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A South African developmental state: the significance of state capacity

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Chapter 1

1.1. *Introduction to the study.*

One of the major problems in post-colonial and post-apartheid societies is that of state incapacity to formulate and implement sustainable development projects. Economic development and poverty reduction remain two of the major daunting challenges in these societies. Post-apartheid South Africa in particular remains one of the most economically divided societies with opulence on one hand and abject poverty on the other. The post-apartheid state has been and is still struggling to transform this apartheid inheritance so that the formerly excluded and exploited black population share in the national cake. Currently, the government of President Jacob Zuma is trying to refashion a former apartheid state into a developmental state that is able to achieve its socio-economic transformation objectives of alleviating the principal challenges of poverty, unemployment, inequality and underdevelopment.

The proposals to build a South African developmental state have triggered a debate in academic circles as scholars see it as a challenging role. Hence Luiz (2002:604) stated that "there is considerable debate over whether the South African state has the capacity to actively promote economic development." Luiz (2002:605) went further to argue that "it is crucial to come to grips with the issue of state capacity before advocating economic policy; therefore the latter is dependent on the former." This research study therefore seeks to explore the significance of state capacity in current endeavours to build a South African developmental state. It particularly seeks to get a deeper understanding of state capacity as a significant precondition for a successful developmental state. The main aim of the study is to undertake a deeper and in-depth interrogation of the meaning and significance of state capacity in initiatives to build a South African developmental state.

1.2 *Background to the research topic.*

Since 1994, the ruling African National Congress (ANC) government has engaged in an on-going relentless struggle to change the structure of the economy, and to design and implement policies that cut across the socio-economic and racial divisions. This has been no easy task for the ANC government which was guided by the over-arching vision of ensuring that policies put in place improved people's lives or realised results that are broadened to

benefit all groups of people in a non-racial and democratic South Africa. Designing and implementing policies that cut across socio-economic divisions was no easy undertaking.

Ostensibly; to the previously marginalised, especially the majority of the poor black population who felt that prior to 1994, policies were designed to exclude them; the ANC government became a beacon of hope and a custodian in addressing the principal challenges of poverty, inequality, unemployment and underdevelopment. According to Hirsch (2005:69) "the legitimacy of the ANC rested on its ability to deliver an improved life for its constituents--poorer South Africans excluded from power and privilege under apartheid." He went further to note that "the ANC government had to undertake a general restructuring of the economy and a reorientation of the economy towards the historically excluded masses at the same time." In a nutshell, the ANC government was confronted with the challenge of setting South Africa on a sustainable economic growth path that will enable it to address the principal challenges of poverty, inequality, unemployment and underdevelopment which were a burden to the majority of South Africans. Hirsch (2005:1) amplifies this point when detailing the economic task faced by the ANC government upon taking office noting that "when the African National Congress (ANC) came to power after South Africa's first democratic elections in April 1994, it faced daunting economic challenges: severe poverty and inequality and economic stagnation." These principal challenges were argued to be of a structural nature hence it is considered crucial to unpack their structural nature and how they have been engendered by apartheid policies.

1.3*The structural nature of poverty, unemployment, inequality and underdevelopment.*

Economic analysts have argued that apartheid policies and economic structure played a role in engendering poverty, unemployment, inequality and underdevelopment precisely by confining darker skinned citizens to semi-autonomous reserves except when they could provide cheap labour. Seekings and Nattrass (2006:34) capture this well when they argue that utilising British colonial models, apartheid put in place a structure which allowed for the creation of racialised class inequality with widespread discriminatory policies such as pass laws, influx control and the colour bar to ensure the maintenance and growth of white capital. This has resulted in what Mahmood Mamdani (1996) has described as a bifurcated state of citizens and subjects. Echoing the same sentiments, Faulkner and Loewald (2008:3) note that "South Africa's economic development has been dominated by colonialism and Apartheid's-

racially exclusive political and economic systems." Seekings and Nattrass (2006) went further to note that specifically apartheid created a racialized class divide whereby white businesses, capital and workers benefitted from apartheid economic growth, while the majority of black people lived under economic disadvantage and discrimination, which in turn led to growing and marked inequality in the development of the classes.

According to Seekings and Nattrass (2006: 25-27) there were four main classes created by apartheid, namely the profit receiving capitalist group; fully employed skilled, high paid whites; skilled black labourers; a small educated black petty bourgeois and the majority black unskilled workers who were paid low wages. Moll (1991: 280) adds that apartheid created the significant unequal economic divide but this was merely a legislative continuation of the British colonial endeavours which abolished the agricultural peasantry in the early 1900s and this spurred the growth of race based inequality. Hirsch (2005:17) summarised that "apartheid rule had long lasting consequences on the broader characteristics and competitive capabilities of the South African economy too." It is important to emphasise is the differential impact of the apartheid South African economy on whites and blacks. This was one of the greatest challenges that confronted the ANC government in the post-apartheid era.

The structural nature of poverty, unemployment, inequality and underdevelopment can also be explained by making reference to Mbeki's metaphor of a 'two-economy' discourse. In 1998, the then deputy president of South Africa, Thabo Mbeki explained the principal challenges of poverty, unemployment, inequality and underdevelopment by arguing that South Africa is characterised as comprising of two nations, the one white and relatively well off and the other black, extremely poor. As Mbeki puts it:

> *One of these nations is white, relatively prosperous, regardless of gender or geographical dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure. This enables it to argue that, except for the persistence of gender discrimination against women, all members of this nation have the possibility of exercising their right to equal opportunity, and the development opportunities to which the constitution of 1993 committed our country. The second and larger nation of South Africa is black and poor, with the worst affected being women in rural areas, the black rural population in general and the disabled. This nation lives under conditions of grossly underdeveloped economic, physical, educational, communication and other infrastructure. It has virtually no possibility of exercising what in reality amounts to a theoretical right to equal opportunity...* (Mbeki, 29 May 1998)

Mbeki argued that bridging the gap between the 'first' and 'second' economy was one of the major mechanisms of addressing the principal challenges of poverty, unemployment and underdevelopment. Thus when the ANC government took power in 1994, it was confronted with the central challenge of changing the structure of the economy so that the fruits are broadened to benefit everyone in a democratic South Africa.

1.4. *Post-1994: What did the ANC government do to address the disparities/change the structure of the economy?*

Against the backdrop of unemployment, poverty, inequality and underdevelopment, the ANC government embarked on a socio-economic transformation project with the over-arching vision and desire to change the structure of the economy. A number of economic reform strategies at macro and micro level were implemented by the ANC to change the structure of the economy. The ANC government has time and again assessed its achievements or the strides that have been made in the socio-economic transformation project. For example in 2005, the then president of South Africa, Thabo Mbeki highlighted in his state of the nation address that through macro-economic policies, the South African country has been positioned on a sustainable higher growth path (Mbeki, 1995). Through these evaluations or assessments the South African government has asserted the principal economic and social advances made since 1994. One of the government's key findings was that what accounted for the successes was the role the state played in influencing the direction of economic growth. For example the Presidency (2009:5) noted that "a seminal finding of the Ten Year Review was that most progress has been achieved in policy areas most directly under the control of the state compared with those that depended also on action by other sectors of society." (The Presidency, 2009). In addition Levin (2007:7) noted that the report of the South African Presidency's *Towards a Ten Year Review* (2003) stated that "progress had been made in particular in those areas where government was not reliant on non-state actors for performance and delivery." This, this study argues, speaks to the imperative role the state plays in directing the outcome of the economy. The study further argues that shaping and directing the output of the economy depends on state capacity which shall be elucidated on later.

Whilst the optimism about the economic and social strides/triumphs made in democratic South Africa since 1994 through the adoption of macro-economic policies cannot be under-

stated, the government found that the results did not trickle down to enable it to achieve its over-arching objective of addressing the structural nature of poverty, unemployment and underdevelopment. In hindsight, Turok (2008) painstakingly argued that the trickle-down effect assumed by orthodox market economists does not work. Turok went further to explain that benefits received by poor and marginalised people are often few and inadequate unless the structural dynamics of exclusion are addressed. For all the government's efforts and despite some successes, policy in South Africa has been unable to change the structure of the economy in such a way that the benefits are broadened to all groups, hence triggering a need to address this central challenge. The Presidency had this to say:

> *The structure of our economy has not changed significantly in a hundred years. It is still dominated by extractive and related industries. Even five years of faster growth (2003-2008) exposed systemic weaknesses. Structural unemployment sees many young and unskilled people unable to find jobs. When it comes to electricity, water and transport, our infrastructure is insufficient and inefficient. Our manufacturing base has been weakening; our private sector has not responded adequately to domestic and global opportunities; we have a persistently low savings rate and we rely too much on short term capital flows.* (The Presidency, 2009).

What emerges is that the South African government is still faced with the need to address the repeated daunting challenges of unemployment, poverty, inequality and underdevelopment. These, the ANC has argued have resulted from the failure of the post-1994 macro-economic and micro policies to change the structure of the economy. In its evaluations, the ANC has repeatedly argued that these principal challenges were a legacy of apartheid and were of a structural nature. This is persuasively captured by Turok (2010:498) when he notes that "Over the last 16 years the state has struggled with these structural challenges that require socio-economic and institutional change." Turok (2010: 512) went further to argue that "like many African countries, South Africa faces major structural problems of unemployment, poverty and inequality."

1.5. *Considering an interventionist role of the state in development.*

The persistence of the principal challenges of unemployment, poverty and inequality saw the ANC government considering re-orientating the South African state to a more interventionist role in the socio-economic transformation project. Shaping the output of the economy has been the ANC's principal consideration as it proposes to build a developmental state, a notion which has attracted considerable attention as a model and panacea for addressing economic

and social challenges for developing countries. Arguing for a developmental state, Leftwich (2000:154) has claimed that it seems unlikely that it is possible in the modern world for any society to make a speedy and successful transition from poverty without a state that in some respects corresponds to this model of developmental state. Whilst there are many debates as to what exactly is a developmental state, scholars converge on the view that the state plays a central role in giving direction to development. Hence as Edigheji (2005:13) succinctly puts it, "At best, the developmental state is discussed in terms of the role of the state in development." State-led development is the core around which the idea of a developmental state revolves and crystallises.

The government's proposal to build a developmental state to influence a New Growth Path (NGP) that will provide the right macroeconomic environment to address the structural nature of unemployment, poverty, inequality and underdevelopment has been supported by many. For example, Turok (2007) has reiterated the need for a developmental state in South Africa, noting that inherited poverty, unemployment and inequality will not be overcome without major intervention by the state. In addition, Erwin (2007) argued that the challenges of globalisation call for a strong developmental state to deploy massive resources to meet the needs of people. Levin (2007:2) adds that "a developmental state is an indispensable tool for developing countries." This is a point Gumede (2009:13) elucidated further by stating that "for South Africa, not attempting to build a democratic developmental state is simply not an option." The government's proposal to construct a developmental state was also overwhelmingly supported by its alliance partners namely the Congress of the South African Trade Unions (COSATU) and the South African Communist Party (SACP). For example, the Secretary General of the SACP, Nzimande (2009) argued that "in order to deepen and consolidate the national democratic revolution post the 2009 April elections, it is important that the SACP, and indeed the entire liberation movement focuses its attention on intensifying the struggle to build a developmental state." Believing that building a developmental state will make up for policy shortcomings, the ANC in 2007 Polokwane Policy Conference formally endorsed the proposal to build a developmental state as a policy instrument for achieving a sustainable socio-economic transformation (ANC, 2007). This is a point Hemson et al (2009:155) succinctly shared when they stated that "the tasks required to end apartheid inequality and achieve growth and rounded social development invited the conception of an active, or strong developmental state." To sum up, unsatisfactory outcomes of almost ten

years of post-apartheid development path underpinned the talk of a developmental state which has found place in ANC and government discourse.

1.6. *Commitment to build a South African developmental state: Institution building/structures.*

Institutional structures reflecting the political will and commitment to the developmental state project have been put in place. Bearing testimony to this is the example of the establishment of the National Planning Commission (NPC) to spearhead long term planning, recognising that, "a single term of government is too short a time to complete our project of building a prosperous, non-racial, non-sexist and democratic South Africa." (The Presidency, 2009:1). Edigheji (2010:18) remarks that "the release of the Green Paper on National Strategic Planning for South Africa is a welcome development as it represents an attempt by the government to give expression to its commitment to construct a developmental state." According to the Presidency (2009), the post-2009 government has expressed a new commitment to long-term planning and coordination with the creation of a National Planning Commission. This dovetails neatly with one of the crucial attributes of developmental states captured by Turok (2010: 499) when he noted that developmental states are "capable of *planning ahead* and making long-term strategic decisions beyond pragmatic responses to political pressures and problems as they emerge." In agreement with this is Gumede (2009:10) who stated that "a long-term development plan is crucial for the identification of the core priorities of a nation." Thus the setting up of the National Planning Commission is a welcome development showing commitment to build a developmental state.

While institution building reflects political will to drive developmental objectives, some analysts have raised sentiments of scepticism arguing that it is not yet clear if the National Planning Commission as an institution will steer the project of building a developmental state. Some of the questions raised by sceptics about the National Planning Commission (NPC) are that since the department is headed by Trevor Manuel who as former Finance Minister supported and orchestrated neoliberal market oriented policies such as GEAR, will the NPC then intervene in the way expected of a developmental state? Set up at the same time as the National Planning Commission was the Department of Economic Development (EDD) headed by Ebrahim Patel. The Department of Economic Development is charged with promoting and making policy for economic development. Sceptics fear that there might be

some tensions rather than complimentarity between the National Planning Commission (NPC) and Economic Development Department (EDD). But let us explore further the relationship between NPC and DED.

