targeted approach to enter Black people into industrial sectors and support them through financial and non-financial sectors and is expressed through the amended BEE policy and the National Industrial Policy Framework (NIPF) (RSA, 2015a).

The ANC's NGC (2015) conference proposed to support new Black Industrialists to build a dynamic and competitive class of Black industrial players, deliberately accumulating and disposing of industrial capital in line with the social objectives of breaking the white racial domination of South Africa's economic assets. It also referred to these industrialists as Black people directly involved in the origination, creation, significant ownership, management and operation of industrial enterprises that derive value from the manufacturing of goods and services on a large scale; acting to unlock the productive potential of the country's capital-assets for massive employment locally.

This policy plan is a departure from the passive BEE, and it seeks to create 100 Black Industrialists across different sectors of the economy but with a preference for manufacturing. The DTI (2015a) further elaborates on its rationale for BIP:

> *"It is important that a dedicated support programme is established to actively promote the growth and competitiveness of Black-owned and managed enterprises in the manufacturing sectors of the economy. This support should enable them to access finance, contracts and market opportunities, both domestically and globally. In pursuit of radical economic transformation, an integrated approach must be established to consolidate the financial and non-financial support instruments available in South Africa. These efforts can be achieved by ensuring seamless working relationships between the development finance institutions*

(DFIs), state-owned enterprises, economic cluster departments and private sector."

According to the state, funding would be channelled through syndicated loans, grant finance from DTI for working capital, dedicated incentive packages from DTI, set aside procurement from State-Owned Enterprises (SOEs), and government funding (RSA, 2015a). The rationale is important in that it returns the topic of financing empowerment to the fore. The Development Finance Institutions will have to play a leading role in financing and offering technical skills to qualifying Black businesspeople. The new funding model that is developed to complement BIP would be put in place, and this will entail - a longer term of financing, a grace period allowance, lower interest rates; as well as funding for working capital.

(a) The conceptualisation of the Black Industrialist Programme

Since the advent of democracy, the government has attempted to create Black capitalists. They have done so using policy instruments as well as the overarching programmes, but the results have been mixed. To understand fully how the BIP is conceptualised, one might borrow from its preamble and the vision statement. The vision statement of the policy reads:

"The vision of this policy is to facilitate the meaningful participation of majority Black-owned and managed companies in the value chains of the key economic sectors of South Africa in a manner that promotes Government's priorities of inclusive growth and development" (DTI, 2015: 7).

Three pillars anchor the BIP, and the Department of Trade and Industry has flagged them as catalysts to the advancement of small and Black-owned businesses in the economy. These are funding, access to the market, and access to non-financial assistance (skills development, training, and export readiness). The state's understanding of the challenges faced by the country are stated in its BIP policy preamble:

"…the government's broad industrialisation initiatives to expand the industrial base and inject new entrepreneurial dynamism into the economy…This is consistent with the government's commitment to expanding South Africa's economic capabilities to design, manufacture and service products of increasing value… The policy will focus on the growth and global competitiveness of Black-owned enterprises. The intention is to contribute towards shifting the demographic

composition of South Africa's industrial sector and engage the under-utilised source of jobs, revenue, taxes and innovation, which is the Black Industrialist. It is envisaged that through this policy, coordinated support will be given to promote the long-term sustainable development of Black Industrialists…The policy is therefore aimed at promoting industrialisation, sustainable economic growth and transformation through the support of Black-owned entities in the manufacturing sector" (RSA, 2015a).

The above preamble and the bold vision statements are key to understanding the concept of the BIP policy. The acknowledgement of economic development policy failures and transformation failures have prompted the government to enact the policy way, and BIP policy's objectives are to:

(a) Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment; and

(b) Create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains.

The BIP proposes to target entities that have extensive experience, operations and track record in their respective or envisaged industrial sectors and value chains. These entities can become real players in domestic and global markets within ten years of being put through the programme. These can be in the means of new operations or business start-ups, current business expansion, or acquisition of existing plant (DTI, 2015). Such entities have to be operating in the manufacturing sectors and work in conjunction with the industrialisation course as articulated in the IPAP.

The targeted areas of the economy that the Industrialists must be working in are: the blue/ocean economy, including vessel building and repair; oil and gas; clean technology and energy; mineral beneficiation; aerospace, rail and automotive components; industrial infrastructure; information communication technologies; agro-processing; clothing, textiles/leather and footwear; pulp, paper and furniture; chemicals, pharmaceutical and plastics; nuclear; manufacturing-related logistics; and designated sectors for localisation.

The intended consequence is that Black people are inserted in all value chains of these sectors and supported all around as much as possible. Moreover, it is envisaged that these entities will contribute immensely towards South Africa's developmental objectives, such as "job creation, exports, skills development, supplier development, industrial decentralisation and localisation" (RSA, 2015a: 12). Also, the qualifier is that ownership has to be +51%, and the whole project has to have a minimum investment of R30 million. The maximum grant contribution that the state can make to a qualifying entity is capped at an amount of R50 million (RSA, 2015a).

Aside from the policy putting Blacks at the fore of industrialisation, the policy is not different from the ones that have been presented before it, especially ASGISA. The policy lacks an appreciation of how the previous instruments that have been presented through RDP, GEAR, ASGISA, and NGP (including IPAP and NIPF) have failed to produce the desired results. On paper, the BIP programme is developmental, but developmentalism is a nationwide central strategy of the state and is not just one policy.

4.3.2. Critiques and Challenges with Black Economic Empowerment

To understand the critique, it is appropriate to take stock of the socio-economic challenges faced by South Africa. South Africa is a dual economy and has one of the highest inequality rates in the world (Oxfam, 2018). What is most striking is that the poorest 20% of the population consume less than 3% of total income, while the wealthiest 20% consume 65% - a huge challenge for the government is to develop policies to address this matter (World Bank Data, 2018; and Oxfam, 2018). Furthermore, the top 10% of society receives half of all income from wages; this happens as the bottom 50% of the labour force gets only 12%. Oxfam (2018) reports that millions of ordinary workers are on poverty wages in South Africa whereas, shareholders' returns and senior executives have increased significantly (See the Graph below: figure 3.5). This leads to labour market incomes being the largest contributor to inequality in South Africa, contributing 90% of the overall Gini coefficient in the years between 2006 and 2015.

The challenges with regards to BEE are discussed here, with the main ones being funding, non-compliance, and elitism. There is also a critique of BEE, and it will be discussed towards the end as these are a mixed set of criticisms organised as here as 'critique'. As stated here, the main hindrance to BEE is capital. Black companies are not well empowered to enter into businesses by themselves without the help of lenient financial institutions. Another challenge is the resistance to BEE by businesses. In reference to BEE, the private sector sees transformation as a hindrance and a government problem and not theirs. The matter of elitism, as well as corruption, has always been highlighted as a challenge that BEE will have to overcome if it will be truly broad-based.

4.3.2.1. Funding

The financing of BEE is largely from private equity, banks and Development Finance Institutions (DFIs) such as the Industrial Development Corporation (IDC) and National Empowerment Fund (NEF). The most glaring challenge is the problem of sustainable funding and investment for BEE, although the DFIs have attempted to carry out this task. The shortcomings of BEE have been the possible cost implications associated with share transfers to new Black owners in BEE enterprises. Business and banks' greatest concern was the potentially negative impact of legislation designed to compel companies to effect racial transformation (Levin, 2006). The end problem is that it then tends to benefit a tiny bankable number of select and connected beneficiaries and is not linked to the broader previously disadvantaged Black public.

Mbeki, quoted in the *Mail and Guardian* (2015), posited that there could be no hope of creating Black Industrialists through the current DFIs because they are prone to political influence, which in the end will, again, benefit the elite. The funding and sustainability of BEE remain a big concern. The sources of finance for BEE had always been a controversial subject for BEE critics and proponents alike. South Africa needs a conscious policy of retention and circulation of Black wealth and investment in the rural areas and townships so as to retain funds for further development and also to help sustain BEE. Government intervention must play a large part in the growth, implementation and sustainability of BEE and its incentives. EmpowerDex (2005) analysed whether there were potential negative consequences on FDI from BEE and found no cause for alarm since capital follows places where it can grow and profit, thus placing economic growth high on the agenda for policymakers if they want to complement transformation policies. This means that as long as there is economic growth, investments will flow in (Shava, 2016).

4.3.2.2. Non-Compliance with BEE

Shava (2016), on the challenges in municipalities of dealing with BEE, lists the constraints affecting BEE as corruption, fraud, mismanagement, poor accountability, lack of monitoring and evaluation, difficulties in registering companies under BEE lack demand management and gross incompetence of public officials across municipalities. For Black businesses, there are more obstacles that they must overcome to be even considered a business. The failure of black-owned businesses stems, variously, from a sense of entitlement, lack of professionalism, lack of skills and technical abilities, and lack of commitment (Sefoko and van Rooyen, 2010). However, non-compliance is a huge factor in BEE as many businesses have BEE Level 7 status, which is close to being completely non-compliant (Level 8) (Davies, 2015). Trying to get compliance on BEE has not yielded desired results because empowerment has not been met with the equally juridically imposed penalties to fight contempt (Freund, 2007, Seekings and Nattrass, 2011). According to Horwitz and Jain (2011), the BEE codes are legally binding in that they are regulatory instruments by the Minister of Trade and Industry in terms of the power to gazette that is derived from the BBBEE Act. However, these instruments have not been used effectively by the ministry as the government decries corruption in BEE (Horwitz and Jain, 2011).

Another major concern is whether Black equity ownership and procurement prescripts can become mandatory and translate into a cost of doing business with the public sector (Brunette et al., 2019). This is also expected in the private sector by means of pressure to transform in order to benefit from private and public sector procurement opportunities (Boshoff, 2012). Many negotiated deals are made to preserve companies' ability to secure government contracts and licences, and this is seen more in the Minerals and Energy sector. These two sectors are strategic for SOEs like Eskom and PetroSA, and therefore, companies there attempt to show some level of transformation. The government, though, has always insisted that BEE is not a legal requirement (Tangri and Southall, 2008). This means that there is a gap in the Act itself where the understanding of the law is only measured by the way in which a company can get government contracts.

4.3.2.3. Elitism and Corruption

Another critique is that the BEE policy has impeded development because it has engendered elitism among the black politically-connected people instead of expanding economic empowerment for all the majority of black people (Korina, 2018). The challenge that faces the black business elite is that they are not genuinely creating a new national accumulation process, but rather establishing different syndicates, coalitions and personalities, "all vying for the piece of existing action (privatisation proceeds, mergers and acquisitions, BEE quotas, BEE tenders). This black capitalist faction is not galvanising a national developmental effort. It is, in fact, highly factionalised, incapable of uniting itself, and, therefore, increasingly incapable of uniting a national bloc behind its hegemonic leadership" (Cronin 2005:11). BEE has bred elitism that has been evident in all post-independence African states. It is also criticised for slowing the emergence of Black entrepreneurship by creating a small class of unproductive but wealthy Black crony capitalists. This group is made up of ANC connected businesspeople and politicians-turned-businesspeople that have become the agents and caretakers of the country's de-industrialisation (Maharajh, 2010).

Saki Macozoma (2005), an ANC stalwart, admitted that one of the unintended consequences of the emerging South African statecraft is the primacy that politics has assumed over the efficiency and effectiveness of public institutions. Thus, the state is evolving on an uneven path, and its interventions are not likely to achieve success. BEE deals are, therefore, problematically giving primacy to political associations more than business skills, thereby perpetuating a system of patronage against an equal opportunity meritocratic system (Kassnert, 2015). But the slow implementation of BEE, according to Mbeki (2009), is the result of the ability of the private sector to resist dispossession and the confiscation of their wealth by the politically connected elite and organised labour.

The NDR's call for patriotic bourgeoisie means that there has to be congruency between Black business and the state (Mattes, 2015). In this, patriotic Black businesspeople must not be driven solely by personal benefit but rather must be tamed to relative privilege and not allowed to reach parasitic behaviour. However, because of the importance of political leverage on BEE, the programme tends towards cronyism and compradorism (Southall, 2007). The significant corruption of BEE is fronting, which according to DTI (2015) and Kilian (2016), has been flagged to be accounting for more than 50% of BEE transactions. BEE Act (2013) describes fronting practices as directly or indirectly undermining or frustrating the achievement of BEE by, for example, where Black people are put into positions but have no power and are discouraged or inhibited from participating meaningfully in an enterprise.

Fronting is against the spirit in which BEE was created. It is the circumvention of laws and regulations that govern entities. There are different types of fronting, according to the DTI. Window-dressing refers to the most common type of fronting, where Black people are appointed into senior positions but have no experience in those positions. This includes cases in which black people are appointed or introduced to an enterprise on the basis of tokenism (DTI, 2015). Sometimes that person has no budget or even an office, and they only have to show face in meetings to help increase the company's BEE rating. Also, a person can be given a budget and all the things required for them to succeed but, they are not recognised inside the business and are consulted on transformation matters only. Another type is Benefit Diversion which includes the initiatives applied where the economic benefits received as a result of the B-BBEE status of an enterprise do not flow to black people in the ratio as specified in the relevant legal documentation.

The third, according to RSA (2015a), includes opportunistic intermediaries, and that is where enterprises that have concluded agreements with other entities with a view to leveraging the opportunistic intermediary's favourable B-BBEE status. In circumstances where the agreement involves severe limitations or restrictions on the identity of the opportunistic intermediary's suppliers, service providers, clients or customers, the maintenance; and also the terms and conditions are not negotiated at arms-length on a fair and reasonable basis (RSA, 2015a). Examples of other types of fronting include people hiring their domestic help or random people just to fill the transformation gap in their enterprise; people divorcing and marrying Black people in order for them to be verified as BEE compliant; people using instruments such as financial derivatives, unspecified shares to drum up their qualifications for BEE status (Jack, 2007).

The 2011 Liquid Fuels Charter audit report, for example, showed that there is only 19% of Black ownership in the industry, and even this has not really transferred to Black empowerment as envisaged. With respect to ownership, it concluded with two revealing statements: (1) "Most of the Black shareholders can be surmised as being more of passive, serial investors than active entrepreneurs; the participation of broad-based groups and new entrants in the deals is thus low. (2) None of the Black shareholders has fully fulfilled obligations of ownership and thus, have related rights transferred" (RSA, 2011b:118). The DTI has warned against such practices but, little has been done to alter the situation currently. Addressing the Manufacturing Indaba in Gauteng, the former Deputy Minister of DTI, Mr Mzwandile Masina, stated that DTI will be intolerant towards these practices and will look even at invoking and activating Compliance Courts to force companies to comply (RSA, 2015b).

4.3.3.5. Lack of Entrepreneurial Ability

A black industrialist, Herman Mashaba, quoted in *Business Day (*2015/10/06), disagreed with BEE policies stating that "industrialists cannot be created; they are born, and the nationalisation of strategic assets can only breed corruption, not industrialisation". The argument is that the government has no role in creating entrepreneurs or legislating entrepreneurs into existence (*Financial Mail, 2015/12/03*). This is a view that the business model promoted by BEE policy is devoid of any entrepreneurship knowledge or innovation (Mazwai, 2015). There is a need to expand the economic base, and accelerating BEE is important in order to create new taxpayers. However, this has to happen with entrepreneurship as a driving force. More importantly, is the fact better understanding the role of entrepreneurs is important for making targeted policies to assist them. It is noted that simply encouraging many people to become entrepreneurs does not necessarily lead to the best results and is therefore not the best policy (Block et al., 2017). This is more in line with Schumpeter's (1942) idea that most entrepreneurs have to be innovative in the first place. It is worth touching on the Schumpeterian – Kirzner classification as it is the most commonly used form of categorising entrepreneurs (Schumpeter, 1942, Kirzner, 1973).

In the Schumpeterian system, entrepreneurial firms include people who are assigned with the responsibility of introducing new processes of production – of producing new products or producing old products in new ways, thus 'innovation' (de Jong and Marsili, 2010). Schumpeter posits that creativity or innovation is the key factor in any entrepreneur's field of specialization. In his thesis, knowledge is not enough to help an entrepreneur to become successful. The belief is that creativity is necessary if an entrepreneur wants to accumulate a lot of profits in a heavily competitive market.

