THE LOGIC OF BLACK ECONOMIC EMPOWERMENT

Roger Southall
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"Black Economic Empowerment" (BEE) in South Africa

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Roger Southall is Distinguished Research Fellow, Democracy and Governance Research Programme, Human Sciences Research Council of South Africa.
Abstract

The policies relating to Black Economic Empowerment (BEE) in South Africa constitute a logical unfolding of a strategy which has been largely dictated by the history of the ruling African National Congress (ANC), the nature of the democratic settlement of 1994, and the structure of the South African economy. From this perspective, the logic of BEE can be pursued through ten propositions which argue that the ANC has sought control of the state to ‘internally decolonise’ South Africa. This includes the use of state power to extend black control and ownership of the overwhelmingly white-dominated corporate structure and economy. The author argues: that the assertions that BEE policies have been inherently elitist are somewhat exaggerated; that BEE has probably been more ‘broadly-based’ that is generally allowed; and that the centrality of political leverage to the promotion of black capitalism points to cronyism and compradorism rather than ‘Weberian style’ entrepreneurialism. The author concluded that, while BEE or some BEE-style policies are necessary to overcome historical injustice and provide the basis for political stability, affirmative action in politics and the economy will only work to promote ‘a better life for all’ if it is systematically combined with concerted anti-poverty strategies.

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The Logic of Black Economic Empowerment

Black economic empowerment (BEE) has become one of the most controversial policies of South Africa’s African National Congress (ANC) government, criticisms ranging from the argument that BEE constitutes a drag on the economy, notably by frightening away investment, to the widespread complaint that BEE has unduly favoured a small but remarkably wealthy, ANC-connected ‘empowerment elite’. However, while such criticisms are far from groundless, I would argue that they tend to miss the overall point, which is - at the risk of being simplistic - that BEE policies constitute a logical unfolding of strategy which has been largely dictated by the ANC’s own history, the nature of the democratic settlement of 1994, and by the structure of the economy. This is not to argue that the adoption of BEE policies in their specific forms and particular outcomes has been ‘historically inevitable’, nor that the ANC government has not had a considerable degree of autonomy in decision-making. Nonetheless, it is to argue, first, that the ANC is inherently predispositioned to pursue some-BEE like policies; and second, that it has to do so in conditions which are not always of its own choosing. From this perspective, I propose that the logic and unfolding of BEE can be understood through the elaboration of ten propositions.

1. The ANC’s use of state power to assert greater black ownership and control of the commanding heights of the economy was politically necessary and inevitable given the overwhelming extent of white domination of the economy in 1994. The use of state power to assert greater black ownership and control was consistent with the decolonizing principles of the ANC’s theory of the National Democratic Revolution (NDR).

The economy of apartheid South Africa was dominated by whites and skewed to their interests. 350 years of white hegemony had systematically deprived Africans and Coloureds of the possibility of independent economic existence, severely (geographically and socially) circumscribed business opportunity among Indians, and transformed blacks as a whole into a supply of cheap black labour, this leavened only by a small middle class of professionals (notably teachers, nurses, clerks and junior state functionaries), many of whom served the needs of their own immediate communities within the African reserves/homelands or other ‘Group Areas’. To be sure, when the apartheid edifice began to crumble, two broad processes came into play. First, white capital responded to an increasing shortage of white skills by absorbing
black labour into semi-skilled and skilled occupations. Second, from around the mid-1970s, the regime responded to the combined effects of skills shortages, political protest, international sanctions, disinvestment and growing external pressure by re-doubling its efforts to construct supportive, pro-capitalist middle classes, notably through a cautious lifting of restrictions upon black trading and business. While such developments did mean that racial inequalities began to decline, the extent of difference remained profound: as late as 1996, the white minority (8.2 per cent of the population) enjoyed 51.9 per cent of personal incomes, while Africans (76.9 per cent) had to make do with just 35.7 per cent (SAIRR 1996/97: 7; Terreblanche 2002: 392-393).

Two further features of the political economy need emphasizing. The first is that settler colonialism in South Africa had provided for the greater development of capitalism than in territories where peasant commodity production predominated under colonial rule. Settler states, suggests Good (1976: 604), were self-propelling. Settlers arrived as ‘fully developed capitalist man’, and with their forcible acquisition of vast supplies of land and cheap labour, a potentially productive combination immediately came into being: ‘In South Africa, the particular equation included also great mineral resources, and their association with British capital and African labour under settler supervision … produced very rapid economic development by world standards.’ Even if the extent of settler capitalism’s dependence upon the colonial state detracts from the degree of entrepreneurialism exhibited by ‘settler capitalist man’, there is no gain-saying Good’s major point that the introduction of capitalism into South Africa led to the most advanced level of capitalist development (and class formation) on the continent.

The second dimension highlights the extent to which white ownership and control of productive resources were monopolized. On the one hand, whites controlled the state, which through the parastatals was directly contributing about 15 per cent of Gross Domestic Product by the early 1990s. As Fine and Rustomjee (1996) demonstrate, the parastatals’ development had been dictated by the state’s need to service the ‘minerals and energy complex’ (MEC) which constituted the core of the economy. On the other, the private sector exhibited what was officially described in 1976 as ‘an exceptionally high degree of concentration of economic power in the major divisions of the economy’ (RSA 1977, cited in Davies et al. 1984: 57). The degree of monopolization increased substantially thereafter as political instability and international disinvestment encouraged the growth of conglomerates which spanned mining, industry and other spheres. By 1981, over 70 per cent of the total assets of the top 138 companies in South Africa were controlled by state corporations and eight private sector conglomerates (Davies et al. 1984: 58). By 1985, the top six conglomerates controlled 71.3 per cent of the total assets of non-state corporations and controlled over 80 per cent of the com-

In these circumstances the ANC had no option in 1994 but to use its access to state power to promote greater black ownership and control of the economy. In this it was following a well-trodden path. ‘Seek ye first the political kingdom’, Ghana’s founding leader Kwame Nkrumah (1961: 162) had declared, explaining that ‘political power is the inescapable pre-requisite to economic and social power’. Ironically, given the ANC’s own ideological association with the South African Communist Party (SACP), this position was a reversal of the classic Marxist position that economic power determines political relationships. Fortunately for the ANC, by the time it took office, it had the advantage of being able to survey the wreck of post-colonial hopes left behind by earlier decolonisers, not least those of regimes where attempts to gain control over dependent economies through extensive nationalization of mines, industry, services, marketing and agriculture had, in most cases, run foul of skills shortages, corruption and the hostility of international investors. Yet the ANC also had its own referents. One was how the National Party (NP) government after 1948 had used its control of the state to systematically promote Afrikaner control and ownership of the economy through affirmative action in the parastatals, deployment of state contracts and patronage to Afrikaner firms, and outright political pressures upon ‘English’ capital (O’Meara: 1996). The other was its theory of the National Democratic Revolution (NDR).