1.7. *Relationship between National Planning Commission (NPC) and Economic Development Department (EDD)*

Whilst the National Planning Commission (NPC) is tasked with making a comprehensive national plan, the Economic Development Department (EDD) works towards the realisation of the South African economy's vision of addressing the challenges of poverty, unemployment and inequality. Working closely with the National Planning Commission, the Economic Development Department creates economic policy action plans. EDD focuses on economic policy development frameworks and coordination to achieve an economic growth path (Patel, 2010). For example the Minister of EDD, Ebrahim Patel presented a document on the framework for new growth path on the 23rd November 2010 which prioritised employment creation. The NPC does not formulate economic policy but instead specifically focuses on co-ordination and monitoring policy making. For effective policy implementation, the NPC provides strategic support by developing a monitoring and evaluation framework. The National Planning Commission (NPC) and the Department of Economic Development (EDD) therefore work together to promote a co-ordinated policy making and implementation process. Seen in this light, there is complimentarity rather than overlaps and tensions between the National Planning Commission and Department of Economic Development.

1.8**.** *State capacity as a significant ingredient for a successful developmental state.*

While state commitment and good political will to build a developmental state (understood by the ANC government as a state that directly intervenes in the economy to solve the country's social and economic problems) is clear, there is still a need to highlight some glaring deficiencies concerning how this project will be rolled out successfully. This has even triggered a robust public debate and discussions by academics, politicians, civil society organisations and many others. For instance Turok (2010:498) argues that "considerable uncertainty remains as to how to steer the economic trajectory in a more productive, durable and yet labour-absorbing direction." One of the issues emerging as crucial to come to grips with in the raging debates on pronouncements and desire to build a South African developmental state is state capacity. Thus in order for a state to successfully achieve what it

set out to do or be able to formulate and implement developmental policies effectively, it needs to be institutionally configured in ways that will boost its abilities to do so. If a state is endowed with these institutions or key components of state capacity which shall be elucidated on later, it will have strength to influence outcomes of developmental policies. It is the institutional arrangement that determines the state's ability to formulate and implement policies in the national interests. It is through this institutional arrangement that state capacity which is the focus of this study is enhanced. The researcher takes a broader stance on state capacity to understand it as meaning the ability of the state to formulate progressive and pragmatic policies, ability of the state to create institutions, ability to deliver services, ability to unite disparate classes, ethnicities and races, ability to construct national consensus and ability to harmonise ideological schisms. This however is not meant to gloss over/ignore other abilities that are needed by the state in order to roll out the project of a developmental state successfully.

Pointing to the centrality of state capacity as a precondition and necessary prerequisite to successfully unroll the project of a developmental state, Southall (2006) argues that 'state capacity' is important to enable the state to intervene in a constructive manner in the economy. In addition, Levin, (2007:5) strongly pointed out that state capacity is widely seen as a defining element of a developmental state. As he puts it "Axiomatically, a consistently decisive factor in the success or failure of developmental states has been the capability of the state to implement the government's socio-economic objectives." This is a view supported by Luiz (2000) when he postulated that the nature and capacity of the state largely determines the efficacy of economic policy. As he puts it; "...economists need to move beyond the mechanics of economic policy and the position of the state therein, and focus more on the capacity of the state to formulate and implement policy, given its environment" (Luiz, 2000:242). Luiz, (2000:601) casts the net wider to capture state capacity as a necessary factor for a successful developmental state by arguing that for state-led development to succeed, it is necessary that the state possess the capacity to formulate and execute a developmental vision. Even in explaining why since 1994, the South African economy is growing but has failed to address the persistence of principal challenges of poverty, unemployment, inequality and underdevelopment, some analysts have directed analytical focus on state capacity. For example McKaiser (2010:39) a political analyst responded to COSATU's blame on ANC's policies by noting that "The ultimate failure in

COSATU's analysis is that it assumes a lack of resources to be greatest problem the state faces. That is not true. It is the lack of state capacity, the failure to implement policy effectively." What is needed for effective implementation is not only resource availability as COSATU argues but the availability of bureaucratic institutions (which shall be discussed later) and political will that determine and enhance state capacity to formulate and implement developmental policies to their logical conclusions.

Important as it maybe in relation to building a developmental state, the notion of state capacity is, however, highly contested hence the big question that arises and underpins this research work is *state capacity to do what?* In proposals to build a South African developmental state, state capacity is required for the following:

- To influence, change and shape the direction and structure of the economy. This will help dismantle the structural nature of problems of unemployment, poverty and underdevelopment which are one of the major factors that informed the turn to a developmental state as an economic policy direction.

- State capacity is also required for the task of directing industrial policy which the literature on developmental state pointed to its centrality for the success of East Asian countries that South Africa draws lessons from.

- State capacity is also required to build appropriate institutional structures to steer or drive developmental objectives. As it will be elaborated on later, scholars like Wade (1990), Johnson (1982), Evans (1995) and Amsden (2001) among others have pointed to certain institutional structures to explain the successes of East Asian countries from which South Africa draws inspiration/lessons from.

- State capacity is also required for enabling the state to act independently of sectional interests so that it formulates policies that are in line with national interests.

There is no doubt that state capacity is a significant precondition of a successful developmental state hence this research work seeks to explore the extent to which the South African state meets the conditions of a successful developmental state. This will be done by undertaking a deeper and in-depth interrogation of state capacity as a significant precondition in South Africa's proposal to build a developmental state. The state is considered crucial precisely because it is the one that implements developmental objectives. This is a point Luiz

(2000) augments when he says that the state is a pivotal institution that influences the process of development. In addition Gumede (2009: 9) argued that "at the core of any developmental state is the state ..." However, this is not to say that the state alone is the one that determines the final outcome as implementation of policies involves a multitude of actors. But while state capacity alone does not necessarily translate to a successful developmental state; it remains very important alongside political wherewithal and political capacity as necessary requisites for a successful developmental state project in general.

1.9 *Research question.*

This research study is primarily interested at looking at the key question: **To what extent does South African state capacity meet the conditions of a successful classical developmental state?**

1.10. *Proposed sub-questions*

Whilst the significant part of this research work is hinged on exploring the extent to which South Africa has the state capacity of the kind that characterised historically successful developmental states, in addressing the key research question, the study also grapples with the following sub-questions:

- What has informed the South African government's shift to proposing to build a developmental state?
- What are the characteristics or attributes of a successful developmental state?
- Does policy formulation and implementation in post-1994 South Africa indicate the appropriate state capacity required of a developmental state?
- What are the possibilities and constraints of South Africa becoming a successful developmental state?

1.11. *Rationale.*

The study seeks to contribute to the current debate on South Africa's implementation of the idea of a developmental state which entered the lexicon of South African politics, from the time of the ANC's congress in Stellenbosch in 2002, to the 2007 Polokwane conference and the 2009 election manifesto. The study is of particular importance to the South African context precisely because the establishment of a developmental state is among the major

projects of Zuma's administration. This has seen scholars like Edigheji (2010:2) noting that the South African government is one of the few in the world that has specifically committed itself to the construction of a developmental state as the solution to the country's social, economic and institutional problems. Edigheji (2010:2) goes further to say that "Most developmental states were labelled as such after the fact, not by government officials but by scholars." This means that South Africa has taken a distinctive undertaking of self-consciously setting out to become a developmental state hence making it an interesting unique case study. Moreover, South Africa is an interesting case with which to explore the variables or benchmarks of a developmental state as the proposal or desire to build a South African developmental state has triggered protracted debates amongst academics, policy analysts, commentators, politicians and civil society organisations on whether the South African state possess the capacity to implement the idea. The study is therefore located in this on-going debate that in South Africa, policy formulation has been more successful than implementation. As such the study seeks to gain an in-depth understanding of the significance of state capacity to examine the kind of state that is capable of being a developmental state as a contribution to debates about South Africa's proposal to build a developmental state.

1.12 *Conceptual/Theoretical Framework.*

The formulation and execution of the proposal to build a South African developmental state largely emanated from the emulation of the phenomenal social and economic successes of South East Asian economies, otherwise known as East Asian Tigers (South Korea, Singapore, Taiwan and Hong Kong). The explanation of how these post-World War II states, managed to spectacularly channel national resources to steer, promote and cajole economic growth and social development saw the coining of the term 'developmental states' in the academic circles as a new thinking about the role of states in development. For example Johnson (1982) observed the socio-economic success of the East Asian newly industrialising countries and then coined the concept of a developmental state. The term was coined as an explanation for the phenomenal success of these countries and as a model and panacea that developing countries can use to positively address the socio-economic challenges they face. The success of the East Asian countries in the last decades of the 20th century played an instrumental role for developing countries who increasingly sought lessons from the policy recipe of the most successful East Asian countries. Moreover, the success of East Asian

economies also triggered the attention of scholars and policy makers in the realm of economic development.

Extrapolating lessons from the success of the East Asian economies, this research work argues that the commitment to build a South African state cannot be understood without analysing the key variables or benchmarks of a developmental state that drew scholars' attention to developmental state as a mechanism to address a country's socio-economic challenges. On this note the most suitable theoretical framework for this research work are the key variables of a developmental state which were propounded by scholars to explain the phenomenal success of East Asian economies which South Africa is drawing lessons from. This research work argues that this is important because whilst not mimicking, South Africa drew inspiration from East Asian Tigers as Daniel et al (2005: xxvii) has it that the shift to a developmental state flowed less from the ANC's past or present engagements with socialism than from its seeking to apply lessons learnt from the idea of an Asian-style 'developmental state'. The point to emphasise is that this study takes into cognisance that although the trajectories of East Asian developmental states cannot be replicated or transportable to other contexts; they have been a principal inspiration for the ANC government's proposal to build a developmental state.

This research work therefore plans to hinge the argument on state capacity on the following concepts:

Bureaucratic power

Bureaucratic power is one of the concepts which this research proposes to use to understand state capacity in South Africa as it desires to build a developmental state. As espoused by scholars such as Johnson (1982; 1985) the power of the bureaucracies in developmental states allows them to draw developmental policies through high commands or 'pilot agencies'. The kind of bureaucracy that Johnson points to as central in the success of a developmental state fits into a Weberian description of a bureaucracy described as rational, efficient and unaffected by individual logic. The bureaucratic variable is therefore a necessary determinant though not a sufficient index of state capacity.

Embedded autonomy

The research work also proposes to use the concepts of embeddedness versus autonomy which Evans (1995) argues are crucial benchmarks of a developmental state. Autonomy is pivotal for a developmental state precisely because it enables the state to avoid capture by sectional interests. By avoiding capture through maintaining autonomy, the state plays a regulatory role in promoting development and formulating policies that are in line with national interests. However, Evans (1995:12) takes a sceptical view of absolute autonomy as he sees it as dangerous and prone to tendencies of predatoriness. Thus whilst developmental states need to have greater autonomy that enables them to promote developmental policies, Evans maintains that they are or should not be completely insulated from society. As autonomy on its own is not enough to capture the capacity of the state in unrolling or promoting developmental goals successfully, there exists a need to have a detour into embeddedness. Equally playing a pivotal role in the execution of developmental objectives, embeddedness captures the relationship between the state and civil society organisations or business. This has seen Evans (1995:12) arguing that the "state's autonomy needs to be embedded in a concrete set of social ties that binds the state to society and provides institutionalised channels for the continual negotiation of goals and policies".

Evans adds that embeddedness enables developmental states to implement strategies with the business actors. Evans firmly argues that only when bureaucratic autonomy and societal embeddedness are carefully and properly joined can a state be called developmental and the greater the embedded autonomy, the more successful development or industrial transformation is. So the capacity of the state to promote developmental objectives successfully can be captured by interrogating embeddedness and autonomy jointly. Put simply, embedded autonomy captures the strategic collaboration of the state with business and other stakeholders. In this light this research paper argues that it is important to understand the relationship between the state and society hence Evans theory of 'embedded autonomy' being a suitable framework within which the South Africa's state capacity can be analyzed as the government proposes to build a developmental state.

Governing the market

Wade's (1990) proposition of governing the market in his account of developmental state will also be used to illuminate the argument of this research paper. Analysing the development of Taiwan, Wade concluded that relying exclusively upon the market can produce disastrous

results and as such there exists a need for decisions to be divided between market and the government and the synergy between them. Wade uses his concept of the "governed market" to argue that the success of East Asian economies was a result of the role the government played in guiding the market. Using Taiwan as a point of reference to advance his argument, Wade (1990) maintained that Taiwan's case is generalizable as an explanation for successes of other East Asian societies. He even went further to advance the claim that 'governing the market' is a strategy for economic development that can be used by other developing countries. One can argue that Wade's concept is an anti-thesis of the view that state intervention hinders capitalist development as through the case of Japan he persuasively showed that strong state intervention led to massive economic development. This is a point Amsden (2001) shares when she postulates that effective economic coordination is an absolute priority for developmental states. Amsden (2001) firmly maintains that 'control mechanism' was at the centre of the growth of the South Korean economy. As this research work is primarily interested in evaluating the state capacity in South Africa, the concept of "governing the market" espoused by Wade is seen as crucial in exploring how the South African state governs the market.

In a nutshell, this research work proposes to use conceptual benchmarks of a developmental state espoused by scholars such as Wade, Evans and Johnson among others as a prism or toolkit to explore and analyse state capacity in South Africa as it commits itself to unroll the project of building a developmental state. Whilst these theoretical underpinnings are seen as crucial in explaining the success stories of East Asian countries, this however must not exonerate other factors which account for the success of a developmental state. For example historical circumstances and external environment such as coincidental global political and economic processes accounted for the success of East Asian developmental states.