In contrast, the Kirznerian view implies that individuals secure entrepreneurial profits on the basis of knowledge and information gaps that arise between people in the market. This perspective is based on 'alertness'. Kirzner describes *alertness* as the fundamental quality of the entrepreneur. The entrepreneur is alert and alive to discover opportunities by functioning as an "arbitrageur or a price adjuster in the marketplace, capitalizing on knowledge or information asymmetries" (Kirzner, 1973: 68). In the end, the kind of 'knowledge' needed for entrepreneurship is based on knowing where to look for it (Cromer et al., 2011). From the above, it is clear that BEE has been promoted as a policy in itself but not for entrepreneurial benefit. This poses problems for the state in terms of policy intervention because instead of focusing on the typology and the business in need, the state bases its support on race, and to a lesser extent, the business. As for alleviating such problems, Shava and Maramura (2017) assert that there needs to be upskilling of youth, promotion of research and innovation, and provision of entrepreneurial education in communities.

4.3.3.6. Other Critiques and Call for the Scrapping of BEE

A radical stance against BEE is the one stating that it must be scrapped because it is hurting the economy and wiping out productive assets (Wolmarans and Sartorius, 2009). Jeffery (2014) argues that more than two decades of transformation policies have failed to remedy the deep injustice of apartheid, but even more, they have made it difficult for development to materialise. For the Institute of Race Relations (IRR), a think-tank generally critical of race-based policies, the Empowerment for the Disadvantaged (EED) is an alternative offered instead of BEE. This is an idea that has also been adopted by the Democratic Alliance, South Africa's official opposition party. This proposal neglects race as a qualifying element and rather uses income and socio-economic status as indicators for empowerment need. It also states that providing inputs such as rapid economic growth, excellent education, more employment, and vibrant and successful entrepreneurship are all the necessary ingredients to empower poor people (IRR, 2016). This is controversial and undesirable in a country that faced long periods of Black economic oppression. BEE is a siphoning scheme and stymies economic growth and deflects investments in sectors of the economy that badly need it (Mbeki, 2009). Bruce *(Business Day Live*, 2015/05/15) states that 'building' Black Industrialists is hogwash and posits that if the cabinet believes that they can change the way private enterprises work by using artful manipulation, they are wrong. Creating a mature dynamic industrial economy that creates jobs and transforms ownership will need more private sector intervention and not government intervention. This is in line with neoliberal beliefs that the market must dictate the terms of how businesses operate, and it must not be the forum of the state to direct the economy (Ansari, 2016).

4.4. Concluding Remarks

Black Economic Empowerment was a necessity in addressing the imbalances of the past in the economy. This part of the study examined in great detail the Black Economic Empowerment in South Africa and noted that both colonialism and apartheid played a key role in crippling and lessening the effect of Black people in business. It is clear from historical accounts, as presented in the foregoing, that Black businesses in colonial times faced repressive policies that suffocated their existence before 1994.

The first wave of BEE or narrow BEE was predicated on Black people receiving shares from white-owned companies, which did nothing to alter either the size of the economy or the ownership of it. Through the realisation that this was unsustainable, the BEE Commission was established and came up with a Broad-Based BEE that would be industry-specific and enforce compliance through a BEE scorecard. However, even though this was a leap from the first wave, this strategy had its limits too. Firms that chose not to comply could not be forced, nor did they face penalties. Only the ones that needed government procurement for their survival participated somehow. The third and current wave is about the Black Industrialists. It is envisaged that by Black people increasingly participating at a higher level of production, the economy will be boosted, and therefore transformation will emerge.

The criticisms of BEE have been many. Personal enrichment through political connections has been at the centre of criticism levelled against it. The issue of financing BEE and observed remnant racism from white people is also a hindrance to BEE. The other factor is that BEE, with its codes and instruments, ends up being an accounting exercise that does little to improve business inclusivity in the country radically and can also be circumvented through illegal means.

From this brief summary, it clear that BEE still has a long way to be effective. From the onset, BEE was always going to be a poisoned chalice. Its encouragement from the likes of Sanlam and other established conglomerates confused real empowerment with few shares given to Black connected individuals. The manner in which government let people have that free ride left an indelible mark and may have sown the first seeds of corruption. White peoples’ strategy of roping in a few Black people to curry favour with the ANC was made to cushion them from radical policies the new government might have contemplated.

This chapter showed that any attempts by the state to hasten BEE and BBBEE legislation has been a good encouragement for Black people and shows that the state is intent on increasing participation. However, in the past, the state has rushed to enact policies that have not been beneficial to all black businesses in the long run and have benefited a coterie of connected and well-off businesspeople. It neglected the basics of entrepreneurship and the fact that legislating people into the business is not the same as giving them grants. The former requires a comprehensive strategy that is supported by all sectors of society. It requires a change in commerce, trade, and industrial policy. Therefore the new Black Industrialist Programme is a cause for cheer; however, with the economy marking a growth of less than 2%, there is no hope of increased economic output (World-Bank, 2019a). It is important then that the new policy is looked at in a fashion that is different from how the previous BEE has been looked at in terms of participation. The new policy must have employment, value creation, and measured targets to get the whole economy functioning to the benefit of all people, not just black entrepreneurs. This will, in the end, engender a developmental state instead of pockets of success here and there.

5. CHAPTER FIVE: TOWARD SOUTH AFRICA'S DEVELOPMENTAL STATE

"The emergence of the modern state with its rationalized extension of control has been accompanied by analysis, critique, and prescription. To this day, however, critique and prescription have tended to overshadow and constrain analysis."

(Evans et al., 1985).

5.1. Introduction

The concept of developmental state found its way into South Africa's political lexicon in the mid-2000s. With the East Asian 'miracle' as a model, the ANC proposed that South Africa becomes developmental (ANC-NGC-Report, 2005). The governing party, on numerous occasions, has mentioned that they espouse a developmental agenda for the state and have continued to portray the country as aspiring to become a developmental state (ANC-NGC-Report, 2005, ANC-NGC-Report, 2010, ANC-NGC-Report, 2015). After the end of apartheid, development policy in South Africa shifted to focus on the debate over the superiority of either state-controlled or market systems (Ncube et al., 2012). As such, there have been five preeminent programmes that warrant a discussion when talking about post-democratic South African socio-economic development. These are The Reconstruction and Development Programme (RDP), the Growth Employment and Redistribution (GEAR), the Accelerated Shared Growth Initiative for South Africa (ASGISA), the New Growth Path (NGP), and the National Development Plan (NDP). Even with such 'overarching programmes', the challenges of unemployment, poverty and inequality persist as these programmes have largely failed to spark industrialisation and transformation. Before any confusion arises, there is not one definitive name for these programmes; they have been called 'overarching,' 'comprehensive,' 'preeminent,' 'key,' and 'grand' all in equal measure. Therefore, for the sake of organising the study here, 'overarching programme' was chosen and will thus be used henceforth. With the announcement of BIP, the South African government holds that there needs to be industrialisation if the country is to develop to its full potential and become economically inclusive (RSA, 2015b).

The objective of this chapter is to understand South Africa's industrialisation and economic development through the developmental state paradigm. It draws on the developmental state characteristics that were discussed in chapter two in order to discuss South Africa's journey on developmental policy making. The Chapter addresses the first objective of the study, which is to examine South Africa's industrialisation and economic development within a developmental state framework. Also, it presents the preliminary results of the study regarding the concept of state vision and economic planning and agencies. The organisation of the chapter is as follows: it begins with a look at South Africa's overarching programmes, individually discussing each one of them from RDP to NDP. It then looks at the overall situation in South Africa, presenting data on developmental state with respect to the policies that the country has had to enact and analyses it to give a picture of what has transpired.

5.2. The Search for an Effective Overarching Development Programme in South Africa

5.2.1. Development and Redress: The Redistribution and Development Programme

Because South Africa became a democracy at the height of neoliberalism and its attendant globalisation economic agendas, this presented challenges for the country's elites who had to adjust to this reality alongside policymaking in a country that was desperate for economic inclusivity. This scenario would bring challenges in terms of the country's economic development trajectory. Furthermore, a more pressing problem that had a direct effect on employment was the declining manufacturing sector (See Table 6.2.1) in the economy, and this was exacerbated after 1994 when the country opened up the economy and entered the WTO trade regime.

Table 5.2.1: The average rate of Growth per Annum of manufacturing output and employment and the total GDP growth

Year	Manufacturing Output (%)	Manufacturing Employment (%)	Total GDP (%)
1946 – 1950	9.1	6.6	4.7
1950 – 1955	7.5	3.0	4.8
1955 – 1960	4.5	0.9	4.0
1960 – 1965	9.9	6.8	6.0
1965 – 1970	7.4	3.2	5.4
1970 – 1975	6.0	4.1	4.0
1975 – 1980	4.1	1.5	3.4
1980 – 1985	-1.2	-1.0	1.1
1985 – 1991	0.7	-1.4	1.0

Source: MERG, 1993

As can be seen in Table 6.2.1, when South Africa was liberated from apartheid, the economy was declining, and this affected the previously disadvantaged populations disproportionately. The GDP stood at USD140 billion, unemployment at 20%; education levels were low for university enrolment for Black people, and access to healthcare was not universal (TGE, 2018). There was also a general lack of access to public services and infrastructure for a great majority of citizens. The RDP was a developmental programme and, to a large extent, fused ideas from the left regarding social inclusion and redistribution while retaining a commitment to the key tenets of capitalism in organising the economy.

5.2.1.1. RDP on Industrialisation and Black Economic Empowerment

The government was bold to state that it did not aspire to be ideologically leaning to a particular side; it declared that it was "convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us. Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society which in combination will lead to sustainable growth" (RSA, 1994: 80). This meant that the programme was led by pragmatism and the context prevailing in South Africa at the time. The fact that the ANC were in alliance with SACP was a cause for concern for investors (Parnell et al., 2002).

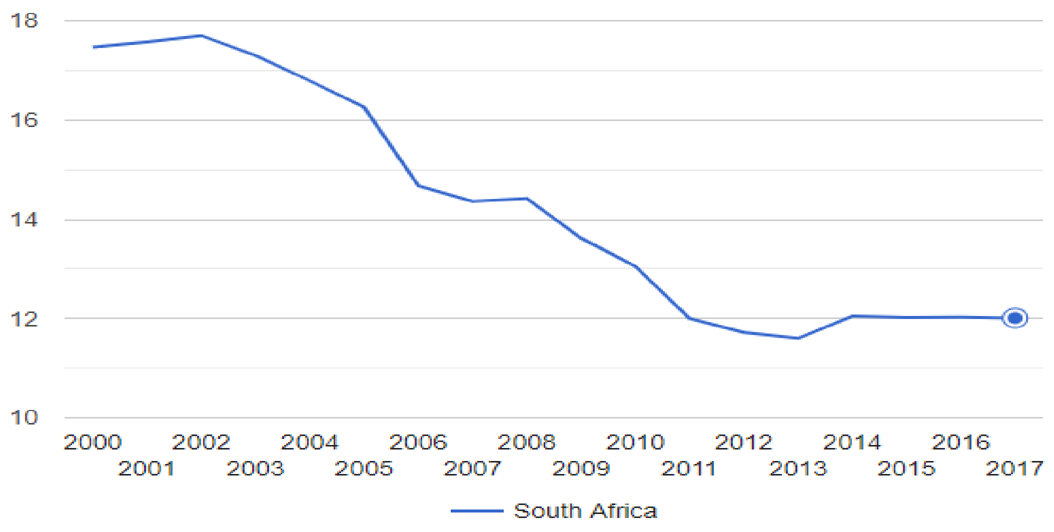
Regarding the economy, the RDP stated that it has "a deep-seated structural crisis and as such requires fundamental reconstruction" (RSA, 1994: 77). When the RDP was announced, it received resistance from big business and also from the investor community, which favoured a more neoliberal route to organise the economy (Mbeki, 2009). The joining of the World Trade Organisation (WTO), an organisation that encourages free trade, meant that the goods that South Africa produces though manufacturing was now susceptible to global market impulses. Indeed, the RDP document acknowledged that the General Agreement on Tariffs and Trade (GATT) agreement had necessitated a painful adjustment in certain quarters and that government policy thus needed to aim to reduce and balance that impact whilst at the same time promoting efficiency (RSA, 1994). This fact and the subsequent deindustrialisation that occurred meant that the government had to double its efforts in trying to halt job losses and make an impact on fighting poverty (Fine, 2011).

The main point of RDP on the subject of industrialisation was attempting to enhance the technological capacity of the state to ensure that South Africa emerged as a significant exporter of manufactured goods. It also sought the promotion of a more balanced pattern of industrial development, capable of overcoming the acute over-concentration of industrial activities in certain metropolitan centres of the country (RSA, 1994). Moreover, the document stated that trade policy would bring in instruments to promote exports of manufactured goods and, on the other hand, "be supported by the industrial policy that would support and strengthen those internationally competitive industries that emerge on the basis of stronger internal linkages, meeting the needs of reconstruction and raising capacity utilisation" (RSA, 1994: 79).

Regarding Black Economic Empowerment, the RDP expressed concern over the domination of business activities by white business and the exclusion of black people and women from the mainstream of economic activity (RSA, 1994). Therefore, in order for the reconstruction and development process to take shape, a central objective of the RDP would be to deracialise business ownership and control through focused policies of Black Economic Empowerment (RSA, 1994).

This overarching programme's policies were criticised as too ambitious and socialist to bring about real change in society (Mosala et al., 2017). Therefore, the failure of early institutionalisation of the programme and buy-in from business, especially in terms of funding, eventually slowed the programme down, leading to its replacement. From a policy perspective seen as poor in addressing South Africa's slide into de-industrialisation, with manufacturing declining gradually over the years (see Figure 5.2).

Figure 5.2.1.1: Value Added by the South African Manufacturing Sector as a percentage of GDP



Source: The World Bank (2019)

The ANC soon departed from the RDP and embraced the neoliberal macroeconomics-oriented GEAR - Growth, Employment and Redistribution Programme. GEAR was adopted in June 1996 and was the brainchild of the then Minister of Finance Trevor Manuel, together with then-Deputy President Thabo Mbeki (Segatti and Pons-Vignon, 2013).

5.2.2. GEAR: The Shift towards Neoliberalism

GEAR appeared to make sense in the mid-to-late 1990s as all the expectations of RDP were being called into question and its hopes beginning to dissipate amid the vortex of debt and economic challenges facing the country (Villa-Vicencio, 2007, RSA, 2011a). For example, government debt as a percentage of GDP in 1995 was 49.57, and this was as a result of political turbulence that saw -2.14% in GPD slump in 1992 and stagnant economic activity around the transition time. South Africa had experienced the worst period in terms of economic growth since WWII, and this was due to biting sanctions when apartheid was at its zenith, and this invariably led to economic slowdown (Faulkner and Loewald, 2008).

The ANC, they always sought to have a consensus-driven overarching programme that will balance the interest of both business and state. According to SARB (1997), an estimated five million people did not have formal jobs at the end of 1995, and unemployment was rising at

33% for economically active citizens. By the end of the first quarter of 1997, this figure was estimated to have risen to 40%, meaning that it had risen for three consecutive years.

5.2.2.1. GEAR and Industrialisation

Specifically, the aim of the programme was to attain an annual rate of economic growth of 6% per annum (starting with 4.2% from 1996 - 2000) and job creation of 400 000 per annum by the year 2000 (RSA, 1996). The main strategy was to concentrate capacity building on meeting the demands of international competitiveness. Five inter-related themes to help achieve these objectives were: accelerated growth of non-gold exports; a brisk expansion in private sector capital formation; an acceleration in public sector investment; an improvement in the employment intensity of investment and output growth; and lastly, an increase in infrastructural development and service delivery making intensive use of labour-based techniques (RSA, 1996).

For GEAR, the central thrust of trade and industrial policy was the pursuit of employment, creating international competitiveness. Another one was the expansion of market access through preferential trade arrangements with industrial countries and the pursuit of regional economic integration. In addition, developmental finance would be issued through Industrial Development Corporation (IDC) and the Regional Industrial Development Programme (RIDP). Furthermore, there were industrial support measures put in place, and these were:

- the industrial innovation support programmes through the Special Programme for Industrial Innovation
- The IDC's Multi-Shift and World Player schemes

On Small and medium-sized enterprise development, various programmes and institutions were being established to give effect to the strategy, including:

- the Small Business Centre attached to the Department of Trade and Industry;
- Ntsika Enterprise Promotion Agency to provide non-financial assistance;
- Khula Enterprise Finance Limited for wholesale loans;
- Khula Credit Guarantee Limited for loan guarantees;
- a pre-shipment export finance guarantee facility to expand access to working capital; and
- the Competitiveness Fund for consultancy advice on technology and marketing.