The ANC was in many ways a classic nationalist party, yet the combination of South Africa’s advanced level of development with the extremity of white political oppression had thrust it into a long-established association with the SACP, whose alignment with the Soviet Union had established the framework of its theorization of the liberation struggle. This prescribed a ‘two stage’ theory of revolution in which the NDR was outlined as the precursor to socialism, a formula which was sufficiently ambiguous to allow the co-existence of both nationalist and socialist elements within one movement. However, given the collapse of the Soviet state socialist model in 1990, revisionist thinking was thereafter to assert that there was no ‘Chinese wall’ between capitalism and socialism (Cronin 1996). This assisted the nationalist elements which came to dominate the ANC during the political transition to quietly abandon the transition to socialism as an historical goal. Nonetheless, because of the ANC’s need to retain its identity as a ‘liberation movement’ and to remain a home for its radical and working class constituencies, the NDR continued to frame the official discourse whereby the ANC and its partners in the SACP and the Congress of South African Trade Unions (COSATU) continued to discuss South Africa’s long term strategy, its inherent ambiguities allowing for the papering over of recurrent differences between them.
The NDR theorized relations between whites and blacks in South Africa, a sovereign independent country, as those of ‘internal colonialism’. Hence the objectives of the NDR are those of ‘internal decolonisation’: to overcome the legacy of racial oppression of the black majority; to achieve democratization; and to transform power relations as a basis for societal equality. Whilst capitalist market forces will continue to play an important role, the skewed structure of the economy dictates that the state must assume a critical role of ensuring equitable economic growth. Inevitably, the success of the NDR will lead to the development of a black capitalist class and black middle strata. This is viewed as a welcome development, as black – notably African – people were denied education, wealth and upward mobility under apartheid, a key reason why the small black middle class under apartheid had thrown in their lot with black workers in the struggle for freedom. Yet in order to prevent black capitalists and middle class elements becoming too fond of relative privilege, it is necessary that they should adhere to certain strict codes of behaviour; that is, that they should become a ‘patriotic bourgeoisie’. Meanwhile, the ANC is charged with mobilizing all classes that stand to gain from social change while also winning over those who have previously benefited from inequality. In short, the theory of the NDR (i) legitimates the ‘historic’ role of the ANC in leading South Africa; (ii) validates the needs for an interventionist state to radically transform society (iii) justifies the existence, expansion, wealth and function of a black bourgeoisie and middle class so long as they play by the rules laid down by the party; and (iv) endorses the need for cooperation with white capitalists whose objective interests may eventually lead to their incorporation into the ‘patriotic bourgeoisie’ (Southall 2004).

2. The essence of the negotiated settlement was that the ANC would secure political power while simultaneously accepting the principles of market economy. If this, in shorthand, translated into ‘black’ control of politics and ‘white’ control of the economy, large scale capital was nonetheless aware of the need to reduce its political exposure by developing alliances and class interest with aspirant black capitalists.

There is widespread agreement about a number of key features which structured the transition. These include the factors that, first, the NP essentially lost the support of ‘big business’ from the mid-1980s on; second, that ‘big business’ increasingly looked to find an accommodation with the ANC (even prior to the formal transition process) through ‘elite’ meetings in Senegal, Lusaka, Geneva and elsewhere, whilst for its part, the ANC sought to present itself as a partner with which large scale capital could play; third, that the collapse of Soviet socialism in 1990 fundamentally changed the international landscape in favour of capitalist economics; and fourth, that this enabled those leaders within the ANC (notably Oliver Tambo and Thabo
Mbeki) whose experiences in Eastern Europe had left them less than enamoured with state socialism to shift the ANC’s economics in a more pro-market friendly direction (Gumede 2005). It was factors such as these, it is widely argued, which underlay the ANC’s leadership’s shift away from the ‘people-driven’ Reconstruction and Development Programme (RDP) (the ANC’s 1994 election manifesto) to the Growth, Employment and Redistribution policy (GEAR) in 1996.

There is further agreement that the adoption of the new market-friendly macro-economics came at the immediate expense of the poor and to the benefit of the established bourgeoisie and of the incoming senior ANC politicians. Terreblanche (2002: 98) terms this perspective the ‘50 per cent’ solution – in that it excluded the poorest half of the population. He argues that it was ‘really aimed at resolving the corporate sector’s long-standing accumulation crisis’, and in agreeing to it, the ANC became ‘trapped in the formidable web of the domestic corporate sector and the international financial establishment’ (Terreblanche 2002: 98).

The complement to ‘big business’ securing the turn in ANC economic policy was the need to embrace the incoming ANC elite into the direct sphere of capital. The approach was broadly two-fold: increasing the recruitment of blacks into corporate employment as managers and board members; and facilitating the rapid expansion of ANC-related black-owned business.

Randall (1996) details how large companies had been responding to external demands that they promote principles of racial equality in their employment practices (such as those made by the Sullivan Code for US companies operating South Africa) since the early 1980s. ‘Black advancement’ and ‘equal opportunity’ programmes had increasingly enabled blacks to enter into white corporate structures in both multinational and large domestic companies, and such initiatives were to be pursued with much greater vigour after 1994. However, as Randall (1996: 668) also notes, the tendency, given their lack of technical and financial training, was for blacks to be appointed into mainly ‘soft’ positions in personnel, marketing and public relations. Yet as they gained experience, so these ‘corporate sophisticates’ acquired important contact networks, and the more prominent amongst them joined an increasing throng of black ‘consultants of change’ and ‘conference circuit champions’ in being invited to join corporate boards. From there, it was a but short step to their being appointed to head subsidiaries, form joint ventures with white business, or financed to launch their own firms.