1.13. *Aims/Objectives of this research study*

The study is primarily interested in exploring the extent to which South Africa has the necessary state capacity to be a successful developmental state.

1.14. *Methodology*

This section provides an exposition of the research methodology that will be employed in an endeavour to answer the research questions.

1.14.1. *Overall approach/Research design*

The substance of this study is to gain an in-depth understanding of the significance of state capacity in the proposals to build a South African developmental state. Furthermore the research work is interested in capturing the South African government's aims and purpose of proposing to build a developmental state. The study also embarks on an attempt to evaluate the prospects or strengths of South Africa in its aspirations to build a developmental state and at the same time interrogating the challenges South Africa grapple with in its proposal to build a developmental state. It is from this premise that this research work embarks on a qualitative research design as the core methodology. In contrast to quantitative research that relies more on statistical analysis, qualitative research design seeks to gain in-depth understanding of the phenomena that cannot be analyzed adequately through statistical quantification of issues. This has seen scholars like Maxwell (1998) capturing the substance of qualitative research design by arguing that it offers a deeper understanding of socio-economic and political phenomena. At stake in this research are plans, policies, intentions, pronouncements and political will of the government to unroll the developmental state. A qualitative research design is therefore wider to interrogate these issues hence justifying its use in this research study.

1.14.2 *Methods of gathering data*

This study will rely heavily on primary government policy documents and secondary literature such as published books and peer reviewed academic journals to trace the idea of a developmental state vis-à-vis its origins/history, specific features that characterise developmental states and objectives of developmental states. This is considered crucial in establishing the foundation of the study. The researcher will also consult documentation of parties and government such as Macro- Social Reports and government policy documents to look at how the South African government has assessed itself in terms of progress, shortcomings and challenges of attaining its policy objectives. Newspaper articles will also be consulted to capture the current developments on the proposal to build a South African developmental state. Thus, the findings of this research will rely on qualitative data.

1.15. *Limitations of the study*

This study takes into cognisance the many debates around what constitutes a successful developmental state. Even the factors accounting for the success of a developmental state are a subject of debate amongst scholars. As South Africa draws lessons from the East Asian model of a developmental state, this study therefore explores the significance of state capacity in building a developmental state by using benchmarks provided by scholars in explaining the success of East Asian countries as a point of reference. The study therefore only focuses on state capacity as a significant strand of a developmental state. Moreover, by using the classical East Asian developmental states as a point of reference, this study is not making claims that what accounted for their success can work even in contemporary contexts.

1.16. *Outline of chapters*

Including this chapter which introduced the topic, outlined the research aims, rationale, conceptual framework and methods that will be used in carrying out the research, this research study has been broken down into five chapters. The next chapter provides an overview of the literature and is especially concerned with giving a detailed elucidation of the concept of a developmental state as it is used as the toolkit to illuminate the whole argument of this study. The chapter shows the evolution of the whole notion of developmental state. It also explores the characteristics and or institutional features that define a developmental state and interrogates the importance of state capacity in unrolling the project of a developmental state. In a nutshell, chapter two engages with scholarly debates on what developmental states are because the proposal to build a South African developmental state cannot be studied in isolation from scholarly thinking, literature and debates that analyse developmental states.

Chapter three assesses South Africa's post-1994 policy formulation and implementation as a measure of state capacity. This chapter looks at the impact of these policies on South Africa's economy as this will serve as the entry point in assessing the extent to which these policies have converged or diverged with the model of a successful developmental state. The chapter will also look at how the idea of significance of state capacity has crystallised around the impact of the post-1994 economic reform policies.

Chapter four looks at South Africa's institutions as a measure of state capacity by looking at the following:

- South Africa's industrial policy as one of the areas that was considered by scholars and policy makers to be at the centre of all developmental state.
- The South African state's relationship with society vis-a-vis, embedded autonomy.
- The South African state's ability to govern the market as this is also argued to be one of the essential prerequisites of a successful developmental state.
- South African state's leadership- This will enable the researcher to explore the extent to which South Africa has a determined political elite to drive developmental objectives.

In a nutshell, chapter four particularly looks at the question of whether or not South Africa fits the criteria/ factors determining state capacity that were spelt out by scholars in accounting for the success of East Asian countries that South Africa draws inspiration from.

This will be followed by Chapter five as the concluding chapter which provides a summary of research findings, assessment, recommendations and concluding remarks.

Chapter 2

Literature review

This section provides the background of the term 'developmental state', tracing its origins/history, key features that characterise it and its objectives and/or aims.

2.1. *Origins/history of the term 'developmental' state.*

Scholars have propounded different viewpoints on the idea, practice and theory of a 'developmental state'. Despite its history dating back to the protectionist measures of Germany in the 19th century, an argument well captured by Fine (2010); the lexicon of developmental states entered the academic circles to explain the phenomenal, spectacular developmental rise of the post World War II East Asian economies. This has seen the period of decolonisation being crucial in capturing the origins of a developmental state as scholars like Kim (2009) have argued that the decolonisation period provided an opportunity for East Asian countries to engage in socio-economic transformation. In exploring the historical origins of the developmental state, Kim has placed focus on the moment of independence which saw East Asian counties engaging in autonomuous state-led macro-economic planning that led to successful development. In East Asia, the important role of the state was accepted and emphasis was put on the idea that while states needed to liberalise markets there was need for state intervention to protect certain kinds of industry and coordinate and lay out conditions conducive to economic growth. This argument is supported by scholars like Kwon (2005) and Maserumule (2006) who assert that the rise of the term developmental state is often seen as explaining the remarkable and rapid economic growth rates, development and performances of the East and North-East Asian countries known as the 'Asian Tigers'. Research on experiences of the East Asian Tigers served as a basis for scholars to provide literature on developmental state in general.

The phrase 'developmental state' made its formal debut with the groundbreaking publication of Chalmers Johnson's (1982) seminal work on East Asian developmental states. Johnson looked at the role of the state in Japan to explain how Japan managed to become an economic power following her defeat in World War II. Debunking the argument that government intervention in the economy lead to inefficiency and is damaging, Johnson strongly argued for government intervention in promoting industrial transformation and growth. Johnson

maintained that markets are to be understood as means not ends in fostering robust economic performance of East Asian economies he studied vis-à-vis Japan, Korea and Taiwan. He then coined the term 'developmental state' as a model of economic development comprising four interrelated segments of the following:

- A professional and efficient state bureaucracy (which creates what he calls a 'developmental state'). Here Johnson (1982: 314-315) stressed that the success of East Asian countries depended on 'plan-rationality' characterised by 'a small, inexpensive, but elite bureaucracy staffed by the best in managerial talent available in the system.'
- Autonomous state institutions.
- Market-conforming state-interventionism. Johnson (1982) contrasted this to early industrialising market-rational states such as the United States, where the state's economic role was regulatory. He instead argued that developmental states were plan-rational that assumed as their primary dominant role, the setting of substantive social and economic goals (Johnson, 1982).
- A leading role for pilot organisations such as Japanese's MITI. Johnson (1982) posited that East Asian success stories depended upon an elite bureaucracy controlling industrial policy through powerful state institutions such as MITI.

Johnson's study became known as 'MITI (Ministry of Internal Trade and Industry) and the Japanese Miracle.' Tracing the evolution of industrial policy which was pivotal to the success of Japan as a developmental state, Johnson asserted that the Ministry of Internal Trade and Industry (MITI) was a 'pilot agency' charged with formulating and implementing industrial policy. Capturing Johnson's model of a developmental state, Mbabazi et al (2005) noted that "Johnson saw the market as a device that could be utilised for advancing a developmental agenda whereby the state involved itself in ´setting … substantive social and economic goals." Leftwich (2000) adds credence to this view by asserting that the implied primacy of politics over economics became a trade mark of the developmental state. The concept of developmental state is, in a nutshell, seen as empirically explaining the remarkable rapid economic growth rates and development of the East Asian countries otherwise termed the 'Asian Tigers' or the Asian Miracle and the kind of policies that made this so-called 'East Asian Miracle' possible. Wade (2003) and Woo-Cumings (1999) then summed it all by

arguing that developmental state is used to describe the state-driven socio-economic planning characterising the late 20th century East Asia. In East Asia, the developmental state model was extremely successful and considered one of the greatest models of industrialisation ever pursued.

2.2. *What is a developmental state?*

Having outlined the origins of the term 'developmental state', it is considered crucial to understand what it means as Mbabazi (2005:54) also crucially asks "What exactly is a developmental state..." This will be done by highlighting characteristics/key features of a developmental state as fleshed out in the wealth of literature on the developmental states of East and South Asia. Particular focus will be placed in identifying those essential attributes that enabled the East Asian countries to promote development effectively. In defining a developmental state, scholars have pointed to the centrality of distinguishing between its objectives and institutional or organisational attributes hence Edigheji (2005:14) noted that "a developmental state is defined by both its objectives and institutional characteristics." This section of this research study therefore undertakes an exploration of the key institutional attributes or benchmarks of a developmental state.

Despite the fact that developmental states do not share similar characteristics in terms of 'structure and strategies' (Pempel, 1999:149), common features are realizable. The most significant common feature in developmental states is bureaucratic power. According to Leftwich (2000:162) developmental states are driven by a "very powerful, professional, highly competent, insulated and career-based bureaucracies with authority to direct and manage the broad shape of economic and social development." The Weberian ideal type of bureaucracy which is characterised by insulation from external interference, a merit-based system of recruiting experts, rationality, efficiency and professionalism emerges to be the linchpin of scholars as they build literature on the developmental states. This has seen scholars like Evans (1995) firmly arguing that the approximation of a Max Weber's description of an ideal type of bureaucracy enables the state to be sufficiently autonomous from sectional interests or capture by sectional interests so as to formulate and implement developmental strategies.

The Weberian kind of bureaucracy has been used to account for the success of developmental states of East Asia. This has seen Johnson (1982; 1995) also arguing that the power of

bureaucracies in developmental states allows them to draw developmental policies through economic high commands or 'pilot agencies'. Johnson (1982) also argued that the East Asian successes depended on an elite bureaucracy controlling industrial policy through powerful state institutions such as Japan's Ministry of Trade and Industry (MITI). Adding credence, Leftwich (2002) advanced the argument that this kind of Weberian bureaucracy has industry specific knowledge to assist and maintain relationship with the industry but without economic interests of its own. Perhaps, the outstanding examples are those of Japan, South Korea and Singapore where development planning institutions became a pre-eminent East Asian model. Bureaucratic power is therefore a feature that differentiates East Asia from Latin America where in Latin American states; the absence of real power in state bureaucracies became a major factor that limited their development capacity. According to Schneider (1999), the case study of Brazil and Mexico indicates that a number of appointments are made by incoming presidents therefore interfering with autonomy from vested interests and meritocracy of bureaucracy that characterised developmental states of East Asia. The main point to emphasise here is that if there is competent bureaucracy, the state will be insulated and set free from opportunistic capture that will compromise its capacity to implement policies that will meet national goals. Leftwich (2000) then sums it all by noting that a powerful, competent and insulated bureaucracy is one of the institutional cornerstones of a developmental state. This is a point also shared by Johnson (1982) when he argued that professional bureaucracy created a developmental state.

Since a competent bureaucracy is a key feature in developmental states, it is crucial to have an insight into ways by which it is developed. According to Evans (1998: 70-71) meritocratic recruitment to public service and public service careers offering long-term rewards commensurate with those obtainable in the private sector were institutional cornerstone of the East Asian economic miracle. In order to be effective, meritocratic recruitment must be complemented by incentives such as salaries, intrinsic job satisfaction, security and prestige commensurate with those offered by the private sector. All East Asian countries according to Evans (1998: 68) paid bureaucrats much more generously than do most developing countries. Evans (1998: 67) then concludes that a competent and meritocratic bureaucratic system is a key ingredient for a developmental state in enabling it to avoid capture by sectional interests and predatory behaviour.

The second common feature identifiable as a key benchmark or characteristic of a developmental state is relative autonomy of the state institutions. This also dovetails neatly with the Weberian bureaucratic autonomy from societal interference. Hence Evans (1995) argues that developmental states needed sufficient autonomy to prevent their domination by vested interests or insulation of the bureaucracy from particularistic interests. Autonomy also enables the state to transcend individual interests. To achieve this autonomy, Evans (1995:12) explains further, the state creates a rationalised bureaucracy that is characterised by meritocracy and professionalism. Calling a need for South Africa to pay attention to institutional dimension as it proposes to build a developmental state, Edigheji (2005:14) noted that "coherence and autonomy of the state is the second important institutional lesson South Africa can learn from East Asia."

Evans takes autonomy further to argue that bureaucratic autonomy by itself is not sufficient to ensure economic success. Distinguishing a developmental state from a predatory state, Evans (1995:12) argues that a predatory state is manipulated by a small, powerful political clique which is bent on abusing state resources. In stark contrast, a developmental state, Evans maintains possesses enough capacity, autonomy, and credibility to efficiently formulate and unroll development policy (Evans, 1995). For Evans (1995:12), whilst greater autonomy enabled developmental states to promote development successfully, there is a need for bureaucracies to become involved or embedded in concrete social ties that bind them to society. Arguing for the importance of relations between states and society, Evans postulates that developmental states are not completely insulated from society but instead are embedded in a dense network of social ties that enable political elites to negotiate goals, policies, and implementation strategies with business actors. He adamantly argues that if a state is too insulated from society it will be prone to the risk of self-serving as opposed to advancing goals for national growth and development.