The above were the tools that the state created to be at its disposal to spur industrial growth and create employment for the mass population. However, GEAR itself was a 'macro-economic framework' which meant that all these instruments would have to be in line with the macro-economic prescripts presented by the Treasury.

The main thrust, however, of the GEAR strategy's macro-economic framework was its elements which stated clearly where the government was to be headed. These can be summarised as:

- Bringing in a renewed focus on budget reform to strengthen the redistributive thrust of expenditure;
- A faster fiscal deficit reduction programme to contain debt service obligations counter inflation and free resources for investment;
- An exchange rate policy to keep the real effective rate stable at a competitive level; consistent monetary policy to prevent a resurgence of inflation;
- A further step in the gradual relaxation of exchange controls;
- A reduction in tariffs to contain input prices and facilitate industrial restructuring, compensating partially for the exchange rate depreciation;
- Tax incentives to stimulate new investment in competitive and labour absorbing projects;
- Speeding up the restructuring of state assets to optimise investment resources;
- An expansionary infrastructure programme to address service deficiencies and backlogs;
- An appropriately structured flexibility within the collective bargaining system;
- A strengthened levy system to fund the training on a scale commensurate with needs; an expansion of trade and investment flows in Southern Africa; and
- Renewed commitment to the implementation of stable and coordinated policies.

From the above, it is clear that GEAR was a significant shift from RDP in that, instead of embracing redistributive policies guided by fiscal discipline, it aimed at fiscal discipline itself anchored with economic growth. The justification of GEAR was on the grounds that the economy in the mid-1990s needed stabilization due to the precarious state of public finances and an unstable macroeconomic situation (Bodibe, 2007).

The stagnated growth without jobs observed in the late 1990s and early-to-mid 2000s was a paradox. In the ten years when GEAR was applied in government policymaking (1997-2007), growth averaged 3.62%. This happened as employment shrank as unemployment averaged 25%, putting a strain on the economy (TGE, 2018). This was amid continued emphasis on fiscal discipline and support of market-based economic growth, as well as investor attractiveness. Thus, GEAR was perceived by unions and the SACP to have been neoliberal in form and substance. The programme became a battleground for internal ANC political factions with COSATU and SACP with one part the ANC ('the leftists') and the other faction ('the rightists') on the side of President Mbeki (Bond, 2000, Streak, 2004, Visser, 2004, Subira, 2011).

5.2.3. ASGISA - Accelerating Growth and Industrialisation

GEAR was failing to uproot poverty and reduce unemployment even though it had promoted exceptional economic growth (Bond, 2005). Having failed to change the economic fortunes of the majority of South Africans during two successive government terms, the 2005 ANC National General Council[3] (NGC) introduced the idea of a 'democratic developmental state' (ANC-NGC-Report, 2010). The party was imparting the idea of 'democratic' to signal a departure from the authoritarian nature of developmental states as experienced in East Asia. Following the NGC, Cabinet approved the introduction of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) without much fanfare in 2006 (ASGISA, 2005). ASGISA added a new factor in support of the state intervention structure of the state - which was the industrial policy. Industrial policy is at the heart of the developmental state because of the notion of 'deliberate intervention' in the economy and this is what the ANC would attempt in the following years. ASGISA was presented as a programme to buttress GEAR, where the latter fell short and was packaged as a pragmatic strategy to confront binding constraints of the GEAR economy (Pollin et al., 2006).

[3] The National General Council of the ANC is the party's mid-term policy review conducted by the party between national policy and elective conferences. Whilst it does not elect leaders, the NGC can however instruct the ANC to conduct more research and formulate resolutions for the next national conference. In the main, it is a policy formulation for the next conference and the discussions there are based on the set of policy documents that are drafted beforehand. It is an important conference dealing with the subject of policy-making in the party as the leaders that attend are usually not concerned about elections but rather focused on policy. The policies that are adopted at the NGS will then wait for the elective conference in order to be ratified and make them binding for all branches of the ANC.

5.2.3.1. ASGISA's Contribution to Industrial Policy in South Africa

ASGISA was not intended to cover all elements of a comprehensive development plan; rather, it was a limited set of interventions that would serve as catalysts to accelerated and shared growth and development (RSA, 2006). It proposed six elements that would bring in sectoral plans and targets in labour-intensive sectors to bridge the gap between what Mbeki's government had theorised as first and second economies (Butler, 2007a, Luka, 2005, RSA, 2000). The sectors that were to be targeted were in business process outsourcing; tourism; chemicals; bio-fuels; metals and metallurgy; wood, pulp and paper; agriculture; the creative industries; and clothing and textiles. ASGISA identified binding constraints as causing stagnation in the economy, and these resulting in the economy not opening fast for development to take place. The binding constraints identified were:

- Volatility and level of the currency;
- The cost, efficiency and capacity of the national logistics system;
- Shortage of suitably skilled labour amplified by the impact of apartheid spatial patterns on the cost of labour;
- Barriers to entry, limits to competition and limited new investment opportunities;
- The regulatory environment and the burden on small and medium businesses; and
- Deficiencies in the state organisation, capacity and leadership (ASGISA, 2005).

An important intervention to industrialise the economy was based on:

- infrastructure programmes
- sector investment (or industrial) strategies
- skills and education initiatives
- Second Economy interventions
- macro-economic issues
- public administration issues (ASGISA, 2005).

One of the tenets of a developmental state is a development-oriented vision. The government of South Africa, at the beginning of 2007, adopted the National Industrial Policy Framework (NIPF) to exist in harmony with ASGISA. The NIPF was an objective of the government's industrialisation plan along with ASGISA having the target of halving unemployment and poverty by 2014, through accelerated growth of at least 6% from 2010. Its main aim was to facilitate diversification beyond the reliance on traditional commodities and non-tradable services. In effect, the government wanted to diversify from a commodity-based economy to manufacturing. It also stated the need for long-term intensification of South Africa's industrialisation process. Moreover, it was aimed at the promotion of labour-absorbing industrialisation path to catalyse employment creation. Lastly, the NIPF encouraged broader-based industrialisation path to increase participation by historically disadvantaged economic citizens and marginalised regions in the mainstream of the industrial economy (DTI, 2012).

In the furtherance of NIPF, certain measures and instruments were introduced to drive development and industrialisation. Industrial Development Zones were established as purpose-built estates providing facilities for export-oriented industries. These sites are still present in South Africa today, like COEGA, Richards Bay Development Zone and Dube Trade Port. Secondly, there was the creation of a measure called the Small and Medium Enterprise Development Programme. This was designed to generate employment and create new opportunities for foreign investments. This programme would assist with the provision of incentives for the expansion of South African-based enterprises. These include those that wanted to start new businesses in different sectors like manufacturing, tourism, business services, ICT (Information and Communications Technology) and agro-processing projects. Important here was that eligible projects could claim a tax-free cash grant of up to 10% of the project's investment value (RSA, 2015b).

Another programme was the Strategic Investment Project Programme which offered a tax allowance of up to 100% on the cost of buildings, plant and machinery, for strategic investments. This programme endeavoured to attract local and foreign private investment. There was also the Foreign Investment Grant (FIG), a cash grant to foreign investors in new manufacturing businesses in South Africa. Here the foreign investor (50% foreign equity) could be compensated for the costs of moving new machinery and equipment from abroad to South Africa. Moreover, regarding export promotion, a few incentives were instituted, such as the Export Marketing & Investment Assistance (EMIA), a scheme to compensate exporters for costs involved in developing export markets. It also made reimbursements for the costs of reaching potential clients in international markets. Also, DFIs like IDC offered export credit incentives for businesses that were expected to earn foreign currencies. EMIA was also responsible for offering financial assistance with market research, trade missions, and showcasing products and services at international exhibitions (RSA, 2015b).

Linked to EMIA and other related instruments were the Export Credit Insurance directed to small, medium-sized and micro-enterprises which protected against non-receipt of payments to an exporter for goods and services delivered. The qualification for such was that the export must include substantial South African content. Lastly, the Customs and Excise duty refunds were available to exporters and firms which imported goods for re-export. These were some important factors that ASGISA (together with NIPF) had, which was important in industrialisation and the growth of black business in the country. Furthermore, and more importantly, the government introduced the Industrial Policy Action Plan (IPAP) to reflect the work undertaken by the Department of Trade and Industry with other government departments. In support of this were components like sectoral action plans - a set of cross-cutting actions of particular importance for industrial policy. This would be useful in the design and application of an Industrial Upgrading Programme in order to deepen manufacturing capabilities. There would also be measures to improve the government's organisation and capacity to implement industrial policy (RSA, 2015b).

Criticism came in the form of civil society holding views that because ASGISA did not aim to create a holistic development plan for the country but rather consisted "of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development," it was bound to fail (RSA, 2005: 4). Another one was that the government was prescribing certain policy to one sector and people and prescribe another for the others, and this recipe is disastrous. These contradictions were said to be due to an unwillingness from the state to critically engage with the structure of the South African economy in its entirety but instead perform contortions in accommodating both the lean 'first world' market economy and an interventionist developmental state on the other hand. The first economy is left alone in its own devices, whereas the second is strewn with interventions leading to more parallelisation of the economy (Frye, 2006).

ASGISA's moment was curtailed abruptly after the ousting of Thabo Mbeki from the office of President in 2008. The Minister of Trade and Industry Alec Erwin, who had pushed a developmental approach to governance, resigned with the President, and all in the midst of the 2008 world financial crisis. Eventually, in response to the tumultuous economic recession and economic hardship, the New Growth Path (NGP) was presented in the autumn of 2010 to be a centrepiece of government development planning (RSA, 2009, RSA, 2011a, Qobo, 2016).

5.2.4. The New Growth Path - Bridging the Gap

The NGP sought to look at economic problems that were hampering different industries and identified interventions where necessary. This policy evoked an old GEAR perspective that the country needed economic growth to develop its industrial base and create employment. However, NGP went a step further and used the already identified ASGISA interventions to drive infrastructure development, sectoral plans and objectives, and to campaign for the creation of five million jobs (RSA, 2009). The NGP's sectoral objectives were based on the creation of five million jobs in ten years until 2020, by creating decent work, having fairness/equity, cleaner and greener energy and more productive and competitive manufacturing; and also building social dialogue (RSA, 2009).

The central thrust of the programme was in identifying areas that require government encouragement, especially in knowledge-intensive sectors and green technologies. The NGP also elevated the need for 'new kinds' of education and training, greater research and development support, as well as the establishment of learning organisations in enterprises and state agencies (RSA, 2009). In effect, however, in terms of industrial policy, the NGP sought to give political support and institutional arrangement for the second Industrial Policy Action Plan (IPAP2), thus aiming to ramp up South Africa's industrial policy by improving alignment across the state.

The most important factor that the NGP brought in was highlighting Development Finance Institutions as important vehicles for development initiatives and implored these institutions to assist on government projects in order to help unlock the funds required for such programmes to be successful (RSA, 2009). Even though the RDP, GEAR, and ASGISA had mentioned that DFIs were key to unlocking funding for development, the government had not really followed up with a programme aimed at addressing funding matters. The NGP was more daring in that it looked inward in wanting to address the structural flaws of the economy and was not concerned about investor sentiments, a flaw that critics noticed (Qobo, 2016). This would be done by reforming institutional structures and financial engineering to significantly increase the capacity and impact of the development finance institutions (DFIs), especially the IDC, for industrial financing (RSA, 2009). The NGP's policy proposal was aimed at creating conditions for faster growth and employment through government investment, microeconomic reforms that lower costs for business, competitive and equitable wage structures and the effective unblocking of constraints to investment in specific sectors (RSA, 2011a).

5.2.5. The National Development Plan: Envisioning Development for the Future

The NDP is the current programme. Its basis for the total transformation of South Africa by 2030 is that the economy must grow by at least 6%, and that will bring the desired results of ending unemployment, inequality, and poverty. The GDP has risen steadily since 1994(see figure 6.2.5), but that has not redistributed wealth equally amongst the nation's people. With regards to inequality targeted a goal of 0.6 Gini co-efficient in 2030 from the 0.7 in 2009; and for poverty alleviation, it targeted move from 39% to zero of a number of people living below R418 a month (in 2009 numbers); and on employment, it targeted 6% unemployment rate from 27% in 2009 (RSA, 2011a).

Labour unions stated that the main contention for them is the NDP's silence on labour exploitation, characterised by the presence of labour brokers and no minimum wage for workers[4] (RSA, 2018c). The national minimum wage was agreed and gazetted as an Act in 2018 and took effect in January 2019, almost a decade after NDP was presented to the public (RSA, 2018c). Although the NDP did state that wage determination needs to be conducive to employment and equity objectives through ensuring fair division of earnings and the need for a social wage. With regards to quelling labour misgivings about exploitation and labour brokering, it admitted that labour relations had to be looked at because it was one of the constraints in the economy (Qobo and Motsamai, 2014).

Figure 5.2.5.: Annual GDP Growth from 1994-2017

[4] After protracted negotiations between organized labour and government the National Minimum Wage Act 9 of 2018 was enacted and it came into effect on the 1st of January 2019. Although COSATU was critical of the president's dithering and not signing the bill, the federation welcomed the Act when it was promulgated. Amongst others, the Act seeks to improve the wages of lowest paid workers; preserve the value of the national minimum wage; and promote collective bargaining. The commission was established to oversee the review and recommendations of the policy on a continuous basis.
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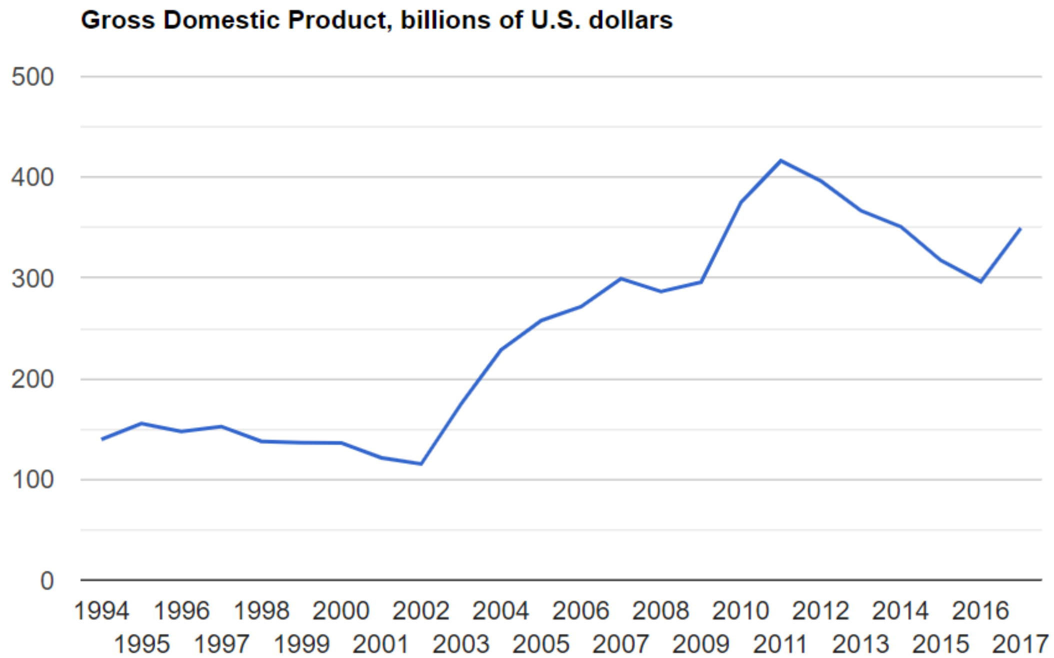

Source: (World-Bank, 2019a)

The NDP proposed that South Africa's industrial policy transition from its current stance of supporting energy and capital-intensive goods production. Rather, it wants to move to an increasingly diversified industrial base where there is more inclusivity (RSA, 2011a). Industrial policy is central to the realisation of this, as it is a basic formula for how to make actors in different industries and entities in the state conduct themselves harmoniously in a fashion that is suitable for development (Chang and Andreoni, 2016).