A key aspect of the launch of black firms or joint ventures in the early 1990s was the political influence which it was assumed nascent black capitalists would hold with the new government. Some of these were former political prisoners, and hence close to or part of the ANC
elite: as one explained to Randall (1996: 671), whilst the white partners brought money capital to joint ventures, former political prisoners brought political capital. In some instances, the political connection was explicit. For instance, ANC notables established Thebe Investments in 1992 as an investment arm of the ANC, promising direct access to the new government to those with whom it went into business (Randall 1996: 672). However, reliance upon political connections was too unsure a way of grounding a black capitalist class which could serve as an effective ally to large-scale capital over the long term, and the safer path was for large-scale capital to provide for a more solid partnership through the transfer of skills and provision of necessary funding. Randall (1996: 673-675) cites the example of KKS Food Services, a company owned 66.6 per cent by Kagiso Trust Investments, in which KTI secured the establishment of an affirmative action programme whereby training of blacks would be carefully linked to the natural attrition of white managers. Similarly, in linking up with Moribo, a subsidiary of Thebe Investments, Ster-Kinekor formed a joint venture, Ster-Moribo, and committed itself to recruiting and training black managers and handing over functions which it initially performed (finance, distribution, procurement, marketing) within the next five years. Such strategies, opined Randall (1996: 675), flowed from the political insecurity of white capital, and the recognition by white capitalists of the need to make fundamental adaptations if they were to operate successfully under black majority rule.

3. Black Economic Empowerment was initially most easily pursued through South Africa’s parastatal sector.

The creation of an instant black capitalist class after 1994 was always going to be difficult because, with only a few exceptions, aspirant black capitalists lacked capital. However, in taking charge of government, the ANC also inherited management of South Africa’s parastatal sector, which it immediately viewed as a vehicle for extending black control of the economy, expanding the black middle class, and promoting BEE through privatization and procurement.

In 1994, state-owned enterprises (SOEs) probably exceeded 300 in number and employed around 300 000 people. They included financial bodies like the Industrial Development Corporation (IDC), the Public Investment Commission (fund manager for public service pension schemes) and the Development Bank of Southern Africa (DBSA) (funder of industrial decentralization projects in the homelands), a number of significant industrial undertakings, and a variety of utility companies. Overall, however, the public sector was dominated by the ‘big four’ SOEs (Transnet, Denel, Telkom and Eskom). In 1999, they comprised approximately 91
per cent of estimated total assets of the top 30 SOEs (R130.8 billion), provided 86 per cent of
their turnover (R76.9 billion) and 94 per cent of their net income (R7.9 billion), and employed
77 per cent of their employees (Financial Mail 26 June 1999).

The parastatals were widely regarded as cumbersome, overstaffed and inefficient. It was not
surprising, therefore, that the ANC initially espoused privatization of SOEs as a key plank of
GEAR. However, it was not long before the fervour of the government’s conversion to
privatization waned in favour of a more pragmatic approach which today views retention of
state control of key industries whilst disposing of parastatals ‘non-core’ assets as central to its
economic strategy. This came about for three reasons: first, the early privatization exercise faltered in the face of financial and logistical obstacles; second, privatization has encountered
strong resistance from COSATU; and third, given the failure of GEAR to promote envisaged
inflows of foreign capital, job creation and growth, the ANC has moved away from brazenly
pro-market policies towards the pursuit of a ‘developmental state’ (Gumede 2005; Southall
2006).

The first of these reasons is the most relevant in the present context, for the ANC was to ini-
tially view privatization as a strategy for transferring state assets into black hands. The diffic-
ulties, however, were clear. Not the least of these was that many SOEs were heavily indebted,
rendering them unattractive for sale unless their debts were to be written off. Meanwhile,
economic prudence dictated not only that state corporations should be transferred to entities
with the capacity to run them efficiently, but also to those who could afford to stump up the
large amounts of capital needed to buy them. Notwithstanding the creation of the National
Empowerment Fund, whose objective was to be the buying of shares in SOEs being privat-
ized at a discount for resale to the ‘historically disadvantaged’, the uncomfortable reality was
that unrestricted privatizations would mean largely selling SOEs to established or foreign
capital. It was against this background that the ANC’s experiences in privatization were there-
fore distinctly mixed. Particularly salutary was the outcome of the partial privatization of
Telkom, also in 1997. Ten per cent of its shares were put up for sale to black investors, yet the
government proved unable to find sufficient appropriate buyers. By the time the deal had
been completed, what had originally been a wholly owned South African enterprise was now
30 per cent owned by Malaysian and American interests. Subsequently, too, a collapse in the
valuation of Telkom from R19bn in 1997 to R15.6bn in 2003 was to severely embarrass
Ucingo Investments, an empowerment group which had managed to buy into the company,
and which was subsequently forced to radically restructure its debt to avoid foreclosure.
Even while shifting its position regarding privatization, the ANC government recognized parastatals as ‘sites of transformation’. This had two closely related aspects. First, democratization required that the SOEs had to be turned around to pursue the ANC’s agenda. Second, while adhering to constraints imposed by the ‘sunset clauses’ of the transitional 1994 constitution (which guaranteed white public servants their jobs for a minimum of five years, or equivalent financial recompense), the ANC put in place top officials and managers it felt it could trust, and overhauled public sector staffing policies in terms of strategies of ‘affirmative action’ and ‘employment equity’. By 2002, for instance, the proportion of blacks in senior management at Transnet had risen to 51 per cent and in middle management to 41 per cent, with targets for increasing these proportions being established for subsequent years, while by 2005, 58 per cent of Eskom’s were black (The Star, 13 June 2002; 16 April 2005). Meanwhile, the parastatals’ spending power was increasingly deployed to boost black empowerment companies, so that, for instance, Eskom, Denel and Transnet deployed a combined BEE procurement budget of R9 billion in 2002-02 (Enterprise, 31 July 2002). Just as the NP had used the state after 1948 to promote the welfare and upward mobility of Afrikaners, so now the ANC used it to favour its own constituency (Southall 2007).

4. The ANC was particularly keen to promote black ownership and control of the ‘commanding heights’ of the economy: mining, energy, and finance.

As noted above, historically the South African economy had been constructed around a ‘minerals and energy complex’ serviced by such parastatals as Transnet and Eskom; and by the late 1980s, this MEC economy was dominated by just six conglomerates (SA Mutual, Sanlam, Anglo-American, Liberty/ Standard, Rembrandt/ Volksas and Anglovaal), each of which had varying interests in mining, manufacturing and the financial sector. Although the early 1990s were to see these conglomerates beginning to ‘unbundle’, it was not surprising that government strategies placed particular emphasis upon ‘empowerment’ within the MEC and that ANC-backed empowerment figures who emerged as the major ‘BEE moguls’ very often had strong connections with individuals and institutions in mining, energy and finance.