Combining autonomy and embeddedness as key to enabling the state's capacity to promote economic growth, Evans (1995:12) then fleshed out a theory of 'embedded autonomy.' Through this theory he argued that bureaucracies need to exist in a dense web of ties with both non-state and other state actors (internal and external) who help to define, re-define and implement developmental objectives (Evans, 1995). So for Evans, whilst autonomy ensures that the state is not overwhelmed by sectional interest groups, embeddedness enables the state to forge institutional ties or relationships with society. In addition, Friedman (2005:19)

argued that "states cannot be developmental unless their tendrils are sunk deep into society." The point to emphasise is that in order for the state to be receptive to the needs of the society, it must not be excessively insulated. It is in this light that Evans emphasised that only when bureaucratic autonomy and societal embeddedness are properly joined can a state be called developmental, so neither autonomy nor embeddedness alone is enough to ensure success (Evans, 1995). Evans emphasises state capacity and embedded autonomy as essential ingredients for a successful developmental state and warns that the balance between embeddedness and autonomy is a delicate one and is the basis for efficacy.

It is through a careful blending of autonomy and embeddedness that networks between the state and the business sector are established. Arguing for the importance of these networks, Edigheji (2005:13) posited that "the networks between the state and its economic partners serve as platforms for information exchange, consensus building over policy and effective implementation. By extension these networks enhance the robustness of the state apparatus." This feature is quite clear in the case of Japan where there has been intimacy between the key bureaucracies and various economic agents thereby leading to a sort of public-private partnership in attaining developmental goals (Leftwich, 2000: 162). Of course, the Japanese example resembles that of a capitalist developmental state where the state and the market pull towards the same direction with the state as a senior partner that governs the market (Wade, 1990). Insulation of bureaucracy and embeddedness of state autonomy enhance state capacity to execute developmental policies (Luiz, 2000). Embedded autonomy is therefore an enabling and requisite factor for the success of a developmental state. Hence Friedman (2005:19) stated that "a state cannot be developmental unless it is embedded." In a nutshell, embedded autonomy simultaneously ensures that a developmental state is relatively free from predation and rent-seeking and able to develop trust and close co-operation with the private sector. As a theoretical underpinning, embedded autonomy ensures that a developmental state is less prone to the perils of opportunism by individual utility-maximising actors.

The wealth of literature that has been built to account for the successes of developmental states also has it that developmental states are led by determined political elites. This is well captured by Evans (1995) who advances the claim that an important ingredient for successful developmental policy is that political elites share a common sense of purpose and direction. He further postulates that these political elites need to be bureaucratically insulated from classes, interest groups and others in society in order to formulate and pursue policy goals in

coherent and systematic manner that yields intended results. For Evans (1995) political leadership is a crucial factor in enabling the development of embedded autonomy. Casting the net wider to capture the importance of political leadership is Edigheji (2005) who reiterates the need for South Africa to draw lessons from the institutional characteristics of East Asia as it proposes to build a developmental state. Edigheji (2005:14) stressed that "a strong commitment by the political leadership is crucial for successful industrial transformation." Thus in other words, whereas many states if not all, can spell out their developmental intentions, the distinguishing feature of developmental states is both their political capacity and will to drive those developmental objectives.

Successful formulation and execution of developmental policies is dependent on determined political elites who advance national interests at the expense of self interests. According to Herring (1999), the failed developmental state in India was a result of particular interests whose political access and relentless pressures sapped the Nehruvian vision. Developmental states are led by determined developmental elites who are generally less corrupt in comparative standards to corruption experienced in non-developmental states. Young (1978) puts it perfectly when he states that the general pattern observable is that developmental states have not manifested the corrosive patrimonialism or corruption of the level experienced in Zaire under Mobutu Sese Seko. Such kind of state fits Evans' typology of a predatory state that is characterised by kleptocratic institutions which exist solely to further the interests and wealth of the ruling elite (Evans, 1989). Evans (1989) takes a sceptical view to further argue that a predatory state has little ability to promote socio-economic development precisely because it is characterised by incoherent policy and incompetent administration. In stark contrast, a developmental state possesses sufficient capacity, autonomy, and credibility to efficiently formulate and execute development policy, Evans maintains. In addition, Luiz (1997) argues that if a state is a predatory one, the state becomes a highly contested arena for rent seekers. The point to emphasise is that literature on developmental state has pointed to the centrality of good leadership that is not prone to dictatorship as this will have an impact on the autonomy of the bureaucracy and production of competent civil service. Predatory tendencies negatively impact on developmental track of the state as it impedes economic production.

The manner in which government intervenes in socio-economic development or operation of free markets also emerges as a feature that characterizes a state as developmental. This

captures Johnson 'market-conforming state-intervention' segment of a developmental state. Wade (1990), one of the main scholars who have contributed to the literature on developmental states of East and South East Asia, strongly argued for the crucial role the government played in the functioning of a free market in Taiwan. Wade firmly maintained that in a developmental state, decisions need to be divided between market and public administration. It is from this standpoint that he proposed the 'Governed Market' theory where he argued that in a developmental state the government plays an active role in the determination of the rate of investment and its allocation. While curtailing consumption, the government increase and direct investment. He firmly argued for this theory as an explanation for the East Asian countries' success (Wade, 1990). According to Wade, the state does not replace the market but guides it and create new opportunities. In support of this is Johnson's work in which he adamantly viewed markets as means and not ends. Johnson argued for government intervention as an explanation of how developmental states such as Japan, Taiwan, Singapore and South Korea arose.

Wade's theory of 'governing the market' dovetails neatly with the emphasis on the role of the polity as central in defining a developmental but does not mean that a developmental state is therefore an equivalent of a command economy type of a state. Johnson (1982) stresses that a developmental state is not purely state-dominated command economies of the communist world. Rather than seeking to control every economic movement like the former Soviet-type of a command economy, a typical development state would seek to 'govern the market' (Wade, 1990). Perhaps what separate 'plan-ideological' states such as the former Soviet type command economies from a developmental state is that the 'plan-ideological' state would lean more to the control of all economic activities rather than steering them hence leading to economic sluggishness. In this light Weiss and Hobson (1995:2) argue that "in a developmental state, the nature of state intervention does not have to stall development but to co-ordinate, steer, push, cajole, persuade and instruct a wide range of economic agents so as to take particular actions and preferred directions that accelerate development." In addition, Schneider (1999) argue that in a developmental state, the state directly coordinates industrial investment, actively directs macro-economic policy towards developmental goals and jealously protects and promotes the national interest as identified by the government. This does not entail that developmental states are therefore not regulatory states of Western liberal or social democratic kinds but the point is to emphasise that the action and the purpose of the

state in developmental state is developmentally-driven and this developmental purpose comes from the polity which acts as the managerial agency.

2.3. *Industrial policy as the over-arching economic policy in East Asia*

In reviewing the literature on the developmental state it emerges that there are two aspects of a developmental state vis-a-vis institutional dimension and policy dimensions. It is in this light that in accounting for how the East Asian countries managed to achieve the high levels of economic growth and development; some scholars have directed analytical focus to some policies that were at the centre of developmental state success stories. One important area of policy that scholars converge on in explaining the success of the East Asian tigers is industrial policy. This has seen Luiz (2000: 235) exposing that "in East Asia the state identified certain sectors which it would like to develop." Supporting this is Edigheji (2005: 12) who revealed that "selective interventions and targeting of particular industries were key components of the successful East Asian industrial development." This will be elucidated by engaging with the work of Johnson (1982) on Japan, Wade (1990) on Taiwan and Amsden (1989) on South Korea. Johnson, Wade and Amsden seem to converge on the argument that what centrally accounted for the miraculous economic growth of the East Asian countries was the intervention of the state to foster industrialisation.

As the tide of accounting for the rise of East Asian economies tilted to industrial policy as one of the major policies that was at the centre, defining what industrial policy is thus considered crucial. Throwing this into sharp relief is Johnson (1982:26) who noted that industrial policy refers to "a complex set of those policies concerning protection of domestic industries, development of strategic industries and adjustments of the economic structure in response to or in anticipation of internal or external changes". In addition, Mushtaq and Blankerburg (2009:336) posit that "industrial policy consists of sector-and industry-specific policies that aim to direct industrialization in some definition of the national interest." Reiterating the need for an industrial policy in the proposal to build a South African state, Edigheji (2005:12) notes that "through selective interventions, the state can target particular industries for assistance or incentives, while at the same time discouraging others by withholding support." This to a larger extent reflects that industrial policy centrally ignites a state's developmental orientation as the East Asian experience attests.

Firmly arguing that industrial policy was at the centre of Japanese economic growth and success is Johnson (1982). Johnson (1982:30) vehemently argues that "i cannot prove that a particular Japanese industry would not or could not have grown and developed at all without the government's industrial policy." Johnson argued that the government extensively intervened through the Ministry of Trade and Industry (MITI) to select strategic industries to be developed or converted to other lines of work (Johnson, 1982:28). Johnson explains that in order to gain international competitive advantage for Japan, the state shifted resources to specific industries. Johnson (1982) explains further that the manufacturing sector was one of the industries selected and supported by the Japanese government to be highly competitive. He also states that the Japanese government also supported the higher-value industries such as the knowledge-intensive tertiary industries.

The importance of industrial policy in accounting for the success of developmental states is also elucidated by Wade (1990) when he analyzed the role of government in Taiwan's industrialisation. Wade (1990:110) noted that "the state was the contrapuntal partner to the market system, helping to insure that resources went into industries important for future growth and military strength." Firmly arguing for activity-targeted interventions, Wade (1990) meticulously explains that in Taiwan, the government was committed to building up the international competitiveness of the domestic economy by directing and managing industrial structure. Wade explains that the Taiwanese state used such mechanisms as fiscal investment incentives like reductions in tax to support targeted industries.

Industrial policy was also at the centre of the developmental state success of South Korea. Amsden (1989) argues that in South Korea the state intervened to actively direct and manage the industrial structure. As she puts it " Korea is an example of a country that grew very fast and yet violated the canons of conventional wisdom...instead of the market mechanism allocating resources and guiding private entrepreneurship, the government made most of the pivotal investment decisions" (Amsden, 1989: 139). In accounting for Korea's success, Amsden forcefully argued that in order to promote economic growth private firms were required by government to meet stiff performance standards in exchange for economic and political support, poorly run firms had their assets and product lines transferred by the state to other firms. She thus postulated that "in South Korea, the state has played the role of an entrepreneur- -directing, disciplining and financing profitable economic activities" (Amsden, 1989: 167). Amsden goes further to point out that the South Korean state invested more

heavily than other late industrializers in education, yielding the needed well-educated production workers and trained engineers. Amsden explains that amassing of technological capabilities by domestic firms was considered imperative for effective industrial advancement by the South Korean state. She emphasises that the South Korean state initiated industrial state enterprises, provided subsidised capital to the private sector and protected domestic industries from foreign competition (Amsden, 1989). Through performance standards, the South Korean government was able to discipline the performance of the private sector, Amsden firmly argues.

2.4. *Lessons that can be drawn from East Asian countries' industrial policy.*

A number of lessons can be drawn from the success of East Asian countries industrial policy. Firstly, the assessment or analytical focus to industrial policy that was done by Johnson (1982), Wade (1990) on Taiwan and Amsden (1989) on South Korea dovetails neatly with Evans's (1995:12) argument of 'embedded autonomy'. As Evans warns about the delicate balance between autonomy and embeddedness, autonomy enabled the East Asian countries to impose performance standards and discipline of selected industries. Embeddedness, one can argue, enabled successful public-private connections in these East Asian economies as Evans cautions that an excessively or absolute autonomous state can degenerate into being answerable to itself and become prone to predatory tendencies.

The second major lesson that can be drawn from the East Asian's industrial policy is the importance of micro-economic interventions. The import-substitution policies employed by the governments of Japan, Taiwan and South Korea attest that alongside maintaining macro-economic stability, strategic micro-economic interventions by the state in selected industries equally played a role as a variable to explain the success story of East Asian economies. On this Amsden (1989) cautions that macro-economic management, a pro-market strategy, was a necessary but not a sufficient condition for the success of East Asian economies hence micro-economic interventions in the form of incentives and subsidies played a pivotal role. One may argue that this dovetails neatly with Wade's (1990) phenomenal phrase of 'governing the market theory' which mainly warns against the free-functioning of the market. Strongly arguing for interventions, Wade (1990) stressed the crucial role of East Asian states in guiding economic development; hence the macro-micro interface can be located in this

debate to capture the role played by industrial policy measures in the success of East Asian economies.

The case studies of Japan, Taiwan and South Korea testify that in order to stimulate economic growth, the state has to actively intervene to stimulate economic growth by identifying strategic industrial sectors and disciplining them to operate in the national interest. By promoting industry and economic growth, the aforementioned countries of East Asia were able to rapidly industrialise. Johnson (1982), Wade (1990) and Amsden (1989) argued that selective interventions by the state accounted for the efficacy of East Asia's economic growth. The state, as a necessary agent in the success of East Asia played a pivotal role in identifying certain sectors of the economy which it supported and backed up to enable them to compete with those of industrialised countries. Amsden, Johnson and Wade argued that in the East Asian countries they studied namely Japan, Taiwan and South Korea; the government employed an array of ways to support industries with high growth potential. In facilitating industrialization, the aforementioned East Asian states used such methods as infant industry protection, export subsidies, tariff refunds on imported inputs for exports and subsidies and restriction of competition intended to help technology advancement. At the centre of these mechanisms was the over-arching aim of ensuring protection of domestic industries from advanced economies. Amsden (1992) argued for protection as one of the major ways of enabling developing economies to compete against more advanced economies. It is from this premise that this research paper can safely conclude that industrial policy was one of the over-arching economic policy that was pivotal in explaining the success of East Asian economies. Industrial policy also captured the synergistic links between state and market which is also at the core of debates of defining a developmental state. Industrial policy unequivocally revolved around placing top priority on economic development areas effective in terms of growth, productivity and competiveness.