For the state, the NDP has ushered in new developmentalism thinking and hope for industrialisation on a larger scale. Although the NDP itself makes no mention of a developmental state, it rather uses a 'capable state.' However, the 2015 ANC NGC conference resolved to use the NDP to construct a developmental state:

> *"The main goal of the state transformation is building a developmental state that provides effective basic services and with capabilities to take forward a far-reaching agenda of national economic development, whilst at the same time placing people and their involvement at the centre of this process. This objective is the guiding principle for the ANC's management of the State. The NDP (2013) clearly puts it that there will be critical interventions to build a professional public*

service and a state capable of playing a transformative and developmental role in realising the vision for 2030."

In terms of the NDP, the government wanted it to become a functioning document that gives effect to all programmes of government must be the reference point. The document, however, is criticised for its lack of a detailed implementation plan even though it has wide-ranging deliverables.

Table 5.2.5: Industrial Policy Recommendations from Overarching Programmes

RDP	GEAR	ASGISA	NGP	NDP
Inserted South African industries into global value chains	Macro-economic framework	Wide-ranging industrial policy	Targeted Sectors	Inclusive industrialisation to expand the domestic linkages
Enhance technological advance of the state	Create International Competitiveness	Targeted Sectors for intervention	Focused on Funding	Diversify industrial base
	Issuing of development finance through DFIs	Initiated a focus on IDZs and SME Development Programme	Creating 5 Million Jobs	Harmonise different industries towards a single goal
		Produced NIPF and IPAP as an industrial framework and industrial plans, respectively		

Source: Author's own

5.3. Examining Post-Apartheid South Africa's Attempts at Industrialisation

This part of the study examines South Africa's industrialisation after 1994 and how that affects its trajectory towards a developmental state. In this part, the overarching policies are analysed in comparison to literature as discussed in the preceding chapters, interviews with participants are presented when it concerns this question of post-South Africa's policymaking. This section draws from the characteristics of the developmental state that were found to be important in setting up conditions for driving industrialisation. In the main, the responses centred on collaboration between the state and the private sector (development-oriented leadership and state developmental vision) in reference to crafting and application of industrial policy. Secondly are the skills needed to drive such industrialisation (autonomous, efficient, and effective bureaucracy). The third one is funding (availability of funding resources for industrialising is vital).

5.3.1. The partnership between the State and Private sector

At an overarching programme level, the state needs partnership with the private sector. One of the conditions for the developmental state is that there be a partnership between the state and the production-tailored private sector. Regarding this point, the respondents characterised South Africa's industrialisation as that of distrust between the state and the private sector in the country. They stated that this lack of partnership is unproductive as government needs labour and the private sector to rally economic policies forward. Furthermore, respondent two, a CEO of a business association, mentioned that it is an issue of trust:

> *The successful economies governments that have turned their economies around have partnered with business societies in doing so, and unless we build that trust and start doing that, it will be very difficult to do it (respondent two).*

The relationship between the state and the production tailored private sector is important to form collaborative routes for information sharing and creating embeddedness. Policies in South Africa regarding industrialisation have been compromised by the fact that South Africa does not have a relationship between the state and the private sector. Respondents stated that there is a general lack of appreciation for the private sector from the government. Although developmentalism goes beyond public-private partnership, this is a crucial piece in driving industrialisation. One of the conditions that satisfy the developmental state is about state partnership with the production-tailored private sector. Developmentalism, according to Kohli (1994), has special links between the state and industrial classes, which enables state elites to incorporate these powerful groups in the state's economic project. In Malaysia, for example, the United Malays National Organisation used such proximity to the entrepreneurial class of the Bumiputera to channel rents to businesspeople aligned to government leaders action (Gomez, 2009). In directing the industrial policy, the government's involvement must also be restrained; this is important and underlies a successful state intervention in the economy where the government knows when to let the companies run with less assistance (Moldicz, 2017).

5.3.2. Capacitated Bureaucracy and Skills development

Well capacitated bureaucracy is what drives developmental states. In South Africa, civil service has a dearth of qualified and effective bureaucracy. Respondents stated that they would like to see a good and consistently capacitated policy environment from an industry point of view for the winners and losers to operate. According to Respondent Seven:

> *"Getting the right people into correct positions has remained South Africa's biggest challenge in the democratic era. The people that have been appointed to head State-Owned Enterprises, for example, have not been able to show the skills which they were hired for in terms of providing positive results* (Respondent seven).

The failure of some countries to execute a good developmental state is due to them being unable to address this problem as they do not have the capacity to make the industrial policy work properly. Industrial policy demands that there be properly qualified people to vet the private sector and support them or, when necessary, penalise them. Lacking this aspect undermines developmentalism altogether (Hayashi, 2010a). One of the conditions for a developmental state to proceed effectively is bureaucracy and its effectiveness. Johnson (1982: 57) assigned this aspect as the most important element in the functioning and the success of the state's programmes:

> *"The existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system".*

South Africa has challenges in this regard. The developmental state prides itself on a bureaucracy that is depoliticised. However, respondent eight that this is not the pointed out that such notion like lack of properly qualified people is not the whole truth and stated that there are some pockets of best bureaucratic practices like those seen at the Ministry of Finance but, other government departments and spheres lag behind in this regard. Industrial policy - more so in developing countries – needs a good level of institutional capacity from the state policy apparatus, and no state comes equipped with this, but each state has to overcome this gap (Chibber, 2011). State capacity matters critically in driving policies and the organisation of society to be in line with it and to strive for the same goals that it has set (Suh and Kwon, 2014, SaKong and Koh, 2010a). This thus highlights the paradoxical nature of developmental states where usually the states that gravely require economic development are also incapacitated and lack the institutional infrastructure that would undergird such development in the first place. Intervention to develop the economy presupposes, however, that the state must have (or build itself up) this capacity to intervene. With reference to state bureaucratic efficiency, the NDP states:

> *"If we are to address the twin challenges of poverty and inequality, a state is needed that is capable of playing a transformative and developmental role. This requires well run and effectively coordinated state institutions staffed by skilled public servants who are committed to the public good and capable of delivering consistently high-quality services for all South Africans while prioritising the nation's developmental objectives. This will enable people from all sections of society to have confidence in the state, which in turn will reinforce the state's effectiveness"* (RSA, 2011a).

Capacity is intertwined with education. The education, especially of black people and formerly marginalised sections of society, has not been at a quality required to help transform the South African civil service.

The vocational TVETs have not been performing very well to alter this situation. There has not been upskilling and production of enough black skills and expertise to work in manufacturing. Not only does proper education teach the nation and develop them mentally but, it also is a great starter for an entrepreneurial country that aspires for its people to have businesses. Most developmental states came into power having a deficiency of competent staff but, they work to improve this by focusing on education and training. In South Korea, for example, after the ravages of war and colonialism, the government put emphasis on technological innovation and copying overseas technology. This needed education and they invested in proper quality education. As much as good investments have been made towards education and increasing access to it, the state of the education has not been reflected in critical subjects like Maths and Science. The Trends in International Maths and Science Study (TIMSS) released in 2015 in which 600 000 students participated showed East Asian countries leading in education, while South Africa ranked second to last out of 57 countries selected (TIMSS: 2015). Of all countries' children that took the test, only 7% performed below the international benchmark; for South Africa, this figure was 61%. Progress in International Reading Literacy Study (PIRLS) 2011 reading test produced a worrying 58% of

Grade 5 children, who were found not able to read for comprehension (High-Level-Panel, 2017).

The government intervened to change this situation by introducing Sector Education and Training Authorities (SETAs) through the Skills Development Act 97 of 1998 (Africa, 1998). The Act implored that "the Minister may, in the prescribed manner, establish a sector education and training authority with a constitution for any national economic sector". With the SETAs, the state was intervening to assist with training people in line with their sectors, and the government funnelled funds to different sectors that needed such assistance. Accordingly, there are currently 21 SETAs that are registered with the Department of Higher Education, and under these, there are multiple service providers assisting with these various pieces of training. These SETAs, as presented by the Department of Higher Education and Training, are:

- Agriculture Sector Education and Training Authority (AGRISETA)
- Banking Sector Education and Training Authority (BANKSETA)
- Culture, Arts, Tourism, Hospitality and Sport Education and Training Authority (CATHS SETA)
- Construction Education and Training Authority (CETA)
- Chemical Industries Education and Training Authority (CHIETA)
- Education, Training and Development Practices (ETDP)
- Energy and Water Sector Education and Training Authority (EWSETA)
- Financial and Accounting Services Sector Education and Training Authority (FASSET)
- Food and Beverages Manufacturing Industry Sector Education and Authority (FOODBEV)
- Fibre Processing and Manufacturing Sector Education and Training Authority (FP&M SETA)
- Health and Welfare Sector Education and Training Authority (HWSETA)
- Local Government Sector Education and Training Authority (LGSETA)
- Manufacturing Engineering and Related Services Sector Education and Training Authority (MERSETA)
- Media, Advertising, Information and Communication Technologies Sector Education and Training Authority (MICT)

- Mining Qualifications Authority (MQA)
- Public Service Sector Education and Training Authority (PSETA)
- Safety and Security Sector Education & Training Authority (SASSETA)
- Services Sector Education and Training Authority (SERVICES SETA)
- Transport Education and Training Authority (TETA)
- Wholesale and Retail Sector Education and Training Authority (W&RSETA)
- Insurance Sector Education and Training Authority (INSETA).

The SETAs are charged with developing the sector skills plan within the framework of the national skills development strategy and also to implement individual sector skills plans (ACT). The impediments found in the study by HSRC (2012) for SETAs included - complexities of training systems, focus on access and the number of recipients rather than the quality of training they receive. Furthermore, the instability in some government departments was flagged as one of the challenges for the SETAs, and these have contributed to the delay and slow progress towards skills revolution in South Africa, and these are crucial for economic growth and job creation. These require serious attention to be paid to the operations, structures and institutions that are responsible for skills development (HSRC, 2012).

5.3.3. Overlapping Ministries

South Africa has, as stated above, its development path driven by government department and institutions rather than formulated developmental strategies. The state has, over the years, created a number of departments aimed at economic development, creating institutional inflation. In 1994 out of 28 state departments, there were six departments that had an economic function (Agriculture and Land Affairs; Finance; Labour; Public Enterprises; Trade and Industry; and Ministry without portfolio for Reconstruction and Development Programme). In 2004, out of 28 state departments, there were four (Finance; Labour; Public Enterprises; and Trade and Industry). In 2014, out of 35 state departments, there were six (Economic Development, Finance, Labour, Public Enterprises, Small Business Development, and Trade and Industry). The problems hampering business development and Black Economic Empowerment cannot be solved by the proliferation of new institutions. Another serious problem with the newly created departments and agencies is that they are concentrated on the national sphere and are not devolved enough into the provinces and local government.

Departments such as that of economic development and small businesses should be spearheading local economic development in municipalities and promoting SMMEs and do not have a practical purpose at a national level. This is because small business development matters happen more at a local level than national. It is important for the leadership elite to understand that clear, simple, and straightforward policy are more useful than dozens of duplicate departments, as this will be good for both business and government itself.

Table 5.3.3: South African State Departments with an Economic Function (1994 -2014)

1994: 4/28 State Departments	**2004: 4/28 State Departments**	**2014: 5/35 State Departments**
Finance	Finance	Economic Development
Labour	Labour	Finance
Public Enterprises	Public Enterprises	Labour
Trade and Industry	Trade and Industry	Public Enterprises
		Small Business Development
		Trade and Industry

Source: Author's Own

Every state must build institutions that empower it to make laws that will accelerate the rate of development. It is understood that the developmental states establish economic bureaucracies to be at the heart of the polity to drive the developmental policies, as they take this to be a fundamental function. The problem in South Africa is that there is no department or agency that is solely responsible for delivering economic policy because there are just too many of them looking to do this. Currently, the departments that have an economic (development) function are fragmented (see Figure 5.5). These are fragmented both in policymaking and execution, but also their developmental goals are unclear therefore causing confusion in the system for businesses and aspiring industrialists.

Overlap of activities and lack of accountability are just some of the more major problems. Respondent five, whose industry association represents a bulk of the country's manufacturing businesses, suggested that they need certainty and alignment of government policy and proper execution. Their proposal is that the government needs to create a 'super-ministry' that will be a walk-in for everyone concerned. This will help give coordination to industrial development and job creation like how the Japanese Ministry of International Trade and

Industry (MITI) acted[5]. This ministry would incorporate DTI, EDD, DSBD and DPE, and it would be closely aligned with the National Treasury.

The MITI in Japan was such an institution that it was able to use its powers to coordinate the development practices of the private sector with that of public interest (Johnson, 1982b). One ministry with an economic function that will work like MITI would address developmental challenges and also initiate new thinking in the country. The result in Japan was the development of Japanese conglomerates and big technology companies that were able to absorb the best students and were patriotic to Japan (Johnson, 1982b).

The National Planning Commission (NPC) in South Africa could have had similar powers as MITI but, it was constituted on an *ad hoc* basis by a committee of interested parties rather than a full-time staff complement that could bring about holistic developmental policies. After the NPC had presented the NDP to the President, it ceded powers to the Ministry of Monitoring and Evaluation in the Presidency. The concern now is to show the extent to which all the policies can be aligned to the NDP and if such an alignment would bring the desired results. As it stands, the functional powers of the NDP are not expressed directly through implementable policies, leading respondent two (quoted in the preceding chapter) to conclude that it is a mere vision document.

The government has stressed that the NDP will increase the capacity of the state, delivering basic services like health and social development policies; and improving on infrastructure. However, a cursory look at the performance regarding these wishes reflects that the state is going the opposite route. A case in point is the minimum wage announced by the deputy president of the country. The NDP states:

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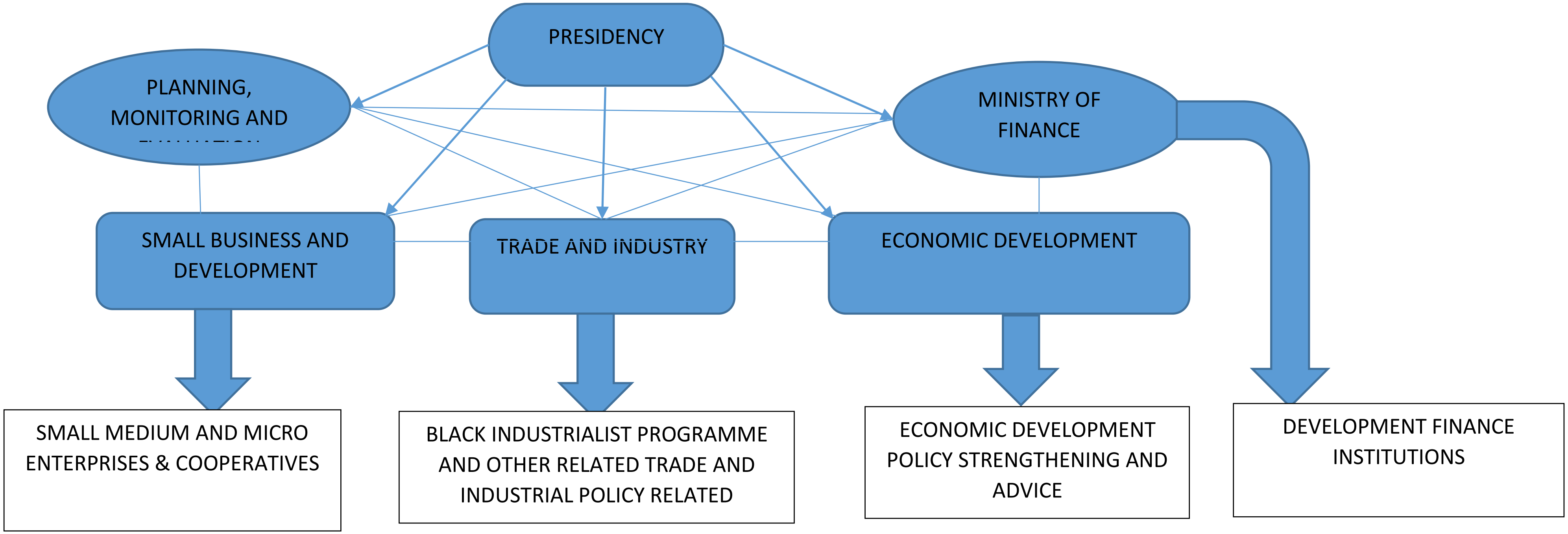
[5] Japan's Ministry of International Trade and Industry (MITI) was formed in 1949 from the union of the Trade Agency and the Ministry of Commerce and Industry in an effort to curb post-war inflation and provide government leadership and assistance for the restoration of industrial productivity and employment. MITI held primary responsibility for formulating and implementing international trade policy, although it did so by seeking a consensus among interested parties, including the Ministry of Foreign Affairs and the Ministry of Finance. MITI was responsible not only in the areas of exports and imports but also for all domestic industries and businesses not specifically covered by other ministries in the areas of investment in plant and equipment, pollution control, energy and power, some aspects of foreign economic assistance, and consumer complaints. This span allowed MITI to integrate conflicting policies, such as those on pollution control and export competitiveness, to minimize damage to export industries.