Three developments can usefully be highlighted. First, little time was lost in appointing key black individuals, some with strong political connections, to head the major parastatals and public financial institutions. For instance, Saki Macozoma, an influential member of the ANC’s National Executive Committee left parliament to become Deputy Managing Director of Transnet in early 1996, and was promoted to Managing Director later in the year. He was succeeded by his own deputy, Mafika Mkwanazi, when he departed Transnet for the private
Sizwe Nxasana, who had previously launched his own accounting firm, became Chief Executive Officer (CEO) of Telkom in 1998 before resigning to become CEO of FirstRand Bank in late 2005. Meanwhile, a first black Chief Executive was only appointed to Eskom as late as 2000, in contrast to Denel, which by 2004 had already had unhappy experiences with three black CEOs (Seshi Chonco for 1997, Max Sisulu 2003-04, and Victor Moche 2004-05). Although the government has now highlighted its concern to prioritise efficiency above mechanical empowerment with regard to the restructuring of the parastatals, notably by the appointment of Maria Ramos to head Transnet in 2004 and Ian Liebenberg to head Denel in mid-2005, the senior posts in the major SOEs are increasingly held by blacks. Most of these, like Mvuleni Qhena who was appointed CEO of the IDC in 2005 and Mandla Gantsho, CEO of the DBSA since 2000, have risen through the ranks of the public sector, although a minority, like Qhena's predecessor at IDC, Khaya Ngqula, (who now heads SAA) were plucked from the private sector (Financial Mail Little Black Book 2005-06; Southall 2007).

Second, after delivery by the Black Economic Empowerment Commission Report (established by black business bodies with government approval in May 1998 to create a set of guidelines which would provide targets and demarcate obligations of the private and public sectors over the next ten years) in April 2001, the mining & energy and financial sectors were the first to be targeted by the government’s subsequently more assertive empowerment strategy. This was centred around the negotiation of industry-specific, target-setting, empowerment ‘charters’.

The first of these, for the petroleum and liquid fuels industries, actually preempted the formal handing over of the Commission’s report. It was signed in November 2000 by all the major oil companies and established a target of 25 per cent black ownership of the sector by 2014 (the bulk of this transfer to be funded by the IDC). The second, for the mining industry, was proposed by the Department of Mines and Energy in July 2002. It set a target of 51 per cent ownership of the sector within ten years, and asked companies wishing to secure a new mining license to have an empowerment partner with at least a 30 per cent equity stake in existing operations. The mining charter was published in the wake of a bruising battle with the industry over a mineral and resources development bill whose basic intent was to vest sovereignty over natural resources in the hands of the state. The charter was subsequently subject to intense negotiations which saw its final version emerge with substantially reduced empowerment targets (15 per cent black ownership in five years and 26 per cent in ten years, albeit with the industry agreeing to raise R100 billion to fund the transfer). Nonetheless, alarmed by the prospect of state intervention, the financial services sector published its own pre-emptive draft charter in July 2003, setting black ownership targets of ten per cent by 2008 and 20 per cent by 2014 in contrast to the state’s favouring of 25 per cent by 2014.
The development of charters within mining, energy and finance was followed by a rush by many other sectors to adopt their own charters, while government was drawing up its own proposed ‘codes’. Both charters and codes related to targets for black employment, training, procurement, as well as for ownership. There were (and still are) considerable difficulties in ensuring that charters and codes could be reconciled. Also, on the one hand, the government’s codes are justified by the argument that official action has been necessary to propel the private sector into adapting to the required rapid rate of change. On the other hand, the evidence from the minerals, energy and financial sectors is that large-scale capital, at least, is scurrying to ‘transform’, establish its credentials with government, and reduce its exposure by forging strong connections with the emergent empowerment elite. In all three sectors, major deals have been struck between established players and empowerment companies. By 2002, BEE companies’ ownership of the petroleum industry had increased to 14 per cent from 5.5 per cent two years earlier. The major mining firms have all struck alliances with emergent black companies: Standard Bank has announced the sale of 10 per cent of its shares to black partners (40 per cent of these going to a consortium led by tycoons Saki Macozoma and Cyril Ramaphosa); and the purchase of 50.1 per cent of the shares of ABSA by Britain’s Barclays Bank directly involves the Batho Bonke consortium led by Tokyo Sexwale and, indirectly, the Ubunthu-Batho consortium, led by Patrice Motsepe (Iheduru 2004; Southall 2004 and 2006).

The third aspect of government strategy, which inter-locked with personal ambition, was the ‘deployment’ of party stalwarts into these key sectors of industry with the objective of establishing black presence at the heart of the economy by forging alliances with the major conglomerates and financial institutions. This can be illustrated by reference to the four largest black moguls at the present time:

- **Cyril Ramaphosa**, former ANC General-Secretary, is executive chairman of the Shanduka Group (previously Millenium Consolidated Investments), which is largely funded by Old Mutual. Although he recently lost control of (what was left of) Johnnic, he has strong connections with First National Bank and Investec as well as Anglo-American / De Beers, and serves on the boards of SABMiller, Macsteel, Alexander Forbes (pensions) and Standard Bank.

- **Tokyo Sexwale**, former Premier of Gauteng and Robben Islander, is chairman of Mvelaphanda Holdings (mining), which he established in 1999 and which is largely funded by ABSA. He is also chairman of Northern Platinum, the Trans Hex Group, and Mvela Resources, and a director of ABSA, Goldfields, Broll and Wingate Capital SA. He is said to have the backing of Afrikaner capital through the Ruperts family, had additional
connections with Roger and Brett Kebble, and has further support from Alexander Forbes.

- Saki Macozoma, who remains an influential member of the ANC’s NEC and is particularly close to Thabo Mbeki, is chairman of the asset management group Stanlib and Andisa Capital, but his major vehicle is Safika, which is largely funded by Standard Bank. He also sits at the centre of a peculiarly powerful network of political and public sector personal connections, as well as being close to Mzi Khumalo, the former ANC activist from KwaZulu-Natal, who has built one of the largest financial asset bases owned by black businessperson with links to Rand Merchant Bank.