What emerges is that in explaining why and how East Asian Tigers enormously underwent rapid economic growth, scholars have propounded divergent viewpoints and theories. Whilst the bulk of the literature on the success of East Asia point to the central role of a 'developmental state', the processes that these East Asian economies embarked on is an arena of contestation. This however lies beyond the scope of this research study hence it is noteworthy that despite these contestations the scholars converge on essential attributes that characterised the successful developmental states. Changed global conditions may render this

experience irrelevant to aspiring developmental states today. Nevertheless, these essential attributes may serve as an indicative roadmap in this research work to explore the extent to which South Africa has the necessary conditions to unroll the project of a developmental state.

2.5. *What then is a developmental state?*

In organising various components of a developmental state, one may argue that a developmental state is one that intervenes in the market to promote economic growth/development and ensure the spread of its benefits. Leftwich (1995:401) proposed that developmental states may be defined as "states whose politics have concentrated enough power, autonomy and capacity at the centre to shape, pursue and encourage the attainment of explicit developmental objectives whether by establishing and promoting the conditions and direction of economic growth, or a varying combination of both." According to Leftwich (2000), the implied primacy of politics over economics becomes a trademark of the developmental state. This means that development cannot be understood solely as an economic process; it is also a political process. For Leftwich, the state has the capacity to bring about success or failure in the development process. The focus underpinning developmental states is therefore the high level of optimism put in the role of the state in advancing development. This is supported by Edigheji (2005) who points out that the developmental state is one that "can also foster economic growth and development…has clearly defined "socio-economic objectives that require state intervention, including poverty reduction and eradication, social justice, reduction in income and asset gaps between rich and poor; and places a premium on its institutional and organisational structures that enable it to promote and achieve better economic performances.

Clearly emerging from various ways in which a developmental state is defined is a version of the fundamental challenge to the so-called "neo-liberal" belief of the primacy of market forces over state intervention (maximalist state). Adding credence to this Mbabazi (2005) posited that a developmental state is a state which is by definition interventionist, pro-poor and which seeks to address challenges such as poverty, low economic growth, lack of infrastructure and unequal development by deliberately using state resources to address these challenges. The main consensus emerging from all perspectives is that the 'state' is at the core of development. As Edigheji (2005: 13) succinctly puts it "At best, the developmental

state is discussed in terms of the role of the state in development." Fritz and Menocal (2007:533) argue that a state is defined as developmental "when the state possesses the vision, leadership and capacity to bring about positive transformation of society within a condensed period of time." In a nutshell, in many different debates as to what defined developmental states, the most plausible observation is that the 'state' plays a central role in giving direction to development regardless of whether the developmental state is capitalistic or socialistic or both in its orientation.

Though the idea of a developmental state is contested, the scholars' consensus seems to converge on the view that the state plays an active strategic role in bringing about growth and equity. Capturing this well, Hemson et al (2009:154) see the developmental state as one which "sees the state as the leading actor in society for bringing about lasting social change through capable and well-managed interventions." Explanations put forward for the phenomenal economic success of East Asian miracle point to the centrality of the state in intervening directly to co-ordinate and lay out the conditions conducive to high economic growth. Thus through strategic allocation of resources and employing a varied policy instruments, the state vigorously intervenes to guide, regulate and coordinate the development process. In other words, rather than relying entirely on the market forces, a developmental state intervenes when necessary to rectify distortions and plays a leading role in equitably spreading the fruits of economic growth. For example Amsden (1989) and Wade (1990) explained that governments of the newly industrialised countries in Asia played a huge role in supporting human resource and technology development, and in directing public and private investment. In this regard explanations for the success of East and South-East Asia countries attest that whilst the economic paths were market-oriented, high degrees of government intervention accounted for success.

2.6. *State capacity*

The wealth of literature on developmental state pinpointed to state intervention as a necessary factor in promoting socio-economic development. Scholars like Amsden (1989), Wade (1990) and Evans (1995) among others who have written about 20th century developmental states seemingly converge on the state as one of the institutional cornerstone of their incredible success. This has seen Evans (1995) arguing that in a developmental state, the state is a pivotal unit of analysis precisely because it provides the institutional context within

which economic activity occurs. Evans sees states as facilitators of economic growth. State capacity is therefore a precondition for a successful developmental state. It plays an overwhelmingly crucial role in enabling the state to play a sustainable developmental role. Despite its crucial role in the general scholarly debates on developmental state, state capacity is a notion that is highly contested. Capturing this is Butler, (2010: 191) when he noted that "the idea of 'state capacity' is multifaceted and its definition is controversial." What Butler has put forward is elucidated further by Levin (2007) who emphasised the multifaceted character of state capacity, embracing financial, human, technological system and policy resources required to achieve developmental goals. In addition Hemson et al (2009: 152) captures the multifaceted nature of state capacity by stressing that "capacity is bound up with coherence and utility of organising systems..., a key measure of capacity is not so much the recognition of unfilled vacancies and surveys of human resources... but rather the outcomes visible in terms of improved service delivery and greater state responsiveness to basic needs." On the other hand, scholars like Cummings and Norgaard (2004) posit that state capacity speaks to ideational, technical, political and implementational capacity. Others like Polidano (2000) define state capacity as "state ability to design and implement policy." However the contestations around the notion of state capacity should not detract from or minimise its critical importance in the unrolling of the project of a developmental state. This has seen scholars like Maserumule (2007: 212) arguing that "strong state capacity is critically important as [a] distinguishing feature of a developmental state". In this light this research work argues that state structures or institutional capacity need to be explored in the general debates on developmental state.

2.6.1. *Key elements/components of 'state capacity'*

- *Embeddedness in society*

As literature on developmental states has it that the state is one of the institutional cornerstones of fostering improved developmental outcomes, the state needs to be a monolithic actor in the economy. Fostering ties with private actors and business is crucial. Hence Evans (1995: 12) reiterated that developmental states were "embedded in a dense set of concrete social ties, formal and informal, that systematically connected state bureaucracies with private entrepreneurs and industrial associations." Establishment of networks and ties with private actors increases the state's ability to achieve what it set out to do because

contrary to acting independently; the state harnesses many actors to effectively implement policies. This research study therefore argues that embeddedness is one of the key components of state capacity which enables the developmental elites to work closely with the other stakeholders such as entrepreneurs and business firms in any successful implementation of policies.

- *Bureaucratic variable*

Though not a sufficient ingredient, a capable bureaucracy is a determinant of state capacity. Elucidating this point, Evans and Rauch (1999) posit that there is a relationship between "Weberianess" of a national state's bureaucratic capacities and its record of economic growth. Evans and Rauch (1999) argued that the nature and quality of state institutions is a crucial determinant of a country's sustainable development role. In advancing their argument, Evans and Rauch used a 'Weberianness scale' which they constructed to investigate the quality and the impact of bureaucracies on economic growth. Looking at how specific institutional variables impacted on socio-economic outcomes they concluded that superior bureaucracy correlates with high rates of economic growth. For Evans and Rauch (1999), bureaucratic institutions/variables of a state are a pivotal unit of analysis in capturing the capacity of the state and are a determinant of state capacity for development. This has seen Hemson et al (2009: 152) postulating that "the ability of a state to negotiate within and beyond its boundaries to turn its 'embedded autonomy' to its advantage depends, in turn, on state capacity." Bureaucratic administrative capacity enables the state to implement developmental policies.

- *Relative autonomy of the developmental elite from vested interests.*

The capacity of the state to achieve what it set out to do or formulate and implement developmental policies effectively is shaped by the availability of insulated developmental elite. Thus it is crucial for the state to be free from opportunistic demands of interest groups or popular groups in order to have the capacity to effectively set national economic development goals, protect and achieve them. The developmental elite also need to be a competent one which is made up of well-qualified, dedicated and skilled personnel which

was appointed on the basis of merit. Such kind of developmental elite enhances state capacity to effectively design and implement policies.

The key elements/components of state capacity discussed above institutionally configure the state's ability to effectively formulate and implement developmental policies. Capturing this Luiz (2000: 242) sees state capacity as a prerequisite for sustainable development and remarks that "state capacity cannot be assumed a priori and is contingent on the state's institutional configuration." In hindsight, scholarly debates on developmental states lucidly directed analytical focus on state capacity to capture the explanations of the socio-economic success of developmental state. Capturing this is Levin (2007) who posited that success or failure of developmental states has been the capability of the state to implement the government's socio-economic objectives. Levin (2007:6) went further to point out that "in order for the state to stimulate economic growth, it requires 'capacity' in the form of financial resources to implement its developmental programmes, the technological infrastructure to make efficient use of its resources." This is an argument shared by Southall, (2006: xxxiv) when he noted that "implementation of any policies is dependent upon state capacity." This means that state capacity is at the core of developmental states hence Southall reiterates state capacity as a critical aspect of South Africa becoming a developmental state.

2.7. *Conclusion*

This chapter focused on the exposition of the meaning of a developmental state. One of the key issues that emerged in the chapter was that East Asian phenomenal economic experience has served as a source of inspiration for developing countries battling with socio-economic challenges. The explanation of how the so-called East Asia 'tigers' namely Japan, South Korea, Taiwan and Singapore grew their economies saw the term 'developmental state' getting into academic, political, economic and policy circles. In other words, the wealth of literature on developmental states is not exclusively but mainly about growth experiences of the so- called East Asian Tigers. The proposal to build a South African state drew inspiration from the historical success story of East Asian countries. A careful scrutiny of the term revealed that scholars have advanced different viewpoints and arguments to account for the success of these East Asian Tigers but converge on central key features that characterized these developmental states. The point to emphasize is that one of the key findings in reviewing the literature on developmental states is that the term 'developmental state' is

subject to different interpretations. These essential features can be divided into two dimensions vis-à-vis policy and institutional. This research work therefore argues that a developmental state is best defined by its key attributes. Through an array of means to achieve social and economic development; a developmental state directly intervenes in the economy. In assessing the wealth of literature on developmental state, this chapter established that there are institutional fundamentals that permitted the execution of developmental policies. It is thus the argument of this research work that these institutional prerequisites capture state capacity as Luiz (2000: 242) states that " the role of the elite, the professionalism and insulation of the economic bureaucracy, and the embeddedness of state autonomy have been stressed as crucial in the enhancement of state capacity." In hindsight, this research argues that state capacity is the anchor around which the unrolling of a developmental state revolves.

Chapter 3

Policy formulation and implementation as a measure of state capacity: The 'capacity' appropriate to develop public policy

3.1. *Introduction*

The area of policy formulation and implementation is very important as a measure of state capacity. This research study argues that it will be very superficial to ignore the previous policies in understanding the current ones like the proposal to build a developmental state. This chapter uses key components of state capacity discussed in chapter two to assess if the South African state is (was) institutionally configured to enable it to formulate and implement policies effectively. It provides an overview of economic policies that were adopted by the ANC government to change the structure of the economy so that it benefited all social groups living in a democratic South Africa. This chapter is guided by the overarching question of establishing whether or not there were bureaucratic institutions in place to enable the formulation and implementation of policies in the national interest. The chapter also assesses the impact of these policies on the structure of the South African economy. The chapter starts off by providing a brief contextual background in which the ANC government came to power in order to capture the challenges, opportunities and pressures that confronted the ANC government in formulating and implementing policies to transform the structure of the economy. Here, the research work briefly explores the impact of apartheid economic policies on the post-apartheid development trajectory. This background information is considered crucial in providing deeper and contextual understanding of the socio-economic policies adopted by the ANC. This will be followed by a detailed assessment and critique of the economic reform policies adopted from the perspective of the initiatives to transform South Africa into a developmental state.

3.2. *Contextual background.*

The ANC government after a protracted negotiation and political settlement came to power in 1994 with grand ideas of freedom, racial liberation, redistribution and eradication of inequality. In other words, the ANC government was confronted with the challenge of shaping the trajectory of economic development. Total transformation of the apartheid

infrastructure to create growth that would benefit all South Africans, particularly the previously disadvantaged has been ANC's over-arching vision. This was to become the goal of their subsequent policies. (ANC, 1997: 37-42). In addition Gumede (2005: 67) has it that the new South Africa needed to pursue three goals simultaneously: "constitutional democracy, industrial modernisation and economic and social reform." This has been no easy task precisely because the world in which the ANC had come to power in was drastically different from the one they had fought for freedom in. The Soviet Union collapsed in 1989 and communism and socialist principles of state intervention in the market were soundly beaten by neo-liberal economics favouring freedom of market forces. Capturing this Mayer and Altman (2005:37) argued that "After South Africa's first democratic elections in 1994, the African National Congress (ANC) led government was confronted with a dilemma: on the one hand there was an urgent need to reverse the legacy of apartheid by forcefully reducing poverty and inequality, while on the other hand there was an enormous pressure to integrate with the global economy at a time when neo-liberalism reigned supreme". ANC had for many decades toyed with socialist ideals favouring massive state intervention to alleviate poverty, inequality and nationalization of various industries to ensure job creation. However the fall of the Berlin Wall and the Soviet Union, along with lobbying by the capitalist establishment and big business within and outside the country led to a change of heart by the ANC from its previously held belief in a socialist state (Gumede, 2005). In a nutshell, designing and implementing policies that cut across socio-economic divisions in the context of the post-cold war era which favoured neoliberal economics and market driven redistribution was no easy undertaking for the ANC government even if it was driven by the over-arching vision of transforming the configuration of the South African economy.