"Rapidly rising wages do not usually precede growth acceleration – they are more likely to follow the onset of a sustained acceleration by two to five years. This is particularly the case if the urgent focus is on access to employment opportunities for large numbers of workers, on the back of which qualitative improvements can be attained. This is a trade-off that South African society has to address".

There were protracted negotiations over the minimum wage dispute, with businesses arguing for more flexible wages and labour, and on the other hand, asking for more money for salaries. However, in the end, the proposed minimum wage was announced at R3500 (BusinessTech, 2018, RSA, 2018a). This is a classic example of a state that vacillates on a programme of action and sends conflicting signals to business.

Figure 5.3.3: South African Government Organogram of Departments with an Economic (development) Function



Source: Author's own

5.4. Concluding Remarks

This chapter looked at industrialisation as it has proceeded under different overarching programmes since 1994. The programmes' failure to assist in impacting in industrialising the country has been due to the lack of partnership between the state and private sector in collaborating to spur industrialisation. RDP, as the first overarching programme, made an impression as an ideological change when in terms of universalising service delivery in South Africa. The programme coincided with trade liberalisation and global expansion of capital and could not stem out South Africa's capital outflows and manufactured imports. The programme achieved long-term status, although through universal access to health, education, and provision of housing (still called 'RDP houses' in many quarters of the country). Moreover, being a new programme in a new government and new regime altogether meant that it naturally lacked experienced enforcers.

GEAR was a macro-economic framework. Whilst the RDP brought a plethora of issues to the table, under the new programme, the thrust was in terms of creating international competitiveness (outward-looking and focus on attracting FDI) and engendering the fiscal discipline. Whilst the programme introduced new schemes for businesses to access in its suite of industrial policy tools, the deindustrialisation that was already taking place during the late years of apartheid and the globalisation phenomenon was already ravaging the country's manufacturing sector and scuppering efforts towards industrialisation. The era of GEAR is known for jobless economic growth, and the government sought a new plan to stop this and instituted a third programme called ASGISA.

In terms of industrial policy and specifics on issues relating to industrialisation strategy, this programme was sound. It also coincided with the rise of the term 'developmental state' in the country. The programme was specific in its details of the programmes to be supported, and it produced a suite of targeted sectors that would benefit from its policy. It was also through this programme that a full industrial policy, the National Industrial Policy Framework, was presented. The impact of ASGISA, at least on paper, would be on every sector. Sector-specific issues were raised in the programme, and these would be addressed in terms of agencies and institutions created to support the programme. The challenge with ASGISA, however, was that instead of also addressing the economic structure of the country, it sought to create intervention routes towards specific diverse industries. This created a silo mentality that caused ASGISA and NIPF to be only good on paper but cumbersome for businesses.

This led to the addition of the Industrial Policy Action Plan (IPAP). The action plan was intended to support the initiatives and coordinate industry-specific responses with the aim of rapidly industrialising the country. The full import of ASGISA was never felt, however, as the programme was curtailed by the state following Mbeki's ouster. The programme has had a positive impact on businesses as there are schemes for businesses doing business with the state, exporting businesses, the industrial zones, and general manufacturing. IPAP was carried out in subsequent administrations because of the impact that ASGISA had.

The other overarching programme was the NGP. This programme was not different to the ones before it and seemed rushed and regurgitated. However, one plan that was put to the fore in this programme's era is that of Development Finance Institutions. It highlighted their importance in the economy and as funders of industrialisation. In terms of industrial policy, NGP depended on IPAP to carry out the industrial plan. It did not produce anything new to the country and proved to be a 'conversation-starter towards the NDP. The NDP as a current programme is where the BIP has emerged as a policy to assist black people in the manufacturing sector. All these policies have been strong in terms of policy-making, but they have not done much in terms of implantation.

The following chapter looks at the findings regarding BIP policy and its potential effects on industrialisation and South Africa's developmental state.

6. CHAPTER SIX: SOUTH AFRICA'S PATH TOWARDS RACIALLY INCLUSIVE INDUSTRIALISATION

"Development is an ongoing process."

(Jones, 2000: 238)

6.1. Introduction

This study set out to examine whether the BIP departs in any way from the BEE policy, as it has been practised before. If that is the case, how has the policy conceptually departed from earlier policies? Which elements make the policy differences, and is it something intellectually new? Can a policy that is trying to reverse the economic injustices of the past be trusted to resolve de-industrialisation and declining manufacturing fortunes? Also, the beneficiaries' side of the programmes: how they are going to be selected and vetted for the programme and how are these likely to move South Africa closer to industrialisation – therefore a developmental state. What are barriers likely to hinder the programme? These are some of the questions that this chapter grapples with.

As has been stated in the preceding chapter, there have been five overarching programmes since 1994, and these programmes have had mixed results for the development and empowerment of black and previously marginalised people. This resulted in economic challenges that the country is still grappling with 26 years after democracy. The progress that has been fostered by the democratic government also has not equitably benefitted everyone. The policies such as BEE and later BB-BEE were established presciently to redistribute resources across the economy and open new channels to empower all people economically. In the evolutionary journey of the BEE, it has come to one of the policies called the Black Industrialist Programme. The Policy Document of BIP ((RSA, 2015a))states the objectives of BEE are to

(1) Accelerate the quantitative and qualitative increase and participation of Black Industrialists in the national economy, selected industrial sectors and value chains, as reflected by their contribution to growth, investment, exports and employment; and

(2) Create multiple and diverse pathways and instruments for Black Industrialists to enter strategic and targeted industrial sectors and value chains.

This chapter analyses the BIP and looks at its conceptualisation of the policy and whether it will engender industrialisation in South Africa's and, by extension, developmental state. As conditions for the developmental state, the literature states that there has to be development-oriented leadership, a bureaucracy that is efficient, effective, and autonomous; the state has to have a relationship with the production-tailored-private sector, and there must be a presence of an industrial policy. Furthermore, chapter two expanded to include the countries that used developmentalism and how this was affected in those respective countries. The takeaway from the discussion in chapter two is that all of them instituted different developmental mechanisms that were informed by their conditions prevailing at the time. Out of those countries, only two had a challenge of racial tensions, Malaysia and Thailand, and their cases are instructive. Whilst in Thailand, the leadership, did not institute redress policies, opting instead to focus on economic development for all, Malaysia instituted wide-ranging redress policies aimed at the transformation. The country, though, was aided by its impressive economic growth averaging 6.5% between 1961-2011 (Felker, 2018). Malaysia's developmentalism is not in question; however, the result of the policies aimed at transformation is largely mixed as to whether they achieved their intention of the Bumiputera development. They began with land policy, promoting agriculture for small-holder ethnic Malay population, scholarships, affirmative action, etc. However, success on these redress policies was not achieved even during the impressive economic growth. Whist applying these redress policies, corruption threatens to undo all the development of the Bumiputera. With only this one example to emulate, where does South Africa stand with an economy that is stagnant, has skyrocketing unemployment and increasing poverty levels?

This chapter presents the findings of the research in terms of the interviews conducted and secondary sources consulted for the study. The questions posed to the respondents were carefully analysed sorted into categories of information that would make it easier to digest; from then on, the codification process was done following the results of the study and with the research objectives used as guideposts. Words that came out in the theme identification process were varied (they included: fragmentation/gaps, collaboration/partnership, transformation, leadership, funding, skills/training, regulations, and access to markets). In the end, the themes crystallised, the merging process ensued, and they are presented here (see table 6.1). The literature covered in chapters two, three, and four provide the backdrop of the thematic discussion here. This draws the link between the need for industrialisation and the imperative of racial redress and puts forward the argument that in the context of South Africa, the country is stagnant both in redress and in industrialisation. The themes that are important in this discussion are that South Africa is attempting industrialist led transformation instead of industrialisation led transformation.

The important themes coming out of the study is industrialisation, and here the subthemes are that BIP industrialisation is being pursued when it is, in fact, deindustrialising since 1994. Also, there is policy fragmentation and a lack of partnership between the current present industrialists and the state. The next theme speaks to industrialist led transformation and raises some of the challenges that South Africa has in deracialising the economy, measuring transformation, showing transparency and depth, as well as in leadership. The third theme is on access to markets and localisation as part of the role that BIP will play in driving industrialisation; the fourth discussion is about funding’s importance as well as challenges faced in this regard. Last is the challenges that are likely to inhibit industrialisation efforts in South Africa, and these are corruption, skills and training, and the regulatory environment.

Table 6.1: Study Thematic Findings

Theme	Subtheme
Progress of the developmental state looking at the BIP programme	
• **South Africa's Industrialisation**	
Industrialisation	Policy Fragmentation and Gaps Deindustrialisation Manufacturing
• **Concept of BIP within a developmental state Framework**	
Industrialist led Transformation	Deracialising the Economy Measuring Transformation Transparency and Depth Leadership
• **BIP's Role in Driving Industrialisation**	
Access to Markets and Localisation	Opportunities for New Markets Opportunities for Localisation
• **Role of DFIs as an aspect of Industrial of Developmental State**	
Funding	Importance of Funding Challenges with Funding
• **Challenges against South Africa's Industrialisation**	
Challenges inhibiting developmental state	Corruption Education Skills and Training Cumbersome Regulatory Environment

Source: Author's Own

6.2. South Africa’s Industrialisation

6.2.1. Policy Fragmentation and Gaps

South Africa’s attempts at industrialisation has proceeded through a fragmented policy setting. This was apparent in what the respondents relayed, stating that the policies have been fraught with gaps and fragmentation and is not aligned with the private sector strategies. According to Stiglitz et al. (2013), industrial policy implies the state’s attempt at shaping the sectoral composition and allocation of the economy. Respondents relayed that there is an effort by the state to prioritise certain sectors over others. According to Kelly (2008) and Hayashi (2010b), is that the primary essence of the developmental state model is state-led industrialisation, and this requires the state to be capacitated with people who are qualified to do this. This, although acceptable in developmental state theory, has not happened efficiently because it is in their interest to see a consistently capacitated policy environment that from an industry point of view for the winners and losers to operate. Picking winners and loser in the economy is one of the main facets of industrial policy. In South Africa, the capacity to do this diligently seems to be lacking since there is a misalignment between private sector interests and government interest.

6.2.2. Deindustrialisation

South Africa has also been faced with deindustrialisation since the late 1980s as sanctions were imposed against apartheid. The fact that it focuses on the people (industrialists) and not on the whole system of ‘industrialisation-deindustrialisation-reindustrialisation’ makes it farfetched to achieve success. South Africa is faced with a negative industrialisation effect as conceptualised in industrial policy literature. This phenomenon happens when the country’s labour shifted due to a fall in manufacturing output but not reabsorbed into the service sector, and this results in unemployment and stagnant or falling real incomes (Tan, 2014). The government’s focus does not seem to be on overhauling the whole sector but rather on inserting a certain class of black people in an industry that is diminishing. Trying to resuscitate a diminishing industry by using new faces may not be a good strategy to promote and encourage industrialisation let alone, a vehicle for Black Economic Empowerment. This is because instead of the focus being to regain the margins that have been lost in the industry, the focus will shift rather to who is in charge of these businesses. Also, the whole policy on manufacturing has not shifted to contemplate the arrival of these Black Industrialists. The fact that this sector is really at a decline is evidenced by respondents using terms such as ‘resuscitate,’ ‘reignite,’ or ‘spur’ when talking about industrialisation.

6.2.3. Manufacturing

The government is also interested in spurring manufacturing, but there is a lack of clarity from the respondents on who must lead this process because the government is not proactive, nor is it keen on partnerships. The main thrust of manufacturing, according to respondents, is that it should be driven by entrepreneurs, and the role of government was to create a conducive environment. The BIP’s bias towards manufacturing needs to be put into perspective (RSA, 2015a). The BIP programme is heavily focused on manufacturing, where there are few black people that participate. A study conducted by KPMG showed that manufacturing lagged behind sectors such as mining (KPMG, 2014). It is thus important that BB-BEE is focused on this important sector in order for job creation to happen, and this is because it is able to absorb low skilled workers. Generally, BB-BEE has not performed well in the manufacturing sector. Just by looking only at the value of BB-BEE deals that have happened in South Africa since democracy, it can be deduced that this sector to be supported for it to grow to levels that will be satisfactory to deliver jobs. A study conducted on 100 JSE listed companies showed that the value of BB-BEE in industrials (where manufacturing is concerned) is 2.1% when considered in proportion to other sectors (Intellidex, 2015). Therefore, the creators of this policy found it important for BIP to play its part and transforms this situation. Respondent three (a provincial government bureaucrat overlooking BEE and economic development) stated that for industrialisation to happen, it must be both transformative and disruptive at the same time - therefore developmental. It has to be transformative in that it has to bring in new people, ideas, and innovations into the fold; and disruptive in the sense that it has to change the racial outlook. But catapulting black manufacturing firms from just manufacturing to industrialists comes with more than just support; it implies reindustrialising the country.

Whether in Singapore, Malaysia or South Korea, growth through the developmental state was spurred by the manufacturing sector, and this sector was important in their export promotion strategies. For economic growth and development, the manufacturing industry is essential (Dent, 2018). However, this sector in South Africa has experienced serious challenges that have hindered its success. An example is the massive influx of imports of manufactured goods (mainly machinery and equipment) from countries such as China and the United

States. Manufacturing has been declining since the 1980s (from about 23% in the 80s to 12% in 2019) (World-Bank, 2020); meanwhile, the competitiveness of South African products was waning (StatsSA, 2017a). With this sector gradually diminishing for years, the government aims to reverse this problem and drive the reindustrialisation of South Africa through diversification of production to decrease employment and end poverty. It is therefore important to paraphrase Respondent one, who stated that BEE in itself and BIP in this purpose targets economic growth at its core, and redress is secondary. Therefore, BIP is meant to fuel economic growth, and it is not just redressing for the same of redress whilst the economy remains the same.

6.3. Industrialist Led Transformation

Five government administrations and five programmes (RDP, GEAR, ASGISA, NGP, and NDP) have attempted to transform and develop the economy to increase Black people's participation in the economy sustainably. The changes initiated in the early 1990s required not only the dismantling of the apartheid economic structure but also called for the provision of a formidable alternative for the inclusion of Black people and previously disenfranchised people in the economy. Throughout the CODESA negotiations, economic inclusion was secondary to political negotiations, and this was understandable considering the volatile times of that period. Respondents stated that what governments were to do is transform the economy towards equitable share between races. They felt that the economy was not structured to transform in the first place, and therefore it is increasingly difficult to change it. In 1994, for example, specific percentages would have been put in place to try and measure what would be required in each sector in order to increase participation.

In Malaysia, after the racial tensions of 1969, the government instituted policies aimed at improving the lives of ethnic Malays, the Bumiputera. They instituted quota policies for this to happen and specifically stated that they needed to achieve 30% ownership of the economy by the year 1990 (Hamid et al., 2019). The redress policies in Malaysia were ubiquitous and spread across the board, from the education system to sport management; these include commercial licencing, preferential loans, government contracts, and affirmative action (Victoria and Ameer, 2018). The ruling party in South Africa, the ANC, did not utilise this route of instituting quotas everywhere, but their concern has been, according to the respondent, a trial and error approach. In the developmental state of Thailand, the government put in motion detailed policies to help the native population to gain major traction in productive industries. That country had exhibited what is termed 'pariah capitalism', a situation whereby the minority population that is disliked by the majority owns the means of production and the productive assets (Satidporn and Thananithichot, 2012).