- Patrice Motsepe, one of whose sisters is married to Cyril Ramaphosa and another to Transport Minister Jeff Radebe, is said to be South Africa’s first black rand ‘billionaire’. His major vehicle is African Rainbow Minerals (ARM), the black controlled mining house created in 2004 when Motsepe, in collaboration with Harmony, took over the former Avmin. He has close links to Sanlam but is also funded by Nedcor (Noseweek 66, April 2005:18-19; Financial Mail Little Black Book 2005-06).

The prominence of these four moguls has been central to much criticism that BEE has primarily benefited a tiny black elite. There can be no doubt that the ‘fab four’, as they are sometimes dubbed, were peculiarly favoured by South Africa’s largest companies offering to sell or grant them equity stakes at advantageous terms, often financed by the sellers themselves, in return for connections to government and the black marketplace. However, although they often have to contend with the criticism that they owe their positions and wealth to large scale capital, the logic of their position is the necessity of blacks climbing quickly to the top of South Africa’s monopolized corporate structure if the aims of BEE are to be realized:

First you become a financial investor to accumulate capital, because capital does not fall from the sky. Once you are accumulating capital, you can begin to acquire skills and skilled people who you can deploy in various businesses. The third stage is acquiring control of companies and beginning to be an operator, running a

1 Safika emerged from what was the largest BEE deal yet in 2004 owning just 1.79 per cent of the Standard and 2.2 per cent of Standard’s insurance subsidiary, the Liberty Group; Safika also owns 25 per cent of Standard’s asset management company, Stanlib.
proposed business. Part of all that would mean having capital to start your own businesses. (Cyril Ramaphosa, cited by Time Magazine Bonus Section, June 2005).

There is no way I would support a free-enterprise system that tolerates poverty. But with five or six of us (black moguls) spread throughout the economy, that can make a difference in a fundamental way. (Saki Macozoma, cited by Time Magazine Bonus Section, 2005).

5. Given the underdeveloped state of black business under apartheid, aspirant black businesspeople were ‘capitalists without capital’. They therefore required financial assistance from either the state or the private sector (notably banks) to leverage ownership and control of corporations.

As argued previously, the problem for the overwhelming majority of aspirant black businesspersons in the early 1990s was that they were ‘capitalists without capital’. Segregation and apartheid had deliberately inhibited black capitalism. While this did not fully prevent the development of an Indian merchant class in Natal, it had crippling effects on African capitalism. To be sure, under the ‘separate development’ strategy promoted by the NP after 1948, African capitalism was encouraged in the homelands through assistance proffered to aspirant African entrepreneurs by development corporations and competitive restrictions imposed on white economic activity. Furthermore, after the Soweto uprising, the government cautiously enacted measures to promote African business in urban areas as an intended buffer between white hegemony and the black masses. This inevitably meant that the African capitalism which did develop had a somewhat ambiguous relationship with the state, contesting its economic boundaries while remaining entangled in its strategies for ensuring white domination. Overall, by the early 1990s black capitalism was too under-developed, under-financed and ill-equipped politically to develop independently (Southall 2005: 459-460).

Two broad conclusions follow. First, if aspirant capitalists were to prosper then they needed to acquire rapid access to capital. Consequently, whilst many of the deals struck to promote empowerment were often immensely convoluted, they revolved around the basic simplicity that, to get significant capital into black hands, it was necessary either that they be lent it (normally at preferential rates) or given it (Katz 2006). Second, if blacks were to position themselves as likely recipients of loan or gift capital, then they had to establish somehow establish a track record within the corporate or public sectors, or be able to position themselves as possessing valuable political connections along with some seeming capacity for business. All this was to mean that black empowerment financing was to be overwhelmingly
provided by large-scale capital, notably the banks and finance houses, on the one hand, and by state finance institutions on the other (both routes increasingly supplemented indirectly by government procurement policies favouring the award of contracts to recognized empowerment companies or joint ventures).

Even today, some twelve years after the political transition, black companies control only approximately 4 per cent of the JSE’s total capitalization. Nonetheless, according to the Standard Bank (2005), an estimated R150 billion worth of BEE transactions had been concluded by-mid 2005, while in terms of the Financial Services Charter alone, some R125 billion of designated investments will be made available for empowerment by 2014. Subsequently, BusinessMap (2005, 2006) has reported that conservative valuations of some 250 BEE deals announced in 2004 amounted to R62 billion in 2004 and some 350 deals amounting to R55 billion in 2005. These are not amounts to be sneezed at, and whilst a significant proportion of this funding is provided by public investment institutions, the major proportion is drawn from the private sector. In such circumstances, it is not surprising that the likes of the ‘fab four’ are so closely associated with established financial sector institutions and conglomerates.

6. There have been three phases of black empowerment with regard to the private sector. The first phase was to see initial advance of black ownership halted by the ‘Asian crisis’ of 1997-98. The second phase, inaugurated by the Black Economic Empowerment Commission reporting early 2001, was to see the state adopting a more assertive policy towards BEE. The third and current phase is seeking to respond to criticisms that BEE has favoured only a small elite by requiring ‘Broad based black empowerment’ (BBEE).

The outlines of three phases of BEE are becoming increasingly distinct. The first phase was kick-started in 1993 by the IDC’s facilitation of the R137 million acquisition by black investors in New Africa Investments Ltd (NAIL), led by Dr. Nthato Motlana, of a ten per cent stake in the Cape Town based insurance group, Metropolitan Life, from the Sanlam Insurance group. The IDC warehoused the Metropolitan shares until Motlana’s group had raised the money to pay for them. Then, in 1995, NAIL became the first black company to be listed on the JSE. According to Iheduru (2004: 13), the IDC financed some 802 empowerment deals between

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2 However, only R50 billion are earmarked for transaction financing, the rest for transformational infrastructure (R25 billion), low cost housing (R42 billion), agriculture (R1.5 billion) and black small and medium business development (R5 billion)
1990 and 2002, providing some R7.7 billion worth of loan capital for various other black ventures, including the hugely successful Mobile Telecommunications Network (MTN) cell phone company, the bulk of its funding going into the manufacturing sector, followed by communications, mining, and retail and wholesale sectors. Along with lesser funding provided by other state financial institutions (notably the R1.3 billion for small and medium sized businesses by Khula between 1996 and 2002), state funding for BEE during the first decade of democracy was not insubstantial (Iheduru 2004: 14). Nonetheless, it was significantly less than that provided by banks and private financial institutions, which during the early 1990s were promoting alliances with aspirant black capital through innovative lending mechanisms. In the glow of the 1994 political settlement, the mood was broadly optimistic – yet the ‘feel good’ sensation was soon to crash upon the rocks of the sharp downturn in the value of the stock exchange in the wake of the Asian crisis during 1997/98.