3.3. *Transforming the South African economy: The Reconstruction and Development Programme (RDP).*

The ANC government became a beacon of hope and custodian of the liberation struggle to the previously marginalised, especially the black population who felt that prior to 1994, policies were designed to exclude them. Levin (2007: 1) has it that "the apartheid state was constituted by a condensation of class forces characterised by the promotion and defence of a system of white minority domination, enrichment and super-exploitation of the black majority." In other words, the structure of the South African economy was skewed in favour

of the minority white population. The legacy of the apartheid economic policies had a bearing on the post-apartheid development trajectory as "the policies permeated every aspect of the economy, polity and society" (Mayer and Altman, 2005: 35). Underpinned by the need to change this when it came to power, the ANC government outlined its primary economic development policy in 1994 with the introduction of the Reconstruction and Development Programme (RDP) (Lodge, 1999-27-28). The RDP had two basic aims, namely the alleviation of poverty and the reconstruction of poverty. Economic reconstruction was necessary at two levels, firstly to restart the sagging growth levels which had begun their decline in the seventies. Secondly, the economy needed to be reconstructed to incorporate black capital and ensure redistribution of capital thereby lessening equality between races. In adopting RDP, the ANC government did not envision the abolition of the market but argued that the market will play a very minimal role in directing the transformation process. RDP asserted that:

> *(t)he democratic government must play a leading role in building an economy which offers to all South Africans the opportunity to contribute productively. All job creation programmes should cater particularly for women and youth…[and] include representatives from women's and youth organisations (RDP, 1994:18).*

Through RDP, the ANC government envisaged the crucial role of the state to undo the legacies of colonial, racial socio-economic imbalances that saw the majority of South Africans especially blacks languishing in abject poverty and unemployment. Bond (2000) has captured the adoption of RDP as a policy that favoured the state as a major actor. Contrary to providing the right macroeconomic environment for structural change, RDP exhibited signs of flaws and deficiencies as a growth strategy. One of its major flaws are captured by Luiz (2002:3) who argued that "the RDP assumed state capacity, instead of prioritising the need to build this capacity." In addition Turok (2008:90) argued that "institutional capacity for implementation remained a problem at national, provincial and local levels." This study argues that RDP testified the state's incapacity to implement policy effectively and failure to recognise that there were structural deficiencies that needed to be tackled. Owing to its weaknesses as a macro-economic policy, RDP was sidelined and eventually unceremoniously replaced by the policies that favoured neoliberal ideas of growth and development, the first

being the Growth, Employment and Redistribution (GEAR) which was launched in June 1996.

With the adoption of RDP, it is clear that the government relied on state capacity that proved not to available. RDP proposed that the state should work in a certain way but the state proved unable to. For example, with the adoption of RDP, state-led development was put at the forefront without assessing the extent to which the post-apartheid South African state was institutionally configured to perform or implement policies. Failure of the government to achieve what it had set out to do through RDP partly indicated that South Africa did not have an efficient bureaucracy which is one of the necessary though not a sufficient institutional prerequisite of state capacity. The presence of efficient bureaucracy characterised by skilled and merit-based appointments would have enabled the government to set pragmatic ambitions.

Moreover, lack of financial resources reflected South African state's incapacity to implement RDP policies effectively as Blumenfeld (1996:7) has it that the affordability of the programme was questioned from the outset. Apart from lacking appropriate institutional components to enhance state capacity such as competent and insulated bureaucracy and embeddedness of state autonomy, South Africa also lacked financial resources.

3.4. *From Reconstruction and Development Programme (RDP) to Growth, Employment and Redistribution (GEAR), macro-economic reform strategy.*

Unlike RDP, dependence on the capacity of the state was avoided through the adoption of GEAR. Underpinned by the need to create an investor-friendly environment, state intervention was sidelined in favour of providing an environment for self-regulating capacity of the market. On this Bayart (2007) has argued that state intervention in economic development is untainable under neo-liberal economic paradigm. Nattrass and Seekings (2006:161) have noted that GEAR was drawn up by mainstream economists and hinged on a massive increase in private sector investment aimed at driving growth and creating jobs while also aiming to be investor and market friendly. In defence of GEAR, Hirsch (2005: 3) has argued that "the state exists within a market economy that depends on private investment, and therefore a successful state creates an environment that supports high levels of private investment." Hirsch explains that this largely captures why the ANC government succumbed to neoliberal imperatives. For Hirsch, the adoption of GEAR was a result of ANC's careful

assessment of the conditions of the domestic and world economies. In establishing GEAR, emphasis was put on macroeconomic stability. Seekings and Nattrass (2006:161-162) go further to point that the policy centred around a number of mechanisms in order to achieve their aims namely reduction in state spending to reduce budget deficits, keeping inflation in single digits, reduction in corporate taxes, phasing out of exchange controls, encouraging wage restraint by organized workers, creating labour market flexibility and the speeding up of privation. This is also shared by Lehulere (1997) when he juxtaposed the core policies of GEAR. GEAR adopted a class character by privileging domestic and international capital. In addition GEAR as a macroeconomic stabilising policy was considered crucial for the purposes of "unlocking investment by the private sector" (Faulkner and Loewald, 2008:23). One way of achieving this was reducing government spending as Kalima-Phiri (2005: 10) puts forward that "the central argument was that high government spending reduced saving and investment by the private sector." To achieve these objectives government spending was to be reduced and contained.

3.5. *Impact of Growth, Employment and Redistribution (GEAR) on the structure of the South African economy.*

Given the aims and mechanism contained in GEAR, critics claim it was plagued by considerable odds and shortcomings that reproduced and cemented the apartheid economic structure. Firstly, GEAR put the onus of growth and development into the hands of the private sector which was to partner with the public sector. There was however no means to ensure that business met these demands. Furthermore, Marais (1998: 164-165) argued that in aiming to create a market friendly approach to growth and development the policy advocated reduced state spending which is (was) at odds with state policy on investment in social infrastructure. In fact, according to critics, GEAR diverted government spending towards interest payments rather than social spending which would have greatly reduced overall inequality. Marais (1998) goes further to argue that there exists no neo-liberal adjustment model such as the one championed by GEAR which has ever successfully overcome inequality. Moreover as the monetary policy under GEAR was hinged on upholding financial stability and reduction in the inflation rate, economic analysts have argued that that this had a negative bearing on economic growth. Adelzadeh (1996:79) for example has seen it as a "built-in contradictory monetary policy." Adding credence to this is Luiz (2002: 600) who attacked South Africa's monetary policy under GEAR, noting that "whilst one cannot

overlook the role of monetary policy in dealing with the balance of payment constraint, it is dangerous a ploy to hold economic growth ransom to short-term capital flows. Excessively high real interest rates are stifling economic growth, and this needs to be rectified." The monetary policy restrained growth and development. The Reserve Bank did not pursue a developmental monetary policy. South Africa's monetary policy of low inflation arguably had serious negative bearing on ANC government's aim of dismantling the structural nature of unemployment as shall be elucidated later.

GEAR, according to its critics, also constrained government roll social welfare policies. This was contrary to the apartheid state that surprisingly was redistributive, containing provisions for an old age pension and child grant even though these measures were largely racially discriminatory. Seekings and Nattrass (2006: 378) have it that the number of people benefiting from one of these measures rose dramatically from the early 1990s to encompass six million due to deracialization. However, they argue that both measures came under government interventions which decreased their real value in case of the pension and provided a limited support for parents of young children which left many older dependents in the throes of poverty in the case of the child grant (Seekings and Natrass 2006:379-381). Both of these left a large proportion of the poor who were young and without children to fend for themselves as the government lagged behind on promised new reforms of the Basic Income Grant (BIG) –(Seekings and Natrass, 2006:381-382). Austerity measures advocated by neo-liberalism have thus proved to have an impact even in social security policies such as Basic Income Grant considered for tackling the scourge of poverty in the country. The idea of pursuing social security policies such as BIG to their logical conclusions were dismissed by the government on the grounds that they were fiscally unsustainable. In his budget briefing to the Parliament's finance committee in 2002, the then minister of finance, Trevor Manuel, dismissed proponents of Basic Income Grant (BIG) as populist, stating that it is 'fiscally unsustainable'.

A third major shortcoming of GEAR, according to its opponents, was noticeable in its relation to labour. The ANC realized crisis of high levels of unemployment stemming from seventies and there was urgent need to create more jobs and deracialised industry. Marais (1998:167) notes " with this in mind GEAR contained provisions for increased flexibility of labour markets and retained the apartheid industrial conciliation machinery of collective wage bargaining." In addition, Seekings and Nattrass (2006:348-349) pointed out that

minimum wage floors were set for all industries both large and small which directly undermined the growth of unemployment as firms were unable to employ more people due to labour costs. Largely, GEAR as a macro-economic policy cemented the structural nature of unemployment, poverty and inequality for the majority of black population. Capturing this Nattrass and Seekings (2006:350-351) noted that labour reforms coupled with tough overall economic circumstances for many firms and businesses actually increased unemployment as many were unable to afford the increase in the costs and therefore had to retrench thousands of workers. They go further to remark that the retrenchments specifically affected unskilled labour and increased the already large body of unemployed and unskilled predominantly black in the economy. Illuminating this further is Seidman and Makgetla (2004:263) who argued that "unemployment rose according to moderate estimates of up to 30 percent while others put it at nearer to 50 percent." In addition, Bhorat and Cassim (2004) posited that whilst economic growth rates averaging between 2.8% per annum were achieved between 1995 and 2002, it is over this period that high rates of inequality did not appear to be reduced and official unemployment rose to over 30%. Thus, it might then be argued that post-apartheid macro-economic policies such as GEAR deepened class divisions by adding to the ranks of the unemployed, unskilled poor. This class became further disadvantaged by the lack of social welfare and adequate state service provision infrastructure.

By adopting GEAR, critics claim the South African government became more responsive to the whims of capital at the expense of providing the right macro-economic environment to dismantle the structural nature of poverty, unemployment, inequality and underdevelopment. The adoption of GEAR raises questions regarding the state's autonomy to act independently of sectional interests. One can argue that GEAR as an economic policy did not conform to Evans's (1995) theory of embedded autonomy that requires the state to interact with society in policy formulation and implementation while at the same time being autonomous to enable it to be insulated from whims of sectional interests. This has seen scholars like Edigheji (2004) arguing that the post-apartheid South African state has shifted its role from being a provider of social insurance to being more responsive to the demands of the private sector. This, he further argues has seen the introduction of user fees for basic services which expose the poor to the vagaries of unfriendly market forces. More focus has been directed at the management of capitalist economy at the expense of changing the structure of the economy so that fruits are broadened for all social groups as Hemson et al (2008:151) noted that "the

overarching achievements of post-apartheid transformation in South Africa rest on the state's ability to deliver basic functions and extend effective systems and social programmes in response to people's needs." Summing it all is Turok (2008:117) when he stated that "..., the legitimacy of the introduction of GEAR cannot be measured by the stabilisation of the economic fundamentals alone; it must also be judged by the degree to which it conformed with the ANC policies and vision on poverty, employment, and inequality." One can argue that GEAR confirmed that growth does not automatically reduce inequality. In contrast, GEAR as a macro-economic policy saw other classes such as labour not included in the economic growth which is something that is far removed from a dream of a successful developmental state.

The primary objective of increasing employment did not materialise despite macro-economic stability that was achieved through GEAR. This largely testifies the lack of state capacity to shape and direct the output of the economy. Because of lack of capacity, the state failed to undertake distributive interventions to ensure that fruits of economic growth are shared broadly. Relative capacity as discussed in chapter two is one of the crucial determinants of state capacity as Luiz (2002:606) rightly argues that "it is important that the state is able to formulate and implement policy relatively free from aggressive lobbying." In stark contrast, the formulation and implementation of GEAR indicated the influence of capital as an interest group. As a result, the government failed to deliver its promises through GEAR. Other classes like labour were not incorporated in the GEAR growth model. This clearly indicated the lack of embeddedness (a necessary institutional determinant of state capacity) of the South African state.

3.6. *In search of a sustainable economic growth trajectory: From macro-to micro economic policy- Accelerated Shared Growth Initiative for South Africa (ASGI-SA).*

By the time the ANC introduced the Accelerated Shared Growth Initiative for South Africa in 2006 which once again attempted to outline a vague growth initiative which further deepened class inequality, a chain reaction had been created due to structural origins of class based inequality during the late seventies (Bell, 2006). Launched as a follow up policy to GEAR, ASGISA was also underpinned by the belief in the trickle down effects of a macro-economic policy and creating a favourable environment for market led growth. ASGISA reflected government's concern about skills shortage as a major constraint on economic growth.

Identifying skills shortage as an impediment to economic growth, through the ASGISA programme, Mbeki (2006:6) explicitly pointed out that "countering these constraints requires a series of decisive interventions. These interventions do not amount to shift in economic policy so much as a set of initiatives to achieve our objectives more effectively." The adoption of ASGI-SA, this research paper argues, was the first instance where explicit targets for growth were set, as well as for unemployment and poverty. However, whilst through the adoption of GEAR, the South African government did introduce more effective ways of coordinating economic policies; it still maintained macro-economic policies which hampered growth.