6.3.1. Measuring Transformation across sectors and the Economy

There is also a need to measure transformation across all sectors of the economy and quantify these to give credence to the transformation policies that the ruling party is applying. The only reference that is different from the rest of the manufacturing enterprises is that they receive support from the government, but there is no new policy that is geared to accelerate their progress and for them to really make a dent in the reindustrialisation of the country. Now this will lead to the next question: how will the government know that Black Industrialists are making a dent in reindustrialising the state? If the government is seriously willing to catapult the country's manufacturing through Black Industrialists, then a bit more direction is required in terms of other policies that will support these industrialists. Moreover, the pressure that the government is placing on the beneficiaries is immense. East Asian countries created conglomerates by sectors (or clusters in the case of Malaysia and Singapore); they did not focus on individuals (industrialists). The state missed an opportunity to create such clusters in the country by focusing on individual businesses and not creating a bigger field to play in different sectors.

Respondents mentioned the challenge that the compliance-driven approach has been an inadequate measurement of transformation because it does not translate to real transfer economic power. They also mentioned that codes of good practice are an accountancy mindset that looks at processes and not impacts. This implies no determined effort by the government to enforce transformation to make sure that there are punitive measures that are more than rhetorical that are applied to censure companies that fail to transform. Indeed the policy of BIP (RSA, 2015a: 7) states that the "policy seeks to support the Black Industrialists and it is envisaged that this will serve as drivers of economic transformation through deliberate and coordinated State intervention". Lack of enforceable compliance mechanisms is a huge factor in BEE as many businesses are expected to comply out of generosity, not because of any penalties imposed (Davies, 2015). One of the critical aspects of industrial policy is not only the ability to pick winners and losers but also the ability to reward or penalise transgressors. Trying to enforce compliance on BEE has not yielded results as empowerment has not been coupled with equally juridically imposed penalties to fight contempt (Seekings and Nattrass, 2011). Horwitz and Jain (2011) maintain that BEE codes

are legally binding because they are gazette and derive from the BBBEE Act. However, this argument has not been used to penalised one transgressor and companies are still expected to comply out of their own volition (Horwitz and Jain, 2011).
Non-compliance continues to bedevil the state, and the instrument that the state has used is through procurement policies where it has imposed rules for working with the government. These have largely helped, but companies that do not want to work with the government are not affected, which is a problem if the government wants to be universal n its approach. The mandatory prescripts of doing business with the state have also created an extra cost of doing business, and some companies end up avoiding business with the state to the extent that they can (Brunette et al., 2019). However, the state has the right to do this as it is also a consumer of services and thus preferring businesses that follow regulations of the country is allowed (Seekings and Nattrass, 2011). This also leads to the problem of the state not having official measurements for the entire economy; the state is rectifying that now and looking for service providers who can actually measure progress. Also, respondent decried consequence management in terms of transgressors of the BEE policies, and if those that do not comply are not dealt with, the BIP will likely fall inside the same trap once beneficiaries and likely beneficiaries find a way to dodge (Seekings and Nattrass, 2011).

6.3.2. Transparency and Depth

There is an acknowledgement and recognition that pace and depth of transformation have been inadequate. BEE is a policy of the government, and it has been shrouded in privacy with relevance to dealing with non-compliance, and this has bred corruption through fronting and other circumvention mechanisms by businesses. If BIP is to be different, it needs to have transparency in the process in terms of who is applying, according to responses. In its design, there must be a proper way to scrutinise and identify which parties will benefit from its design and the diversity that it should have as well as the depth it needs.

Respondent four (CEO of a sector association) mentioned that although politically it is agreed, there has been no acceptance of the economic rationale for BEE from the private sector, and if the state fails to provide one for BIP, the policy will not work just as BEE has been inadequate. The policy being initiated in the Presidency might also mean that it will be the people close and politically connected who benefit instead of people on the ground who might not have exposure to funding but need to be assisted. It is hoped that the policy will have the transformative approach that is required. One respondent (eleven and a president of a black organised business organisation in Durban) mentioned that when black people were excluded, it was through a variety of laws from the state, and therefore similar drastic laws are required to make blacks the beneficiaries of this democratic dispensation.

Countries like Thailand offer an interesting case of developmental states coupled with redress, and they go against the notion that there is a single way of addressing past inequities. In Thailand, the hostility between the Thais and the Chinese was palpable, but because of the economic growth that accrued through attracting FDI, the protection of domestic manufacturers helped (Hill and Fujita, 2012). There was an understanding between the state and private commercial interests even though many companies were foreign-owned (Won, 2014).

If any development ought to take place, there has to be leadership and economic development that comes from the state. Leadership is important in that it gives direction and must cultivate the transformative culture in business without imposing it. BIP as part of BEE is an evolution; the next step towards full redress and is not necessarily arising because of the failure of BBBEE (respondent, nine a national government bureaucrat dealing with BB-BEE). It is an improvement in that BEE was not well integrated within the industrial policy of the state; because BEE is an all-encompassing Act, it was left to the different sectors of the economy to interpreted it for their selves. With regards to assisting in terms of industrialisation, it mentioned but not focused on the enterprise and supplier development and other important matters for industrial development. The current legislation of BEE is better because it links BEE with supplier development and the BIP policy builds on and sets to accelerate that. Now it is in this realisation that the state plugs this gap; however, this too has flaws.

First, policies cannot be created without industry involvement, as one respondent (five, a director for a manufacturing sector association) stated, and the other (CEO of a business association): “entrepreneurs are born not made.” These statements agree with a neoliberal notion that the state has to be rolled back, but this notion is weak because there are some states who have been capable of changing their fortunes through state support (Hundt, 2015). Leadership is therefore important in directing and giving economic direction for development to happen. This has created leeway for those that oppose change to escape censure and exclusion because the government does not have proper legally and administratively enforceable legislation to deal with those that do not comply – the BEE policy, for example, is very much voluntary (Tangri and Southall, 2008). Although some businesses may be indifferent to BEE, the way that it is structured, especially when a company does business with the state, means that it can cause a loss of business at any point. Government and State-Owned Entities are required to vet companies that do business with them on the BEE scorecard to see whether they are compliant in terms of empowerment policies.

It is incredibly important for any government to ensure that the policies on BB-BEE are seen to be applied and that there are consequences for those that do not comply. Complying is thus good for business. However, challenges in the market are in the low levels with these companies who do not necessarily tender for work with the government but requested by corrupt big companies to submit their BEE certificates, and they have to falsify some parts in certain sections in order to score a contract Respondent eight). Trying to get compliance on BB-BEE has not yielded desired results because empowerment was not met with equally juridically imposed penalties to eradicate contempt (Freund, 2007, Seekings and Nattrass, 2011). The plan from the government, as a former Deputy Minister Masina (RSA, 2015c) stated, is that the state would go as far as invoking Compliance Courts in order for BIP to succeed and for people who flout compliance laws to be brought to book. Therefore, the policy seeks to build a compliance mechanism for businesses.

One other way to look at the BIP is that it is an implementation tool for BEE, something the latter has lacked for years. The office of the BEE Commissioner was created to deal with this matter but, there have not been prosecutions to speak about fighting fronting and other malpractices. For Respondent Four, the problem lies with the government and how it deals with legislation.

6.4. Access to Markets and Localisation

6.4.1. Opportunities for New Markets through SMMEs and Global Value Chains

Another important factor for BIP and industrialisation is access to the international markets for locally produced items. Any development of small and medium businesses must be linked to the subject of access to market, and this makes it difficult for new entrants with no connections or marketing plans or resources to market themselves both locally and globally. This raises the matter of global value chains (GVCs). The global value chains are proving to be an important factor in the 21st century. The value chain can be explained by the full range of activities that are required to bring a product or service from conception to delivery to enduser and final disposal after use (UNECA, 2016). Global value chains can be either 'vertically specialized chains' or 'additive value chains.' With vertically specialised chains, different components of the product can be produced in parallel and thus, the process is not costly. These are used mainly in manufacturing. The additive value chains are where the various stages of production are necessarily sequential (more like a factory's conveyor belt).

The additive value chains are costly and are used mainly in primary sectors (UNECA, 2016). South Africa, as a resource-rich country and with a potential for manufacturing, has the capabilities to insert itself in both GVCs; however, the mindset from the policy perspective would have to change.

The BIP does not address the GVC factor adequately, although access to markets is the important factor for the programme to succeed. As respondent five stated:

> *"Access to market is important especially when dealing and competing with well-established and highly embedded businesses as is the case with current South Africa. In the automotive sector, for example, purchasing from small companies and BB-BEE approved companies is not happening at an acceptable pace. The linking of equipment manufacturers and large companies happens at a slow pace, also bearing [in mind] the fact that in this sector, they have global value chains. This makes it difficult for BB-BEE to happen as the end producer or a multinational company might not be committed to developing a black empowered supplier to the extent that they should be".*

The above example in the automobile sector speaks to the challenges that the BIP programme is set to face. The already existing value chains are not considerate of the policies of each nation. If a buyer from Germany buys parts from South Africa, they do not care if they are buying from a black, white, or Indian company, nor do they know the ownership structure and the shareholding part of that business. They want a top of the range product at a reasonable price. The countries in East Asia also had this problem of global value chains, but they mitigated it innovatively. First, countries like Japan and South Korea were assisted by the favourable conditions offered by the USA support during the Cold War (Mollaer, 2016). Other countries that had lower leverage in terms of USA support had to innovate in ways that could help them grow. Singapore, for example, had offices in the USA and Europe to promote their manufactured products but also to attract FDI (TGE, 2018, Lucero et al., 2015).

Respondent nine stated that the difference from previously applied BEE is that BIP prizes access to markets. Access to market is a core arm of the BIP arm at the DTI; in their day's work, they engage with all SOEs to alert them if they put out a tender; however, this may lead to corrupt relationships that are endemic in society; although the department states that this is not preferential treatment (RSA, 2015a). As access to markets remains one of the problems for BEE, BIP is set to impact the prominence of the tendering system as tenders are not helpful for the economy. They do the same also with the private sector companies where relationships forged with the division assist the Black Industrialists to be alerted when there is an opportunity or a tender for them to bid for. The companies are also going to be helped with export readiness (RSA, 2015a). However, to succeed globally, these companies that are being aided would have to compete on a market scale and not due to their proximity to DTI. They would have to have their own research and product placement and not rely solely on the government for information.

6.4.2. Opportunities for Localisation

Opportunities for localisation have also been touted as an opportunity for BIP to play a meaningful role. Respondents mentioned that the industrial sectors have a huge space and potential for small players, especially in sectors such as agriculture industries through agro-processing; renewables; electric car manufacturing (as the country has world-class capability petrol and diesel cars). Part manufacturers, instrumentals and components are also where the respondents mentioned that the country could increase the comparative advantage. The manufacturing sector contributes 13% to the economy, and if these opportunities of localisation and building small businesses can be doubled. These can be coupled with Local Economic Development (LED) measures where townships and rural areas can be turned into entrepreneurial hubs. The BIP scheme can enhance these policies and build better communities. This will also help in creating linkages not just of businesses and market but of business to business at a local level and allow space for the state to financially support these businesses at a local level.

Focusing on what matters like small businesses, township economy, and rural economy is important for ground-up development as well. Although this is not a requirement for developmental states to take shape, the creation of a domestic class of industrialists is a positive move for developmental states; the keiretsu in Japan and the chaebols in South Korea were fashioned by industrialists in those countries, and it assisted in creating a business class that was close to the state and investors in the economy are patriotic (Kang, 1992). This led to the export-led growth experienced by those countries (Suh and Kwon, 2014).

6.5. Support and Funding

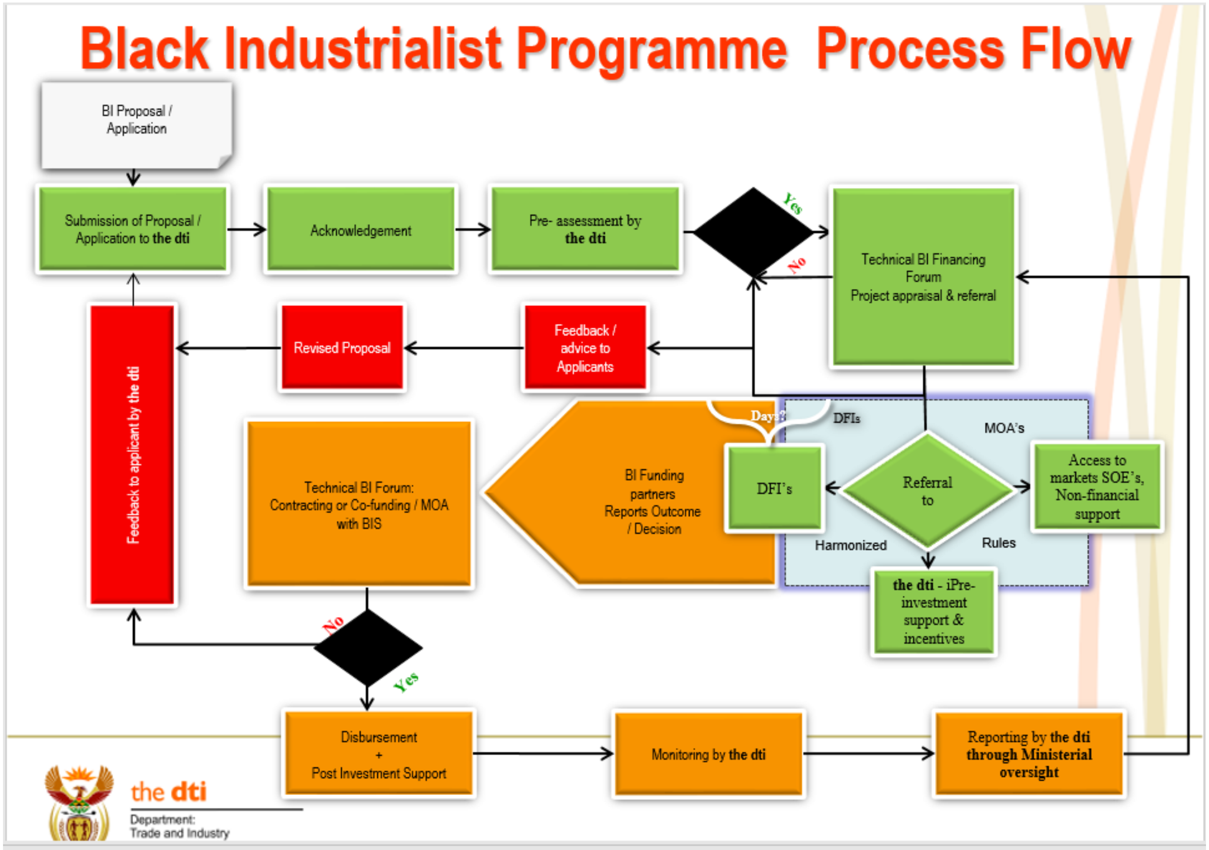
6.5.1. Importance of Funding

Funding remains a great hurdle to development initiatives, and to mitigate against this effect, BIP focuses squarely on this point. Respondents agreed that whilst this is an important factor in the development and business support, in South Africa, this has been fragmented and fraught with red tape. Development Finance Institutions are mandated to be catalyst investors for economic activity in the country into businesses, and their prominence in developmental states is well noted. In South Korea, for example, the state nationalised the banks in order to support and direct where investments took place (Suh and Kwon, 2014). They drive the economy to promote certain sectors depending, and as the business begins to be profitable, they can get other funders, and the DFI can move to fulfil its developmental role elsewhere (Heep, 2014a).

Respondent Two (a CEO of a business association) commended the programme as well-structured in how it scrutinises and identifies which parties will benefit from its design. The programme is an evolution and is a symbolic gesture to put money into BEE in a structured, regulated, and considered way that is consistent with the codes. Respondent three (an entrepreneur, academic, and advisor to DTI) stated that the challenge for DFIs is the issue of entrepreneurship development. If the DFI is just looking at one aspect (funding), it is bound to miss all the developmental mandates that it holds. In terms of strategy and developmental mandate, the NEF, for example, has fallen far below expectations with regards to funding. They do not have a developmental mentality because they are interested in tick-box exercises like auditing firms (Respondent three). This accountancy mindset looks at processes, not impact, and as a developing country, South Africa's mindset has to change to reflect the needs of the state and businesses.

One of the areas of focus of the BIP will be on this aspect, and the DFIs will be at the forefront to provide this service. There are different DFIs that are aimed at business support in the country nationally, provincially and locally. These include the Industrial Development Corporation (IDC), Development Bank of Southern Africa (DBSA), National Empowerment Fund (NEF), National Youth Development Agency (NYDA), etc. These DFIs are mandated by the state to support businesses financially and assist them commercially because building and sustaining a company is a costly exercise. The funding for the BIP is as critical as the policy itself because, without it, there can be no guarantee that the programme even exists. Respondent fourteen (a DFI manager) commended the DTI on their rigorous selection process (as seen in Figure 7.2.4 below), something much appreciated considering other state-funded projects.