The initial burst of empowerment deals saw black business reportedly capturing up to ten per cent of shares on the JSE between 1994 and 1997 (Jacobs 2002). Yet by the end of the decade the black stake in the JSE had collapsed to between 1 per cent (Jacobs 2002) and 3.8 per cent (Singh 2001). The reasons are clear. Apart from a substantial number of early deals being politically driven during a period when the conglomerates were beginning to ‘unbundle’, most black inroads were made into sectors of industry which were highly vulnerable to fluctuations in the global market. Operating on borrowed money, many came unstuck when the JSE crashed when struck by the Asian crisis in 1997, and thereafter, between 1998 and 2003, the stock market performed poorly. The number of BEE deals concluded in the late 1990s slumped following the collapse of the stock market (only 45 empowerment deals in 1999 worth R3.4 billion compared to 110 deals in 1998 worth R21 billion)(Jacobs 2002). Yet the fundamental point was that black business was involved primarily in financial investment rather than entrepreneurship. Black investor groups typically took up less than 20 per cent of equity in companies offered to them, meaning that they did not acquire executive control. In effect, they became investment trusts which were not operationally involved in the underlying investment; and as the principal risk lay with the lending financial institutions, BEE companies were not really motivated to add value to their investments because they had little to lose (Southall 2004: 319).

The second phase of BEE was inaugurated by the report of Black Economic Empowerment Commission in early 2001. This bemoaned the limited progress of BEE hitherto and proposed that government adopt a wide-ranging, state-driven programme to drive more concerted progress. The government responded swiftly, with Mbeki announcing the drawing up of a ‘Transformation Charter’ that would set BEE benchmarks, timeframes and procedures,
and eliminate uncertainty amongst investors (Southall 2004: 323). This was to be followed up with a flurry of legislation,\(^3\) proposed laws,\(^4\) and the announcement that the government would draw up a comprehensive empowerment charter which could serve as a model for charters in different sectors of industry.

This set of initiatives forced the pace of change, as companies increasingly scrambled to set in place black ownership, recruitment and other targets. However, the progress of BEE was hampered by the relatively slow pace of stock market recovery: BusinessMap (2004: 55-56), which considers 35 per cent ownership of equity as indicating control, recorded that by the end of 2003, the number of black-controlled companies on the JSE stood at 21, far from its peak in August 1991 of 38, although in the same period market capitalization of black-controlled firms had risen from R53 billion to R58 billion. Yet the factor which attracted most public attention was that the principal BEE deals appeared inexorably to favour a small empowerment elite. Such criticisms focused heavily upon the apparent enrichment of the ‘fab four’. Most certainly, it is true that BEE heavyweight companies continued to dominate, with DTI reporting that 72 per cent of the total BEE deal value in 2003 involved at least one of six BEE heavyweights (Southall 2006: 192).

Such debate reached fever pitch with announcement of the Standard Bank and Barclays / ABSA deals in late 2004, for although the banks themselves touted them as implementing (via devices such as employee share ownership) ‘broad-based empowerment’, they were yet again seen as empowering ‘BEE-llionaires’. It was not surprising that individuals like Ramaphosa responded to criticism by articulating the need for a ‘compassionate’ capitalism, while the fashionable (and fuzzy) notion of ‘stakeholder capitalism’ also attracted considerable attention. Consequently, even if the discussion failed to inadequately grapple with how to propel blacks to the top of the corporate heap without hugely enriching them, it did give a concerted shove to the related issues of how to widen black participation in capitalism whilst simultaneously rendering that capitalism more responsive to the needs of the entire population.

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\(^3\) E.g., the Mineral and Petroleum Resources Act of 2002 which vested all future mineral rights in the state and laid down various BEE targets which eventuated in the Mining Charter.

\(^4\) E.g., a bill drawn up by the Department of Trade and Industry (DTI) which broadened the definition of black empowerment to include the notion of a ‘black-empowered company’ as one with just 25.1 per cent black ownership in order to encourage white companies to relinquish part of their equity without fear of losing control.
The third stage of BEE was heralded by the passage of the Broad Based Black Empowerment Act of 2003. This phase sought to consolidate and widen BEE through the issue of ten codes of good practice (to which sectoral charters would have to conform). A first phase tabled four of the codes which covered the conceptual framework of BEE, measurement of ownership, measurement of management and control, and interpretations of the individual statements. The second phase was introduced in December 2005 and covered employment equity, skills development, preferential procurement, enterprise development, residual matters, and measurement of qualifying small enterprises. Together, the codes of good practice provide the basis for a ‘generic scorecard’ against which firms’ empowerment credentials will be measured (e.g. 20 points out of 100 could be awarded for ownership, 10 for management control, 10 for employment equity, etc.) when they compete for government contracts. Meanwhile, BEE charters will be required (more simply) either to prove that their construction has been sufficiently consultative and embody the broad objectives of the BBBEE Act (becoming legally binding on organs of state and public entities), or (more stringently) prove to an independent third party that they embody all the requirements of the BBBEE Act and the generic scorecard (SAIRR 2004/5: 236-237).

While the upturn in the stockmarket since 2004 has seen something of a recovery in BEE (BusinessMap 2006), many within the corporate sector question whether or not the new emphasis upon broad-based empowerment, however well intended, will lead to South African capitalism becoming increasingly entrapped in a web of red tape.

7. The widespread critique of BEE as having favoured only an elite is exaggerated, as black ownership and control is extending across different levels and sectors of the economy.

The argument above proposes a logic which favours the development of a corps of ‘black moguls’ and concentrations of black economic power in large black corporations which can join, if not challenge, major large-scale white and multinational capital at the apex of the South African economy. This logic is endorsed by those critics who propose that the problem of BEE is not that it has created a handful of black millionaires, but that it has not created

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5 In 2005, there were some 350 recorded deals compared to some 250 the year before, even though the overall value was down to R55 bn from R62 bn.
Clearly, while the indications are that South Africa’s ‘power elite’ is in the throes of becoming deracialised, a particular problem for the BEE-billionaires is that they are extraordinarily visible, and whilst widely admired, their success is simultaneously envied. Nonetheless, and despite the strong media concentration upon the ‘empowerment elite’, I would argue that BEE is probably somewhat more ‘broad based’ than is generally allowed for.