3.7. *Black Economic Empowerment (BEE).*

By succumbing to the whims of the capital the post-apartheid South African state has failed to influence the direction of economic development. For instance, the ANC policy of GEAR created vague outlines of private sector driven growth in line with conservative neo-liberal economics. Combined to this were labour reforms which under difficult economic conditions actually increased unemployment exponentially and exacerbated the existing class based inequality by enlarging the black, unskilled working class. Black Economic Empowerment (BEE) ,which ranks among the most widely criticised policies implemented by the post-1994 government, in attempting to reduce inequality only succeeded in creating a small super rich black bourgeois class without reforming the overall class based inequality and poverty. This is well captured by Seekings and Nattrass (2006) who advanced the argument that "the policy of BEE entailed expediting the expansion of black entrepreneurial and business classes." Thus whilst BEE was hailed as a unique model of access to economic opportunities by previously disadvantaged individuals, an attempt to address the legacy of apartheid and to eradicate poverty, its objectives became understood differently by different stakeholders. Its implementation in the neo-liberal environment which generally favoured the elite, not the poor has seen controversies and debates in terms of its outcomes. BEE policies have been criticised for creating and concentrating wealth in the hands of only few black elite who own capital at the expense of poverty alleviation for most blacks in South Africa. In light of these charges against the 'unintended' consequences of BEE, scholars like Glaser (2001:234) have argued that "The ANC in power has become a self conscious vehicle for the creation and expansion of a black middle class."

Since its inception, the outcome of BEE has been unsatisfactory for many of the intended beneficiaries as well as for the government and its critics. Whilst the ANC views BEE as being among the tools to overcome the 'two-economy' divide in South Africa, Southall (2004) noted that BEE has failed to create a meaningful black middle class as only a narrow section of the black population benefited as the model is premised on black share ownership in established white capitalist companies, thus favouring those who have access to government or corporate connections and finance. Southall (2004) went further to argue that BEE maintains white economic power through fronting which involves the use of black people's names for a consideration without them having any real say in the enterprise. In this sense, BEE does not lead to true economic empowerment (broad-based), runs the risk of being manipulated politically. Its successes are too uneven and difficult to measure when it comes to codes of good practice and score card and leads to crony capitalism/parasitic capitalism whereby people acquire capital even without requisite skills. Southall argues that people tend to scramble for personal enrichment ahead of a drive for entrepreneurship and productive investment. He concludes that too broad a base of economic participation in business deals increases the risk of including people with inadequate skills (Southall, 2004). Non-merit appointments through employment equity did not enhance the state capacity to effectively implement the policies hence Luiz (2000: 608) remarks that "Building state capacity entails hiring the best qualified and most dedicated people, regardless of race."

Another major criticism of BEE policy is that it tried to be all things to all people, hence Southall (2004) points out "maximalist" definitions of the kind favoured by the ANC's leftist allies, risk making BEE potentially a catch-all and potentially an unachievable policy-for black economic activity. This raises the big question about post-apartheid South African state capacity as the unintended consequences of BEE testify. For example, Southall (2003) noted that the various indices produced by bodies attempting to quantify 'black empowerment' are measuring different things resulting in the absence of a firm agreement on what, for instance, constitutes "ownership". In this case what emerges is that the state is unable to enforce BEE regulations. This has even seen the COSATU raising the concern that "without an active and interventionist state role, BEE as it pertains to the lower-income stratum, particularly the rural poor, will invariably disproportionately benefit the established formal black business" (COSATU, 2003). In a nutshell, the state has been heavily criticised by intended beneficiaries for the shortcomings of BEE. Scholarly literature on developmental states has it that it is vital

for developmental elites to be bureaucratically insulated from interest groups in order to yield intended results of the policy in place but in South Africa this was not the case as BEE attest.

3.8 *Conclusion*.

This chapter has explored South Africa's post-apartheid policy formulation and implementation as a measure of state capacity. It established that the failure by the South African government to achieve what it had set out to do through a number of policies that were adopted in the post-apartheid era can be understood as a reflection of state incapacity. The chapter established that South Africa is not strong on such determinants/components of state capacity such as bureaucratic variables, embeddedness and competent and insulated bureaucracy. In other words the South African state was not institutionally configured in such a way that it is able to restructure the economy, undertake distributive interventions or ensure that fruits of economic growth trickle down. The South African state became hostage to vested interests and as such failed to play or exercise its regulatory capacity in directing the output of economic growth. What emerged was that contrary to providing the right macro-economic environment to change the structure of the economy, the macro-economic policies such as GEAR reproduced the apartheid economic structure. A review of macro and micro economic policies has indicated that vested interests influenced the policy process in South Africa. In hindsight, the embeddedness of state autonomy which augments state capacity to resist sectional interests has been disappointing in the post-apartheid era. This has led to the persistence of the structural nature of unemployment, poverty, inequality and underdevelopment, as Terreblanche (2009:112) noted "the ANC does... often concede that poverty, unemployment and inequality remain very serious socio-economic problems." This study argues that the persistence of these principal challenges is an indication that the post-1994 macro-economic policies have retained structures of apartheid economy which excluded the majority from the benefits. Faced by the challenge to address the persistence of the structural nature of poverty, unemployment and inequality, the ANC government considered a policy shift towards an interventionist role of the state in development. However in its quest to construct a South African developmental state, the government needs to come into grips with various institutional and policy pitfalls which are the focus of the chapter that follows.

Chapter 4

Towards a South African developmental state: An assessment of South Africa's institutions as a measure of state capacity.

4.1. *Introduction.*

This chapter looks at South Africa's policy shift to a developmental state as a supposed panacea for delivering socio-economic results that will counter the skewed economy. It is largely argued in academic and policy debates that this skewed economy benefits the few at the expense of meeting the needs of the many. Underpinned by the argument that policies do not function/operate in a vacuum but instead depend on institutions that either impede or enable their successful execution, this chapter explores South Africa's institutional attributes to assess whether they converge with a model of a successful developmental state.

This chapter undertakes an assessment of post-1994 South African state capacity. It does this by looking at successes and failures of selected institutions in South Africa. Simply put, the chapter examines if South Africa fits the criteria/core attributes of a developmental state that led to the success of East Asian economies that South Africa is drawing lessons from. This study takes into consideration that while South Africa is not directly mimicking the East Asian countries, the factors that led the East Asian countries to achieve their goals may serve as the launchpad for South Africa to draw lessons, as Edigheji (2005) has reiterated. Thus this section is underpinned by an endeavour to answer the key question of whether or not South Africa meets the criteria/ key attributes of a developmental state spelt out by scholars.

4.2**.** *South Africa's political leadership.*

As earlier noted in chapter two; the wealth of literature on developmental state has pointed to bureaucratic elite as one of the major components that defined the success of East Asian economies. In hindsight, Gumede (2009:9) argued that "a successful developmental state requires political will, long term-vision and determination on the part of the country's political elite to drive development...." Gumede then stresses the quality of leadership as an essential condition for a successful developmental state. This, Luiz argues is critical for the building of state capacity. It is from this premise that this section explores post-1994 South African leadership. At the centre of the leadership is the African National Congress (ANC). Butler (2007:35) has argued that the ANC is central to South African politics hence "the

health of the ANC is therefore a crucial indicator of the state of nation." The main point to emphasize is that the question of leadership is very crucial to state capacity debate.

4.3. *The Presidency as the policy coordination centre.*

While "the ANC's organizational and intellectual character has brought stability in the first decade of democracy..." (Butler, 2007: 40), this had to change during Mbeki's second term of office. This was a period of increased centralisation when economic planning was transferred to the presidency. This Butler (2007:44) captured well by noting that "power has drifted from society to state, from provincial to national level, from the legislative to the executive, and within the national executive from Cabinet to Presidency." In addition, Southall (2007) stated that Mbeki's modernising state saw the restructuring and centralisation of the governmental machinery under a powerful presidency. Levin (2007) explained that the Co-ordination and Implementation Unit (CIU) and the Policy Coordination and Advisory Services (PCAS) were located inside the presidency. Under Mbeki's modernising state, the democratic project experienced several reversals or 'democratic rollback' to use Diamond's (2008) term. On this Southall (2007:17) has observed that "there is an extensive critique of the ANC, which argues that it has used its political dominance to subordinate supposedly independent institutions to its authority." Fikeni (2009: 27) also highlights that "the ANC has penetrated the ranks of government bureaucracy and its key institutions, creating a situation where the distinction between the state and the party is blurred. This state of affairs has had a negative impact, as the ANC's internal problems have spilled over into these government institutions." What followed from this was that policy making became more of a political process characterised by the exercise of power and self-interest hence Gumede (2009:44) remarks that "the centralisation of ANC policy within the presidency, combined with centralisation of government policy within the presidency, has been named as one of the main reasons for the marginalisation of ordinary ANC members and citizens from policy- and decision-making within the ANC." This had serious negative implications for the South African state capacity to unroll the project of a developmental state, raising the question of the extent to which there was embedded autonomy in South Africa which is arguably one of the factors that determine the state's capacity to effectively formulate and implement policies. According to Evans (1995), embedded autonomy as an institutional element that enhances state capacity, binds the state to society, enabling it to transcend individual interests.

Contrary to improving coordination as it was supposed to, government departments lacked coordination between them. Moreover, increased centralisation effectively marginalised many other institutions which had been democratically established. This has seen Butler (2007:45) stating that "centralisation has been used to stifle debate, impose favoured candidates and control competition for office." This was a challenge to unity in within the ANC as Matshiqi (2005) casts the net wider to argue that as Mbeki centralised much power in the presidency through his policy units, which were only accountable to him, it resulted in wearing away of political capacity. What followed from this was systematisation of corruption. This has seen Matshiqi (2005:52) noting that "the ANC and the new state have become instruments of class formation in view of the growing black capitalist and middle classes. In other words, political participation and access to political power are no longer objectives in themselves but have become means towards economic ends." In addition Southall (2007:8) argued that "there are disturbing indications that corruption in government is becoming systemic... party and state positions are regarded as providing access to private wealth."

Southall explains that corruption has been allowed to gain ground because of the blurred distinction between the party and the state hence "ANC's preparedness to combine an appropriation of state resources with the subordination of state institutions to the party." Southall maintains that just as the National Party (NP) made use of parastatals to promote Afrikaner empowerment in the 1950s and 1960s, the ANC is committed to using public sector procurement and management positions to advance Black Economic Empowerment (BEE). Such kind of leadership is nevertheless far removed from the one required to execute the project of a developmental state hence this research work argues that the determined developmental elite that led to the success of East Asian countries is questionable in South Africa. For the project of building a developmental state to succeed, leadership must not be hostage to particular interests; instead it must have to capacity to articulate a clear vision to achieve its economic goals unlike what happened with the adoption of policies such as BEE. This study therefore argues that corruption and nepotism testifies the absence of committed leadership which is one of the crucial indexes of state capacity.

Furthermore, calling into question the quality of South Africa's leadership which scholarly literature on developmental state reiterates its significance are the succession struggles within the ANC. Southall (2007:15) has argued that:

significant elements of the ANC and tripartite alliance became alienated by the style and substance of the Mbeki presidency, which especially among the trade unions and the poor was seen as distant, dictatorial, unduly favourable to establishing large-scale capital and perhaps most damning , representative of an emergent wealthy, political and empowered elite. Zuma in short, although lacking serious leftist credentials, managed to position himself as the candidate of the dispossessed who would recapture the ANC for the people.

The fault lines within the ANC government are also captured by Butler (2010: 186) when he states that "the African National Congress (ANC) has recently undergone major internal upheavals with potentially significant ideological and political implications." This Southall explains as revealing that the South Africa state is more dysfunctional than developmental. This has a negative bearing on the political will and determination to implement developmental policy. Hence Butler (2010: 186) cautions that "in such circumstances, the idea of the developmental state might all too easily be used to avoid taking hard decisions over politically sensitive issues."

This study argues that institutional configuration enhances state capacity but what has been said above indicate the absence of institutions that are bureaucratically effective/competent to execute developmental goals in South Africa.

4.4. *Consensus between labour, government and business.*

Fault lines/ disagreement between tripartite alliance about the direction policy should take have indicated that there is very little consensus between the three especially during Mbeki era because of his leadership style. This is complemented by Butler (2007: 44) who stated that "conflict continues within the tripartite alliance about the fundamental orientation of the economy." In addition, Gumede (2009:47) highlights that "the biggest disagreement between the ANC and its alliance partners, COSATU and the SACP, is over who should be in charge of the alliance, and the agent that sets policies and agenda." Bearing testimony to this diversity is the adoption of macro-economic policies such as GEAR which discredited ANC as a beacon of hope and attracted criticism from its alliance partners. It is in this light that Turok (2008:117) argued that "...the introduction of GEAR created deep bitterness and distrust." Kagwanja (2009:xxii) reiterates Turok's observation by stating that " The battle lines became clearly marked when the market friendly Growth, Employment and

Redistribution (GEAR) framework was adopted in 1996 to replace the left-leaning Reconstruction and Development Programme (RDP). Critics in COSATU and the SACP of the ANC's neo-liberal turn were not persuaded that GEAR was worth its ink as a blueprint designed to transform South Africa into a competitive trading nation." Kagwanja explains that this was a manifestation of the ideological battles within the tripartite alliance. As a result policy making became an arena of contestation. Ideological struggles were also manifest in the adoption of RDP as Blumenfeld (1996:7) noted that the RDP was caught up in the evolving struggle between radicals and pragmatists within the ANC alliance. Blumenfeld (1996) puts forward within the ANC alliance argued that RDP was creating a culture of dependency whereas some viewed RDP as a facilitating condition for the ultimate socialist transformation of South Africa. In stark contrast, a developmental state can unite different ideological groupings.

4.5. *The public sector and service delivery.*

The public sector plays a very important role in steering a developmental state, as successful East Asian countries attest. Southall (2007) has argued that the creation of a powerful presidency in South Africa was accompanied by restructuring of the public service which was part of the transformation of state bureaucracy. He explains that the size and racial character of the public sector needed to be changed but "the principal issue at stake is whether the drive for representativeness is compatible with efficiency and effectiveness" (Southall, 2007:8). In other words, representivity within the public sector has been very costly for the South African state capacity. In addition Picard (2005) robustly criticised the government's focus of rendering the public service demographically representative as being inadequately accompanied by systematic attention to human resource development, capacity building and training. Echoing the same sentiments is Luiz (2002:608) when he argued that "whilst improving the representativeness of the bureaucracy is vital, it cannot be undertaken at the expense of capacity."