Figure 6.5.1: Black Industrialist Process Stages



Source: RSA, 2016

It will be susceptible to the challenges that black empowerment efforts have faced over the years rather than the manufacturing sector as a whole. The focus on race will, again, not escape the criticism that has always been levelled against BEE, that it is a siphoning scheme for connected politicians and individuals.

The policy seeks to assist the industrialists in early-stage capital to develop projects to a bankability stage; help with non-financial support; assist with industrial financing through DFIs; consolidate financing by development funders within the state; and create strategic collaboration with banking institutions (RSA, 2015a). This is said to be in mitigation of the costs of entry into business for aspiring black capitalists. The conundrum for the state has always been that not only has the state been called upon to support businesses, but more often than not, they have also been called in to initiate some businesses at the behest of the crestfallen and rudderless society. The focus on this is on the DFIs and their importance in industrialising states. The developmental state model ties with the question of funding because the state is crucial for the availability of funds to assist strategic sectors of the economy to grow. In a real way, the BIP's funding model is evolutionary for the country and the BB-BEE in particular. It is both brazen and symbolic in the way it puts money into BB-BEE in a structured, regulated way consistent with the codes.

Being anchored around manufacturing, the BIP will be crucial in bringing about Black participation in this particular sector. As it is known that it is capital intensive in nature, the funding provided by DTI will be important. However, to start a sizeable manufacturing business that will have proper economies of scale and be able to operate efficiently and effectively, sometimes the capital investment is quite a lot more than the support that is offered, according to Respondent six. The DTI would have to be cognizant of this fact and not leave the industrialists hanging and struggling midway through.

According to the National Treasury (2019), the DFIs in South Africa had assets of R254 billion, with IDC having R121 billion, DBSA: R82 billion, Land Bank: R41 billion, NEF: R5.3 billion, and others holding the remaining R3.9 billion. DFIs have a big role to play; however, their governing structure is such that they remain the same as commercial banks. There is a need for more financial institutions that would cater specifically to the Black entrepreneurial business, and it is where all types of funders – venture capitalists, DFIs, and angel and seed funders – would come in. However, the industry market for these DFIs in South Africa is not big and thus keeps the Black business at the mercy of commercial financial institutions (NEF, 2017).

DTI promised the first batch of R1 billion to support BIP, and the DFIs, headlined by the IDC, committed to R25 billion in support. By the end of the year 2017, the IDC reported that they had funded over 120 Black Industrialists and had disbursed R8.5 billion (IDC, 2018). However, who really benefits from these disbursements is very important because it speaks to the developmental role that the BIP policy could have for the country. In KwaZulu-Natal (KZN), that role is filled by Ithala Development Finance Corporation (IDFC) or Ithala Bank, which is mandated with the powers, *inter alia* to "plan, facilitate, promote, carry out, finance, invest in, or underwrite any project, programme, or enterprise furthering the social or economic development of the Province, furnish technical and other advice, training, information and guidance and generally offer such support and assistance as may be required for any such project, programme, or enterprise" (Ithala, 2012).

According to Respondents who are in the DFIs, the factors considered in the financing of BIP are that the business has to be viable, and it is about its leadership, whether it has enough experience. Their understanding is that businesses are not competing locally anymore because of globalisation. There is no stated preference for Black people from the DFIs point of view but, they have to capitalise on opportunities granted by the state. Businesses always have to be bankable.

From the side of the DFIs, they will rely on the ability to repay loans and see if their chequebook is in good health. The DFIs, much like the state, will use the normal procedure of seeing that the client (the BI) is able to repay the loan granted to them and that their business is making a profit to gauge the success of this programme. The immediate success from the state's point of view was on the discovery of businesses available to be supported with regard to the disbursements for these qualifying industrialists. In the carrots and sticks scenario, there is enough presence of carrots which is very commendable from the state. However, the lack of stringent sticks for those that will take the money (grant) and not use it productively shows part of the weakness in the formulation of this programme.

For small businesses in developing countries, DFI business support units leverage lending to influence investment decisions and monitor the performance of borrowers. Chandrasekhar (2005) states that development institutions are a component of the financial structure that can ensure that lending leads to productive investment that accelerates growth and makes such lending sustainable. This agrees with Marston & Narain's (2004) position that the challenges that DFIs face is, pairing between social responsibility and upliftment on one side; and commercial commitments on the other. Their focus on bankability leaves many businesses that would rely on them to suffer.

6.5.2. Challenges with Funding

According to Respondents, the government funding and support are very fragmented and lacks sustainability because black businesses have been standing on their own for a long time, and BIP is a welcomed initiative. One of the most important pillars of any business development strategy is access to finance. The BIP policy is also set to address this problem which has hampered development as far as the BB-BEE and industrialisation in South Africa is concerned. Worldwide, DFIs' principal business is to invest financial resources. But they also provide project-specific and general technical assistance and promote standards in the companies in which they invest (Kigombe et al., 2011). Amongst others, a DFI can be characterised by its concern for the upgrading of managerial and other operational needs to capacitate the projects that they are involved in. This is aligned to their approach of being 'project-oriented' as opposed to the 'collateral approach' used by commercial banks (Adesoye and Atanda, 2012: 2).

The most salient critique of BB-BEE has always been the concern of sustainable funding and how to leverage whatever government funding there is with that of investors (RSA, 2015b). DTI will provide a grant towards the industrialists, and that will be for the buying of equipment and assistance for the expansion and the growth of these businesses in order to create employment. According to DTI, access to finance is one of the three pillars of BIP because it has been highlighted as a challenge for most small businesses. The BIP policy expressly states that there is a challenge of access to finance for many black entrepreneurs, and this is because of a myriad of issues. According to the BIP policy (RSA, 2015a), access to finance for these entrepreneurs is hindered by:

> *"a limited pool of financiers, the high cost of borrowing as well as borrowing conditions that most black enterprises and Black Industrialists, in particular, cannot meet in terms of own contribution, collateral, poor credit record and the high-risk model applied by commercial banks…they have less equity investment and loans for start-up and growth than other enterprises. In addition, these entities are likely to pay higher interest rates on loans, be denied loans by funding institutions, and not apply for loans for fear of rejection. This accounts in part for disparities in growth, development and survival of black businesses".*

There has been criticism for the DFIs in South Africa since they are in it to make money; they are just more forgiving (with low interest) to businesses. This idea is that they participate in supporting ventures to make money like any other financial sector business. Another challenge is the residual effect of inherited DFIs like IDC. The Industrial Development Corporation (IDC), as one of the Development Finance Institutions, has been instructed to work closely with government ministries charged with industrialisation. The IDC had been a vehicle for the apartheid government's industrial development and an instrument of state intervention (Maharajh, 2010). The IDC was established in 1940 with a mandate to encourage smaller private enterprises by providing capital for some promising enterprises (Vermeulen, 1998). According to Mondi and Bardien (2010), in the African context, no other state institution or development bank has the profound influence that IDC has had in the development of any country. Although the institution was driving business enterprise during apartheid, the IDC transformed with the country in 1994. IDC has since recalibrated itself to work with the DTI; it now drives the state's interventionist agenda under the prescript of the National Industrial Policy Framework (NIPF).

The dislocation between the policy-makers and the DFIs is palpable here because, from the above statement, that means the priority for the IDC would be to the bankable persons despite the developmental objectives of the state and the DFI itself. They would neglect their mandate to have good accounts/balance sheet and not fund otherwise riskier individuals. Left to themselves, private financial markets in developing countries usually fail to provide enough long-term finance to undertake the investments necessary for economic and social development. As a result, firms in developing countries often hold a smaller portion of their total debt in long-term instruments than firms in developed countries (Chandrasekhar, 2005, and the United Nations, 2005).

The South African DFIs have fallen below expectations in the way they have carried themselves regarding their developmental role. If the DFIs do not act in a developmental role in financing small and Black businesses, then the country's access to finance and capital will not be triggered to get to the levels it should be. The DFIs have not fared better because of their focus on outputs. For DFI, in the opinion of Respondent fifteen (a Local Economic Development Government Bureaucrat), it is a huge departure from the BB-BEE because it is a grant and, thus, will have a major positive impact.

The fact that it is a grant makes it better for aspiring industrialists because they do not have to go via financial institutions that could charge more interest. Although this route (financial institutions) is open, they would have leverage from the DTI grant to use as a guarantee for their investment in expansion. Otherwise, beneficiaries would have applied for loans and guarantees from a commercial bank which would have tied them up financially. The preamble states the need for "broad industrialisation initiatives to expand the industrial base and inject new entrepreneurial dynamism into the economy". This is an admission of 24 years of failure and frustration by the ruling party to change persisting socio-economic problems (DTI, 2015: 6).

6.6. Challenges inhibiting developmental state

6.6.1. Corruption

Corruption continues to undermined service delivery and transformation in South Africa. Respondents mentioned corruption as the main problem that South Africa will have toot out for development to be fast-tracked. BEE's corruption has largely been about fronting, state capture, and cronyism. Respondents stated that under the previous Zuma administration, these three related phenomena increased. Furthermore, respondents decried the low levels of convictions and legal pursuit of the people found to be using BEE to further their interests. Korina (2018) states that instead of the engendering of empowerment for the majority of people, BEE has tended to impede it.

The tendering system which has produced tenderpreneurs instead of proper entrepreneurs has led to the misdirection of resources. Combine this tendering system with the ANC's policy of cadre deployment, and the result is an unproductive public sector where elitism and cronyism abound, fuelled by proximity to lucrative state resources (Georgieva, 2017). Many senior government officials also benefit after leaving office, scoring lucrative contracts even from some of the sectors they oversaw before leaving public office (Seekings and Nattrass, 2011). Furthermore, Many SOEs were repurposed to serve the cadres of the ANC and the Gupta family to loot resource and sell them when they had a chance (Klaaren, 2021).

6.6.2. Cumbersome Regulatory Environment

The government does not have a good track record on policy implementation, and this leads to a cumbersome regulatory environment by the state. According to the respondents, the impact of the regulatory environment as an unintended barrier for access for small and emerging businesses is huge. This is because when governments install regulations on big businesses, the suppliers to those big businesses who may be small start-ups are also required to have the same standards. This leads to leakage in the system in terms of resources as some companies who may be looking for a local supplier end up going with another big business or even import the product. The regulatory environment ends up favouring big businesses as the regulatory burden in product development which is ill-suited to an emerging enterprise

(Respondent two). Alignment with the industry and partnerships with sectors can improve the understanding of the state. Seekings and Nattrass (2011) had stated before that government focused on forcing businesses to comply with onerous regulations and overlooked their own limits in fostering economic growth. Had the focus been on economic growth and cutting on cumbersome policies, economic growth may have been a reality.

6.7. Conclusion

This chapter discussed key research finding when regarding BIP and industrialisation. The findings were presented through themes that emerged from analysing data from the empirical research as well as a literature survey.

The findings suggest effective policy-making for industrialisation in South Africa will happen when there is sufficient partnership between the state and private sector, well-capacitated bureaucracy, and focused ministries. Also, black economic empowerment and black industrialist programme, in particular, has challenges wrought in by fragmented policymaking. Also, the policy is happening whilst manufacturing is stagnant, and industrialisation is not happening as envisaged. Moreover, there is a clear lack of compliance and punitive measures for the transgressors, which are made even more difficult by the lack of transparency and depth.

Findings also suggest that the policy will contribute to the widening of access to markets as well as play a pivotal role in localisation if applied well. A suggestion is also made of the primacy of funding and making such funding available from different institutions in order to drive development.

Lastly, if the policy contributes, it will be because it has removed the hurdle or the regulatory environment that is cumbersome and also dealt with this corruption that has been epitomised by cronyism and state capture.

The following chapter will deal with the conclusions and recommendations of the study.

7. CHAPTER SEVEN - CONCLUSION

This chapter presents the conclusion with a summary of key findings and shows how the findings fit into the understanding of state-led developmental policies. The themes that are important in this discussion are that South Africa is attempting an industrialist led transformation instead of an industrialisation led transformation. The aim of this study was to investigate whether the Black Industrialist Programme will lead to progress towards a developmental state and the imperative of Black Economic Empowerment. The objectives to achieve this aim were:

- Examining South Africa's industrialisation and economic development within a developmental state framework
- Examining the Black Industrialist Programme's concept of industrialisation in the context of the developmental state
- Ascertaining the role that the BIP model will have in driving South Africa's industrialisation as a process for Black Economic Empowerment
- Examining the role of DFIs' industrial financing as an aspect of the developmental state.

The study employed a qualitative analysis approach in carrying out the research and used interviews and secondary data sources to prosecute the research.

7.1. South Africa's Overarching Policies

Industrial plans in South Africa fall within what is presented in this study as overarching programmes, namely, RDP, GEAR, ASGISA, NGP, and NDP. The challenge with this is that these overarching programmes are not specific to a certain industry or target a certain sector, but they cut across all matters of the nation and do so in broad terms. This leaves different sectors with the burden of interpreting these within their own sectors. The evolution of overarching programmes from RDP to NDP (five in total) has signalled the challenge of 'short-termism' with policies and legislation in the country, even though there has been one national governing party since 1994. With this approach, the state has been trying to show direction for the country. However, the state has not been playing a proactive, leadership, and visionary role in terms of industrial development as there is palpable evidence of deindustrialisation. The lack of strong state intervention in the economy is also seen from the fact that the overarching programmes lacked deliverables and details on how to industrialise the economy. An example of this is the 444-page document – the NDP - which states that unemployment will be brought to 6% in 2030, and industries must have transformed and grown in those years.

There is a sense that state partnership with the private sectors is inadequate to give a united direction for industrialisation. The states that developed along the route of developmentalism had a working relationship with the production-tailored private sector. This does not appear to be a design that South Africa wants to follow or has pursued. The usual fractious relations between the state and the private sector is well documented, and this leads to the lack of harmony in terms of policymaking.

Bureaucracy is an important part of a well-functioning society that wants to get ahead in terms of service delivery as well as basic economic development. South Africa’s bureaucracy lacks efficient skills and education to carry out some of the basic duties that the country needs. Industrial policy and other important developmental state decisions have to be taken and carried out by properly qualified individuals with technical ability. Problems with the education system in South Africa scuppers any chance of any near-future positive result in this matter. The government should really invest more in quality teaching and learning as well as increase funding for vocational colleges.

Overlapping ministries is one of South Africa’s unique systems as far as governance is concerned. The availability of a deputy minister as well as the director-general with a deputy as well makes some of South Africa’s administrators really to be redundant. The 2018 cabinet reshuffle and attempted reconfiguration of the ministries is a move in the right direction, even though a lot more ministries need to be cut in order to make the government focus.

7.2. South Africa’s Industrialisation

The policy is fragmented and not aligned to private sector strategies. This is a result of the above-mentioned findings that South Africa does not have a developmental relationship with the production-tailored private sector. With the primacy of industrial policy in a developmental state, there is really a lack of drivers for such policies in South Africa as there are gaps all over the decisions made at the top echelons of state power. Direction is required for the developmental state to take effect. When there is none, or it is inconsistent, efforts to make this a reality suffers.

Flowing directly from such a lack of organisation is the fact that the country is faced with stagnant growth and deindustrialisation. Negative deindustrialisation is taking shape in the country, and with dithering leadership, things may get worse. BIP offers a path to development, but when it is just a policy and is not supported with a strong industrial policy with state management that is capacitated and leadership that is wired for development, this policy may fall into the trap of the previous waves BEE. This does not help the effort by the state to spur manufacturing as this need a well-functioning economy in order to thrive.

7.3. Industrialist Led Transformation

The burden is placed on black industrialists to spur industrialisation and resuscitate manufacturing in a country that has been deindustrialising since the late 1980s. The government needs to measure the transformation in order to create important clusters or conglomerates because if the approach is piece-meal that is dotted everywhere, reigniting industrialisation will be a lot more difficult. There also need to be policies that are welcoming to black people, like supplier development and preferential procurement. Also, the compliance approach used by the state lacks transformative power as companies do the bare minimum. Punitive measures are not instituted across the board and no censure for those that fail to transform or are resistant to transformation.