There are three reasons for this, all methodological. The first is that research undertaken upon BEE privileges deals conducted upon the JSE. This is largely because these deals are generally the most public, the most noticed by asset managers, and the most generally ‘measurable’ by organizations like BusinessMap and Empowerdex, which track deals and construct data bases. Their work is invaluable, yet they freely admit that it is not comprehensive, and that more BEE deals are completed than they are able to record, not least because not all of them concern companies registered on the stock exchange. Because a large proportion of the value of recorded deals concerns just a few major black companies, there is significant value left over for other companies. For instance, Deputy Minister of Finance Mandisi Mpahlwa has stated that 40 per cent of the transaction value of BEE deals completed in 2004 involved broad-based entities and at least 6.4 per cent involved employees. Hence I have argued elsewhere that:

BEE deals, large and small, are being concluded over a wide array of sectors, by a wide array of BEE entities (owned variously by individuals, managers, employees, investment trusts and unions), and through a variety of devices (outright purchase, loan purchase, joint ventures with established firms, buyouts and partnerships) (Southall 2006: 196).

The second reason is that whilst the DTI has excluded black-owned pension funds as counting towards BEE status, many calculate that such ‘indirect black ownership’ is significant. Empowerdex has indicated that in June 2002 ‘empowerment owners’ owned R143.4 billion worth (or 9.5 per cent) of the largest JSE-listed companies. Of this, 53 per cent was owned by government agencies and pension funds, 26 per cent by SOEs, 8 per cent by municipalities and the remainder by other bodies (Southall 2006: 190). Not surprisingly, COSATU has been

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6 This line of argument has a point in the light of the 2005 World Wealth Report, which indicated that some 38,000 of Africa’s estimated 75,000 dollar millionaires live in South Africa, and that all but a tiny few of these are white.
lobbying to have black pension monies count as a qualifying criterion for empowerment status. The unions’ logic is that this would strengthen their right to formal recognition upon pension fund boards and hence their capacity to influence the types and direction of investment.

Finally, the normal measurements of BEE systematically exclude much procurement activity which is known to be going on close to the ground. Inevitably, much measurement is urban-based and most of it is private-sector oriented. This means, in short, that we know very little about what contracts are offered, and to whom, by provincial and local governments around the country. Urban legend and anecdotal evidence indicates that there is widespread corruption in the allocation of contracts at these levels, with ANC functionaries making decisions behind closed doors and favouring family and friends. This may or may not be so, yet it remains the case that provincial and local governments have considerable spending power, and that it would seem that this is increasingly directed towards black owned firms, many of them very small, and very local.

8. Given the centrality of political leverage to the promotion of BEE and the structure of the South African economy, black capitalism and black capitalists are as likely to tend towards ‘cronyism’ and ‘compradorism’ as ‘Weberianism’ and ‘patriotism’.

Our present ideas of what drives entrepreneurship have been much shaped by Max Weber, for whom the motivations of ascetic Protestantism in seventeenth-century Western Europe constituted a major influence on the development of capitalism. Calvinist injunctions to hard work and frugality resulting in success in one’s calling indicated that one had not lost grace in God’s sight. Making money through the systematic and rational pursuit of production became both a business and religious ethic. Matched by the associated virtues of personal austerity which encouraged saving and reinvestment, these values survived the growing secularization of society and translated into the ‘spirit of capitalism’. Interestingly, and ironically (given its Marxian underpinnings), the notion of the ‘patriotic capitalist’ which emanates from the theory of the NDR is not dissimilar. From this perspective, emergent black capitalists, by implication, should be driven less by the motivation for personal benefit than for the collective benefit of the historically oppressed black community. It follows that the temptations of relative privilege must not be allowed to evolve into parasitism, and that the dedication to the success of the NDR (to the point of capitalism’s overthrow in radical interpretations of the theory) should dictate the behaviour of the ‘patriotic bourgeoisie’.
In practice, the centrality of political leverage to the promotion of BEE works to undermine ‘patriotism’ and serve to encourage a tendency towards ‘compradorism’ (the subordination of local capitalists in post-colonial countries to imperial capital) and ‘cronyism’ (the interlocking of capitalism with the state based on personal political connections which blur the distinction between legality and illegality). This is a hugely contested issue, driven by media revelations of many instances of corruption, the ‘struggle backgrounds’ of many of the new black capitalist moguls, the ANC’s own involvement in various business ventures, the movement of individuals from party and state to business, and the suspected favouring of politically well-connected individuals in the allocation of contracts at all levels of government. However, rather than empirical citation, my concern here is to sketch the logic inherent in the dynamics of BEE explored above. I would like to reduce this to a number of short propositions.

First, blacks’ lack of capital dictates a dependence upon state and/or large scale capital to acquire the necessary funding to undertake business ventures. In this regard, black capitalists today are very much following the same path undertaken by Afrikaner capitalists from the 1920s on.

Second, political connections are therefore at a premium. The ANC’s control of the state predisposes the latter to favour those in good standing with the party; politicians and senior civil servants moving across to the private sector will have a good sense of future business opportunities emanating from government departments; and white and multi-national firms seek out the politically influential in order to ingratiate themselves with government.

Third, the empowerment elite is small and strongly inter-connected by political, emergent class, personal and often family ties and largely committed to BEE as a socially just and politically necessary way of correcting past racial imbalances. Political shortcuts may therefore be seen as morally if not legally justifiable.

Fourth, despite party injunctions to the ‘patriotic bourgeoisie’ to consciously use their wealth, power and investments to promote the black community as a whole, their high level of indebtedness predisposes many black capitalists to not merely maximizing profit but realizing short-term gains rather than emphasizing long term profitability. The urgency towards short-term gain may also encourage a willingness to cut legal corners and to lapse into criminality.

Finally, the massive inequalities of wealth in South Africa, and the poverty and hardships from which many black capitalists have come, predisposes many not to austerity and saving but to
becoming, in the words of Phumzile Mlambo-Ncuka (now Deputy President), ‘filthy rich’, and emulating the opulent lifestyles of their white counterparts.