The consequent results of Southall, Picard and Luiz's scepticism on demographic and racial restructuring of public service and the compromise thereof to efficiency was manifest in public sector's dismal failure. Inefficiency, corruption, ineffective auditing, hierarchical, non-meritocratic recruitment and crucial appointments being based on political connections have been noticeable as negative features of South Africa's public service. Butler (2010: 192)

remarks that "political appointments or liberation movement 'deployments' undermine merit-based recruitment." Ramphele (2008:147) adds that "there are also gaps in professionalism and appropriate attitudes to public service." This explains South African bureaucracy's limitations from a Weberian bureaucracy that is needed for a successful developmental state. In converse, Levin (2007: 5) reveals that the "evolution of a developmental state is invariably dependent upon the strength, competency and coherence of those public servants who must convert the stated developmental goals into reality." Adding credence to this is Luiz (2002:608) when he stressed that "building state capacity entails hiring the best qualified and most dedicated people, regardless of race."

In stark contrast to East Asian tigers who managed to recruit and employ the best people for a job Von Holdt (2010:241) observes that while the South African bureaucracy has pockets of excellence, such as the South African Revenue Service and Treasury, it does not fit the Weberian description of bureaucracy described as rational, efficient and unaffected by individual logic. Von Holdt (2010) highlights that the post-apartheid bureaucracy is defined by five characteristics namely: careerism and black class formation mediated through affirmative action, ambivalence towards skill, deference towards authority, the breakdown of discipline and the rituals surrounding budgeting that bear little relationship to outcomes.

Similarly, Terreblanche (2009:117) remarks that "instead of displaying a culture of service, the public sector has become renowned for careerism, nepotism and even corruption, while many of its senior officials are guilty of doubtful moral behaviour." Terreblanche added that the consequent results of this have been inefficiency and ineffectiveness in the public sector which hampers the execution of developmental tasks in South Africa. As he puts it "..., the public sector in South Africa cannot live up to the developmental challenge." Butler (2010: 197) adds that "South Africa's public sector bureaucracy is arguably beginning to form itself into a self-serving class that is forging dangerously unregulated alliances with business and with political elites." This is something that is far removed from meritocratic recruitment that hamstrings South African state capacity to effectively deliver services.

This research study argues that in the absence of a competent public service which is well-coordinated, the South African state cannot be able to strategically intervene in the market and be insulated from the whims of political and social pressures. Literature on East Asian developmental state has it that competent public sector was one of the factors that enabled the

state to strategically intervene to correct market imperfections. Culture of professionalism is lacking in South Africa's public service something which is in stark contrast with competent economic bureaucracy which is one of the determinants of state capacity.

Putting weight to what Von Holdt and Butler observed is Gumede (2007) who cited a 2007 report by the Public Service Commission (PSC) that claimed that bureaucracy could not manage to function as part of the developmental state. According to Gumede, the Commission found that there were no goals for development the government deemed core and the different levels of government could adhere to. The Public Service Commission concluded that the government departments were run without a set of targets for delivery. There was therefore a performance crisis in the public sector. The Commission also concluded that the public sector itself was crippled by shortage of skilled staff hence partly explaining its lack of performance. According to the Presidency (2009:84), "the challenges of state capacity are less to do with shortage of financial and other resources than with skills and institutional arrangements to efficiently and effectively deploy these resources. Ramphele (2008:155) argues that "the underperformance of the public service reflects a lack of human intellectual capacity rather than a lack of fiscal resources."

Ramphele casted the net wider by adding that the shortage of skills in South Africa can be partly explained by affirmative action policies which have had detrimental effects to state capacity. As she puts it "affirmative action that sacrifices skills to achieve greater diversity has major implications for the state's capacity to deliver on the promises of freedom." Shortage of skills as a major factor influencing the ability to design and implement policy in South Africa is well emphasised by Butler (2005) who cited human resources shortages, including the exodus and urban drift of some 80 000 health workers between 1989 and 1997, as "the most important institutional constraint confronting South Africa policymakers" in the health sector. Hemson et al (2009:161) add that "industry-specific skills are in short supply, creating a shortfall in the capacity required to achieve developmental objectives."Skills deficit is therefore a significant factor that weakens the South African state capacity and it needs to be addressed in order to successfully unroll the project of a successful developmental state. Turok (2010: 22) summed it all when he stated that "there is abundant evidence that the public service and some public institutions are performing well below the desired levels."

4.6. *South Africa's industrial policy: A policy problem linked to capacity*.

The ability of the state to control instruments of industrial policy is also one of the major determinants of state capacity. Literature on the explanations for East Asian developmental state success pointed to industrial policy as one of the policies that was at the centre of all developmental success stories. Many East Asian countries focused on domestic investment with a focus on incentives and disincentives and also targeted specific sectors for investment and development. It is from this premise that this research work sees it imperative to assess South Africa's industrial policy as it proposes to build a South African developmental state. The South African Department of Trade and Industry (DTI) which is argued to be home of South Africa's industrial policy has put trade policy at the centre. Hirsch (2005) explains that trade policy in South Africa has been simply a backdrop for industrial policy. However, a careful analysis of South Africa's industrial policy indicates that it is underdeveloped as shall be shown below.

4.6.1. *Inadequate manufacturing strategy.*

As the dominant explanation for East Asian success hinged on a strong and external oriented manufacturing sector, the South African government has been influenced to focus on the manufacturing sector. As Hirsch (2005: 116) captures it "key area for policy intervention for growth and employment creation was in trade and industrial policy to restructure and strengthen the manufacturing sector." This has seen the international competiveness and tariff policy being used as important instruments of industrial policy leading the ANC to pursue an export led growth. Hirsch has argued that whilst in Japan and Korea, the state had substantial control over credit and interest rate and tailored both to support industrial development; South Africa has pursued export led growth in the context of unstable exchange rates. Hirsch (2005:119) explains that "but in South Africa, financial markets were too complex and internationally integrated to allow the government as much leverage in this sphere." Export-oriented growth has led employment generation to be disappointing as the government has left the manufacturing sector to struggle on its own and has relied on free hand of the market to regulate the manufacturing market. For example Turok (2008:124) noted that "from 1996 to 2001, manufacturing employment declined by 11,5% and a small enterprise failed to take off."

While acknowledging that manufacturing industry is less important in the current information age, Turok (2010:20) adamantly argued that "...manufacturing industry has been seriously eroded and this must be remedied urgently since it is the foundation of wealth creation having very significant multiplier capabilities." In this light, Turok has attacked the South African government for its failure or lack of focus on micro front or small business development to better coordinate industrial policies. Turok has reiterated that South Africa's industrial development did not support small business development. Turok firmly maintains that there is no comprehensive industrial development strategy in South Africa as the South African government has focused on increasing competiveness and strategies to expand exports as the entire industrial strategy at the expense of micro-economic reform. Joubert (2010:40), a researcher at trade union Solidarity's Research Institute (SRI) concurs with Turok's observation by arguing that "South Africa has a long history of difficult decisions on trade and industrial policy." Trevor Manuel suggested blanket approach and liberalisation of all markets at once. As Joubert puts it: "the former Minister of Trade and Industry Alec Erwin, drove industrial policy to focus on restructuring industry to increase competiveness, mainly for export reasons. This has inevitably led to job losses in several major sectors especially for low-wage and unskilled workers, with unskilled employment currently at 60%." (Turok, 2008: 190). Hirsch (2005) adds the fact that when compared with successful strategies in East Asia and South East-Asia, South Africa's industrial strategy successes seem modest and few and far between. Moreover despite high unemployment rate and poverty, ANC continued to pursue capital intensive industry.

What emerges from the assessment of South Africa's industrial policy is that following South Africa's reintegration into the global economy in the democratic era, the South African government on rendering the economy internationally competitive. The industrial policy led to a more competitive environment. The outward looking economy was [is] essential for growth as Mayer and Altman (2005) argue but the failure by the South African state to pay attention to micro-reform strategies or policies geared at supporting and nurturing selected industries led to the persistence of poverty, unemployment and underdevelopment. There was no industrial strategy for affected industries or policies geared at boosting the capacity of affected industries in the wake of the global context that favoured market forces. According to Turok (2008), South Africa has since 1994 failed to spell out a regulated industrial policy. It is only now that the Department of Trade and Industry announced the industrial policy

action plan (iPAP). As an economic policy, iPAP envisages "state spending to support fragile emerging industries" (Dawes, 2010: 3)

4.7. *Conclusion.*

This chapter dealt with selected areas relevant to understand the South African state capacity. This was done mainly by using literature that explained the success of East Asian developmental states as a point of reference. This study reiterates that whilst the success of a developmental state cannot be exclusively measured by the criteria that scholars spelt out in explaining the success of East Asian developmental state, South Africa does not meet the criteria spelt out by scholars on conditions and institutions necessary for a successful developmental state This, the study argues speaks directly to the South African state capacity as a necessary precondition for the project of building a developmental state, as Southall (2006) correctly argued that 'state capacity' is a critical aspect of South Africa becoming a developmental state. What emerged from an analysis of successes and failures of selected institutions and policies that South Africa has embarked on since post-1994 was that South Africa needs a lot of work to improve state capacity before a democratic developmental state is established. In a nutshell, this chapter grappled with dysfunctional aspects of the South African state capacity.

Chapter 5- Summary and conclusion

5.1. *Introduction*

As indicated in the first chapter, this study sought to gain a deeper understanding of the significance of state capacity in the proposal to build a South African developmental state. It embarked on an exploration of post-1994 macro-economic policies to assess their impact on the structure of the South African economy and how the idea of state capacity crystallised around the implementation of these macro-economic policies. Having done that the study went further to assess if South Africa has the necessary state capacity to roll out the project of a developmental state by using literature on successful East Asian developmental state as a point of reference.

The main argument of this study was that state capacity is one of the factors that are at the core of a successful developmental state. This research study argues that state capacity is the availability of institutional architecture or configuartion that is bureaucratically effective/competent enough to enable the state to roll out the project of the developmental state in its multifaceted dimensions. This argument was reached after analysing literature that explains the success of East Asian developmental state which South Africa principally draws inspiration and lessons from. This study also argued that an assessment of post-1994 institutions and delivery of key development policies in South Africa reflects deficiencies in South African state capacity. The study argues, through the use of developmental state theoretical benchmarks spelt out by scholars, that South Africa does not fit the criteria. South is going to need a lot of work before a developmental state is established. Joubert (2010:40) agrees that "before South Africa can be a developmental state, we need an efficient state." This however is not to say the state is the final determinant of the outcome of policies but the point to emphasize is the importance of state structures in formulation and implementation of policies in national interests.

5.2. *Research findings*

One of the key findings of the study was that as the South Africa government proposes to build a developmental state, one of the key issues it has to come to grips with is state capacity. Though the issue of state capacity is a notion that is highly contested especially regarding the question of *state capacity to do what*; the use of secondary literature on

developmental state proved that there are a set of key institutions that enable the state to successfully intervene and formulate developmental policies.

This study also established that whilst the ANC government has formulated a number of policies to change the structure of the South African economy and generate benefits for all social groups; these policies have failed to dismantle the principal challenges of poverty, unemployment, inequality and underdevelopment. This the ANC government has acknowledged time and again in evaluating the extent to which its socio-transformation project has changed the structure of the South African economy.

Both sources of information revealed that while the building of a developmental state has gained prominence in political discourse; South Africa is beset with a crisis of state capacity which needs to be adhered to in order for a build a successful developmental state. These findings validated the need to understand the significance of state capacity as a major strand of a developmental state.

5.3*Overall Assessment*

The use of secondary literature and primary sources achieved the role of giving more insight into the significance of state capacity in proposals to build a South African developmental state. To a large extent, the ANC's assessments, reviews and evaluations of its socio-economic policies since 1994 point to the centrality of the state in directing the output of the economy. In hindsight, this validated and solidified the authenticity of the argument of this study that there is need to come to grips with state capacity as a significant strand of a developmental state.

The study concluded that indeed state capacity is a significant strand of a developmental state. It is from this premise that this study established that South Africa is going through a crisis of state capacity which needs to be addressed in order to successfully unroll the project of building a developmental state.

5.4. *Significance of the Study*

This study is a contribution to existing debates on the challenges and potentials that South Africa grapples with in proposals to build a developmental state. Whilst it is true that the proposal to build a South African developmental state has sparked animated debate among

academics, civil society organisations and politicians among many others, this study stresses that state capacity is one principal factor that significantly translates to a successful developmental state. This contribution will elicit further debates on how the project of building a successful South African developmental state can be unrolled, hence providing other angles from which the hurdles in South African state capacity can be addressed.

5.5. *Conclusion*

Southall's (2006: xxiv) argument that "implementation of any policies is dependent upon state capacity" seems true if we consider the South African case. An insightful analysis of the deficits in the South African state capacity has indeed confirmed this view. The failure of the post-apartheid government's efforts to change the structure of the economy so that results are broadened to benefit everyone, this study argues, speaks to the crucial role of the state in influencing the direction and outcomes of policies. This, however, is not to ignore the significance of other factors in influencing implementation of policies. Whilst there are various debates on the question of whether South Africa can be a successful state, this study concludes that state capacity, though it is a notion that is highly contested, significantly plays a role in the success of a developmental state. From the premise that developmental states are constructed entities, South Africa has the potential to be a successful developmental state if attention is paid to positively addressing the institutional configuration of the state or deficits in the state capacity.

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