Another matter of importance is that the pace and depth of transformation are inadequate. As a multiracial country, the economic rationale for BEE has not been clearly communicated across the board for all to understand, and this leads to some form of mild resistance because BEE's precepts are usually used for political reasons. Managing to convince business owners of all races that are complying with BEE is good for business does not need to be about punitive measures only and political considerations, but these must stretch to show them results that will be good for their business in the long run. The government needs to take the concerns of business owners seriously, especially those that are not of the black race. This requires leadership that understand these dynamics as well, that is willing to sacrifice political point-scoring and forgo short-term benefits for the economic wellbeing of the country.

7.4. Access to markets and Localisation

Any development of small and medium businesses must be linked to the subject of access to the market. Global Value Chains are important in the buying and selling of goods, and if the BIP can be able to assist its beneficiaries in reaching more global markets, that will only augur well for South Africa. BIP programme is geared for this and will also train beneficiaries in export readiness with the hope of unlocking those value chains that are difficult to break alone. This is one of the core strengths of the policy where the beneficiaries will train as well as be entered into the DITs database of potential suppliers for international markets.

Further to getting markets for products, there is also an opportunity for localisation with this programme. The economy needs more local investors, and those involved in sectors such as agricultural industries through agro-processing, renewables, and electric car manufacturing all stand to benefit in terms of BIP and opening this may assist in employment creation and economic expansion. Opportunities for localisation also extends to the focus on the local economy (LED), with rural and township economies at the forefront as not only the consumers but also the hubs of the enterprise.

7.5. Support and Funding

The challenge with funding is that it lacks sustainability and is fragmented. For any state-industrialisation, funding is important and, access to markets is one of the core concerns that the policy seeks to tackle. The cocktail of funding, including grants, DFI loans, investors, and commercial bank credit, will be made available for the beneficiaries to take advantage of. Some of the DFIs will, however, need to relook at their funding strategies that have not been transformative (a tick-box exercise) and really offer development finance in a competitive and lenient manner for the benefit of everyone. The policy seeks to assist the industrialists in early-stage capital to develop projects to a bankability stage; help with non-financial support; assist with industrial financing through DFIs; consolidate financing by development funders within the state, and create strategic collaboration with banking institutions. The availability of grants shows that the policy might need other funding routines because a R30 million grant cannot always be sustainable.

7.6. Challenges inhibiting Industrialisation

Corruption is one of the problems that is inhibiting transformation. Corruption has proceeded in three ways in the context of transformation policies: fronting, state capture, and cronyism. Also inhibiting the will be the cumbersome regulatory environment that will slow down any industrialisation that can take place because of onerous and misaligned policies. The regulatory environment is found to be more punitive to especially small businesses, as they mostly depend on supplying bigger companies. The industry standards that are required by the state end up crippling their businesses, and their business end up being taken by other big players in their respective sectors. Qualifying for SABS and getting approved needs resources, and the state needs to be lenient and supportive to these companies by providing resources and funding.

7.7. Whither BIP in the Efforts to Create a Developmental State?

The BIP comes at a time when the economy is in crisis. The truth, however, is that industrialisation does not happen in a vacuum but needs other conducive economic conditions for it to happen. The intervention with the right mix of political commitment, implementation, and rooting out corruption, South Africa can experience high industrial growth.

South Africa is an imperfect country, and racial minority companies have historically played an outsized role in the ownership of businesses and the economy in the country. In the process of finding the right balance between economic growth and distribution on the one hand, and racial redress on the other, it is true that South Africa has faced challenges. However, the likelihood of one racial redress happening in a depressed economy is unlikely. In a contested political and economic terrain like the one in South Africa, it is hard to reach a consensus on economic development paths to prosperity. It is therefore incumbent on the leaders of the day to chart the way forward on how to bring in various strands of society into one fold that will be able to achieve this feat. This calls into the fore the leadership's vision and poise to be willing to take tough and unpopular decisions. The fragmented nature of South Africa's economic and racial makeup makes navigating this path difficult.

As in many developing countries, the state in South Africa plays a role in economic matters. Politics plays and will continue to play a huge role. For instance, in South Africa, where the state has its tentacles, the private sector is either corrupt, shrunk, or non-existent. Therefore, for some, the removal of the state as an active player in the business is vital. Politicians are vital in the economy, but their proximity to business is crippling, especially when this promotes cronyism and corruption instead of moral business ethics. South Africa does require a strong state, but it must be undergirded by integrity and ethics. Just as market ethics are good for business and capitalism, state integrity is imperative for the development and wellbeing of society. This is because people must know what to expect when they enter the government office; it should not just be about knowing to whom bribes will be paid and how much. The ANC is losing the moral high ground and will make it difficult for itself to start new policies without any suspicion of corruption.

The failure of previous BEE policies has not been only because of a lack of good policies, but they have been sabotaged by either or all of the three. It is also disappointing that there is no blueprint detailing what the empowered state is to look like. Government intervention should be geared at solving problems, not perpetuating support with no exit plan in sight. There is a need (especially in developing countries) for a prescription on how resources should be allocated and the economic sector or program that needs such an intervention at different time horizons; this will assist with maximising the overall economic development objective of the state or an organisation. The details would help the government keep track of its policies and their successes and failures regarding the rolling out of BEE policy, therefore, increasing the institutional knowledge and contributing to scholarly work on the policy.

As it stands today, there is much scepticism about BEE because its beneficiaries have not shared with the wider public but have rather accumulated wealth without economic value gain to the wider public. South Africa is one of the most economically unequal countries in the world, and this has always had a racial slant to it. Today, researches into intra-black inequality would reveal some of the wealthiest Black people having benefitted from a scheme that was supposed to uproot the menace of poverty. On the other hand, such research would reveal poor Black people still waiting for the promise of a better life promised in 1994. This speaks now to the character of the actually existing BEE, which believed to be anti-poor, has an inclination toward corrupt practices, not backed up by a strong economy, rests on poor political leadership and sceptical business leadership; tends to benefit the connected, and lastly, fears that, it may not succeed in dealing with the triple challenge of unemployment, poverty, and inequality.

Indeed, in South Africa, economic development is intertwined through race and poverty; and some plausible alternatives have been proffered by political organisations, notably the Democratic Alliance's poverty-focused approach to development – the EED and Economic Freedom Fighters' nationalisation of the commanding heights of the economy. This is in repudiation of ANC's policies of mixed economy and racial redistribution. The truth is, however, that the majority of the proposals by opposition parties could not be applied without these parties gaining political power. The sad thing is that with such policy contestations, the BEE as a self-evident necessity in South Africa will soon lose steam because it has not benefitted the ordinary poor people but the political elite and few connected individuals.

The government tends to introduce legislation and but does not do enough follow-through to drive it. There has to be more done to sensitise the public about the economic possibilities that each new economic development policy creates and, even more so, create awareness of success stories. The consequence of failed policies may create distrust towards the government. The blame, however, cannot be ascribed to the government alone. The development institutions assigned to assist in supporting the state are in disarray. The government should be focused on a concerted effort to harness good experiences and borrow good practices within policy application and share the experience widely. This might engender a developmental state that is a variant of the original developmental state. The developmental state will continue playing both the hope and rhetorical score in the politics of the country on the one hand but its praxis bellies the lip-service effort by the government.

In terms of BIP policy, one can state that it is a radical idea, even though BEE itself is already a radical idea to start within the context of economic development and growth. Concerning advancing the developmental state, ideas such as BEE and BIP are very much an advancement (to even be put in policy documents means that the state takes such a programme seriously and wants to apply it). BIP does radically advance BEE in that it has reshaped it to focus on the subject of economic development instead of just economic participation. It has broadened the scope and dares to travel where previous BEE waves could not. As South African DFIs appear to have minimal developmental mandate either by commission or omission, therefore the 'grant' resolution lifts the burden of Black Industrialist to repay the loans at sometimes ludicrous commercial valuations. The DFIs have to form the core and be at the centre of economic development because they will remain even when the state is rolled back, and therefore they should be as developmental as possible.

The developmental state is an all-encompassing grand concept and is not a mere policy; it is how the politics and economy are designed and organised. Every thought fit into its advancement; it is not consumed by policy dynamics and regular ideologies; it is a superimposed theme that every little policy must feed into. In this dynamic, all policies are designed with a thought as to how they will advance and strengthen the developmental state. There is no individual policy that triggers this to happen, but it happens at a state level in a coordinated approach. In the end, the more all policies converge on the developmental paradigm, the more the state is transformed into a developmental state, and the concept praxis reproduces itself in that manner. To emphasise, the state in a developmental state does not begin by the mere policy; it derives its agenda from the developmental paradigm through visionary leadership and planning, and then everything flows from and into it in an endless rotating stream of policy and organisation.

The path for South Africa's developmental state must involve racial redistribution and economic development that is pro-poor. The industrialisation contribution that will be brought by BIP will contribute to this bias towards redistribution and poverty alleviation. However, it will be minimal contributions to a developmental state. This is because black economic advancement feeds from economic development and economic development feeds from black economic advancement. Thus, one increases the other in a mutually beneficial way, thus a developmental state. The state needs to champion economic development and make it a priority of the government to develop the country and all sectors in the economy.

The 1994 freedom offered new hope for everybody in the country through the political settlement, but as Nelson Mandela concluded in *Long Walk to Freedom* that he had discovered "… the secret that after climbing a great hill, one only finds that there are many more hills to climb" (Mandela, 1994: 403). Those hills in the South Africa socio-economic context are what the successive government administrations have sought to climb; some slowly, some with nimbleness, but the country keeps on climbing.

7.8. Recommendations for Future Research

The research here covered developmental state as a state-led policy and looked at the black industrialist programme, in particular, to examine whether the policy will engender industrialisation and thus usher South Africa into developmentalism. The key findings have been stated above, and here the recommendations are presented. The government of South

Africa is keen on intervening in the economy to tip the scales in favour of black South Africans, and it could be interesting to study whether the economy could be far enriched by means of bringing everyone on board to apply for the different offerings that the government provides. Transformation needs to be presented not only as a chance of redress for the ills of the past, but it must also involve the future in terms of what the country wants to look like in it. The truth is South Africa is a multiracial country, and transformation must not be about transferring economic resources from black to white people but must be about how best the country can utilise the available resources to create an inclusive, equitable growth that will in future be reflective on the realities and demographics. This does not need speed; it needs deft and understanding from the state that development is continuous, it will always happen (or not), but how it proceeds is important.

Another matter is that the government is focusing on 'industrialists' and not 'industrialisation' with the BIP policy. This focus may disregard intra-black inequities. In Malaysia, for example, the challenges that are now being faced by that country result from the intra-Bumiputera wealth disparities. That is why a holistic approach to black economic empowerment is needed from the state and must proceed in an honest and transparent manner. Such research must account for affirmative action, and wealth gap and disparities among the black people and this must be in line with the developmental priorities of the state.

Forging industrial growth happens when clusters and conglomerates are created, as instructed by the East Asian experience. The fixation with changing the colour of business in South Africa is likely to cloud the state's focus as it looks like it is creating parallel business structures to be supported and others not supported. Some existing manufacturing capacity still rests with the experienced and usually white people. The government needs to tap into this experience by creating quotas and incentives for these companies to assist with the transformation. This does not disregard the resistance and noncompliance that BEE has engendered, but if there are punitive measures put in place, as this thesis recommends, there must also be incentives for those that want to play their part.

Lastly, this research dealt with how the BIP is likely to proceed in terms of industrialisation and the factors playing advantage in this as well as some inhibitory factors. The ideas that have resulted in this research point to the need for a developmental state that is context-specific and does not simply borrow from other countries. This context has to be undergirded by history and present levels of economic development in the country. Government has to thus play a leading role to harmonise the policies and effect industrial policy that will address racial inequities and black economic development. The resources must be channelled in an efficient way through a capacitated bureaucracy to ensure that there are no leakages in the economy and winners and losers are picked in a developmental manner.

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Appendix B: Informed Consent

UKZN HUMANITIES AND SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE (HSSREC)

APPLICATION FOR ETHICS APPROVAL

For research with human participants

Information Sheet and Consent to Participate in Research

Date:

Greetings,

My name is (provide details) from (Provide information about the researcher (name, department/institution and various contact numbers and email addresses)

You are being invited to consider participating in a study that involves research (describe). The aim and purpose of this research is to (describe in lay terms). The study is expected to include (how many participants in total, how many in each arm, how many other sites, and where). It will involve the following procedures (describe). The duration of your participation if you choose to participate and remain in the study is expected to be (provide). The study is funded by (provide details if relevant).

The study may involve the following risks and discomforts (describe). We hope that the study will create the following benefits (describe if relevant; otherwise state that the study will provide no direct benefits to participants. Describe the scientific/other benefits hoped for from the study). The researcher must disclose in full any appropriate alternative procedures and treatment etc. that may serve as possible alternate options to study participation.

If the research could potentially involve risk, explain in full if compensation exists for this risk, what medical and psychosocial interventions are available as treatment, and where additional information can be obtained.

This study has been ethically reviewed and approved by the UKZN Humanities and Social Sciences Research Ethics Committee (approval number _______________).

In the event of any problems or concerns/questions you may contact the researcher at (provide contact details) or the UKZN Humanities & Social Sciences Research Ethics Committee, contact details as follows:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION

Research Office, Westville Campus

Govan Mbeki Building

Private Bag X 54001 Durban 4000 KwaZulu-Natal, SOUTH AFRICA

Tel: 27 31 2604557- Fax: 27 31 2604609

Email: HSSREC@ukzn.ac.za

Your participation in the study is voluntary and by participating, you are granting the researcher permission to use your responses. You may refuse to participate or withdraw from the study at any time with no negative consequence. There will be no monetary gain from participating in the study. Your anonymity will be maintained by the researcher and the School of Management, I.T. & Governance and your responses will not be used for any purposes outside of this study.

All data, both electronic and hard copy, will be securely stored during the study and archived for 5 years. After this time, all data will be destroyed.

If you have any questions or concerns about participating in the study, please contact me or my research supervisor at the numbers listed above.

Sincerely

(Researcher name and signature)

Appendix C: Qualitative Research Questions

Qualitative Interview Schedule

Examine South Africa's Industrialisation and economic development within a Developmental State framework

1. How would you characterise South Africa's industrialisation post-apartheid?
2. What are South Africa's industrialisation achievements in the democratic era?
3. What are the factors playing for and against South Africa's industrialisation post-apartheid?
4. Is Developmental State relevant to South Africa?
5. What are the factors that can make South Africa's developmental state possible or contribute to its success?
6. What are the factors inhibiting the progress of SA's Developmental State?
7. Is South Africa on track to the Developmental State?

Examine the Black Industrialist Programme's concept of industrialisation in the context of the Developmental State

8. What is BIP? How is/was BIP conceptualised?
9. Which industries are targeted by BIP and how and why?
10. How participants are vetted and why is it so?
11. Is it about participation (of black people) in the economy or (general) Industrialisation – which ranks higher?
12. What will be defined as success regarding the BIP model?

Ascertain the role that the BIP model will have in driving South Africa's industrialisation as a process for Black Economic Empowerment

13. How different is BIP from the (past) BEE practice?
14. How will this change the nature of participation of the (black) previously disadvantaged in the economy?
15. What impact is BIP likely to have on industrialisation?
16. What sectors are important for South Africa to industrialise through BIP?

Examine the role of DFIs' industrial financing as an aspect of the Developmental State

17. What is the role of Development Finance Institutions in a developing economy like South Africa?
18. What is the role of DFI's in industrialisation post-apartheid?
19. What is the role of DFI in BIP?
20. How different is this role compared to the one that DFIs currently play?
21. What are the factors considered in the financing of BIP?
22. Will there be non-financial support as well? If yes, what will it comprise?
23. What will be DFI's success regarding BIP?

Appendix D: Ethics Committee's Approval Letter

UNIVERSITY OF KWAZULU-NATAL™
INYUVESI YAKWAZULU-NATALI

11 January 2017

Mr Mlondi BF Vilakazi 213571244
Graduate School of Business and Leqadership
Westville Campus

Dear Mr Vilakazi

Protocol reference number: HSS/0018/017D
Project title: Investigating the progression of South Africa's Developmental State through the Black Industrialist Programme

Full Approval – Expedited Application

In response to your application received 19 December 2016, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Y[redacted]

....

Dr Shenuka Singh (Chair)
Humanities & Social Scinces Research Ethics Committee

/pm

cc Supervisor: Dr Candice Moore
cc. Academic Leader Research: Dr M Hoque
cc. School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee
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