All this is not necessarily to contest the views of commentators such as Randall (1996) and Iheduru (2004) that BEE is providing the basis for the evolution of a significant black capitalist class with the capacity to promote growth in the ANC’s South Africa. Nor is it to suggest that black capitalists are any more inherently ‘corrupt’ than their white counterparts or indeed capitalists in countries as diverse as the USA, Italy, Japan or Indonesia. Nor indeed, is it to ignore the quite extensive measures which the government has sought to put in place to prevent ‘undue influence by business’ (Sangweni 2006). But it is to say that text-book separations of economics from politics do not reflect the realities of modern corporate capitalism today, especially in countries such as today’s South Africa whose historical background of highly uneven development normally impels the state to assume a central developmental role.

9. The ANC’s pursuit of the NDR through a mix of the market and ‘the developmental state’ has fostered the rapid expansion of the black middle class. However, the trend towards the deracialisation of the upper levels of the class structure has had little positive impact upon working class and poor South Africans.

‘One of the most visible signs of South Africa’s democratic revolution has been the spread of affluence to certain categories of African people whose effective participation in markets and the formal economy were curtailed and distorted by apartheid laws’. So writes Schlemmer (2005: 1), who adds that the two factors driving this widening economic participation are the ‘silent revolution’ of opportunities that capitalist growth and market expansion bring, and legislative advancement through policies of affirmative action and BEE. There is much hype about the expanding black middle class in South Africa today, much of it emanating from market research companies exploring changing racial patterns of consumption and indebtedness. And Schlemmer is correct to emphasise the visibility of the new black middle class, which more than assuming the trappings of affluence records the ANC’s capture of the state and the transformation and re-orientation of the media. Yet a fundamental social factor about the nature of the black middle class is that it remains disproportionately very small.

Much of the evolving debate about the black middle class involves a complex numbers game, this in turn following upon issues of definition. Suffice it to say here that estimates of its present size range from 1.6 to 3.6 million people out of a present population of around 44 million. In other words, whereas – taking an highly inclusive definition from top (professionals and managers) to bottom (white collar workers) – around 74 per cent of the white workforce can be said to be middle class, only around 27 per cent of the African formally employed workforce and only around 30 per cent of the entire black (African, Coloured and Indian) formally employed workforce can be said to be middle class (calculated from Table 1, Southall 2004b). In contrast, adopting a much more exclusive definition, Schlemmer (2005: 5) argues that the core African middle class was as small as 11 per cent of the entire middle class in 2004.

Whatever definition we take of the African or wider black middle class, there is no lack of evidence to say that it is growing rapidly. Using the Livings Standards Measure (LSM) customarily employed by marketing research surveys, Schlemmer (2005: 4) reports that ‘the number of Africans in the top LSM category has grown by a phenomenal 21 per cent a year over the decade to 2003, more than eight times faster than the adult population as a whole’. However, the gains of increased upward class mobility have not been equally spread. ‘State managers’ and the ‘corporate black bourgeoisie’ have done considerably better than the ‘civil petty bourgeoisie’ (the bulk of black civil servants and ‘lower professionals’) and the ‘trading petty-bourgeoisie’. The latter, located in the SMME sector, has done particularly badly, despite BEE, in part because of the principal orientation hitherto of BEE towards transforming the formal and core economy, in part because of the limitations on its growth imposed by GEAR and the persistence of the dramatically high level of unemployment (Southall 2004b). Hence, despite the fact that the African/ black middle class has been the principal beneficiary of ANC, the gains of the lower middle class have been relatively small (Seekings 2004). Thus, although increasing numbers of blacks are joining the middle-class, South Africa is seeing a widening income gap between rich and poor, its Gini-coefficient increasing rather than narrowing.

10. The Malaysian experience suggests that affirmative action will only work to promote ‘a better life for all’ if it is systematically combined with anti-poverty strategies.

The Malaysian development experience, which since 1970 has seen an activist state drive rapid growth with a relatively successful assault on poverty, has attracted considerable attention from the ANC, not least because it has been combined with a concerted shift towards the elimination of income disparities between the majority Malays and the better off, minority Chinese. Resulting from a political crisis in 1969 (provoked by discontent of Malays with post-
colonial continuance of inter-racial disparities), the Malay-dominated government adopted a New Economic Programme (NEP) designed to promote Malay ownership and control of the economy.

The NEP was constructed around two ‘prongs’. First, the eradication of poverty, regardless of race'; and second, the restructuring of Malaysian society in order to ‘reduce and eventually eliminate the identification of race with economic function’ (Jomo 1988: 256) notably through a programme of preferential recruitment for Malays and an accompanying drive to rectify the inter-racial imbalance in the ownership and control of wealth by achieving at least 30 per cent ownership and management of commercial and industrial activities by Malays and other indigenous groups by 1990.

By 1987, it was officially estimated that the absolute numbers of people living in poverty had fallen to 2.5 million from 4.6 million in 1973; that the overall incidence of poverty had fallen to about 15 per cent, and that the incidence of rural poverty had been halved. By 1990, the share of equity (both in state and individual forms) accruing to Bumiputra (indigenous people, i.e. mostly Malays) was 20 per cent. Although short of the government’s target, this represented a considerable transformation (Elmsley 1996: 33, 60-63). There are numerous qualifications to such bare statistics, and indeed the debate about the achievements of the NEP are enormously contested. For instance, the reduction of poverty was achieved in the context of economic growth much helped by dramatic increases in commodity prices for rubber and tin (key products of the Malaysian economy) in the 1970s and 1980s, and shifts in the pattern of ownership have in the eyes of some been achieved at the severe cost of extensive state participation in the economy and the associated promotion of ‘crony capitalism’. Nonetheless, whatever the causality, the implementation of the NEP has been accompanied by a level of (inter-racial and other) redistribution with growth which has been the envy of many other states, including South Africa. Even if, as many argue, the quality of Malaysian democracy has been severely compromised by an authoritarian ‘developmental state’, the key relevance of the comparison for South Africa is precisely that in a context where the urgency of rapid growth has been emphasized, it has been accompanied by the systematic combination of affirmative action with a concerted anti-poverty strategy.
CONCLUDING NOTE

The virtue of ending this review of BEE with reference to Malaysia, where the redistribution with growth formula has been associated with overall political stability, is that it reminds us that the racial inequality that the ANC inherited in 1994 constituted an unviable basis for the consolidation of a new and fragile democracy. From this perspective, there is a strong case for arguing that BEE (or some similar state-driven programme to correct racial imbalances) is a necessity if South Africa is to avoid the dismal fate of neighbouring Zimbabwe. Yet, the key question posed here is whether the ANC is doing enough to combine its empowerment strategies with delivering ‘a better life for all’.
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