Chapter 8

South Africa and African continental economic integration in the 2020s

by Lumkile Mondi

1 Introduction

The history of the relations between the South African state and business community since the advent of democracy is complicated. It has had both domestic and international political and economic implications.

Understanding this history can offer some useful lessons for the conduct of South Africa's foreign relations with Africa in the 2020s. In order to fully appreciate these lessons, it is necessary to understand how relations between the state and business have evolved domestically and how this has affected South African business's efforts to expand into other African countries. It should also be noted that in many ways South African businesses have been more successful than the state in developing their relations with the rest of the African continent. However, they have been handicapped in their efforts to expand across the continent by the lack of support they have received from the state.

This chapter is structured as follows. First, it discusses the pact between the state and business in the period between 1990 and 1994 and its implications for state–business relations (SBR) and the country's relationship with the rest of the continent. In this regard, the chapter sheds some light on how the state and business perceived the opportunities created by democratisation in 1994 and how they sought to exploit them. Second, the chapter explores some of the challenges that have arisen in SBR over the past 25 years and their implications for both the state's and business's relations with the rest of Africa. Finally, the chapter makes some suggestions on how to improve the state's and business's relations with the rest of Africa in the 2020s.

2 The early years: The pact between the ANC and business

The discussions and debates between the ANC and the business community in the early 1990s were part of a bigger conversation on the economic policy for 'the new South Africa'. These discussions took place in various workshops, conferences, seminars and publications, organised by different organisations inside and outside South Africa before the 1994 democratic elections.[1] Since the ANC did not have its own well-developed economic policies, it was willing to listen to a range of different policy options. For example, contemporary versions of the Washington Consensus were presented, often by representatives of the Bretton Woods institutions.[2] The Macroeconomic Research Group (MERG), which was supported by the ANC, but foreign-funded, presented its alternative proposals. However, not all options received equal consideration. Jonathan Michie and Vishnu Padayachee, who were both MERG team members, remember how the ANC government overlooked the MERG recommendations, preferring to focus on the advice of the Bretton Woods institutions.[3]

In this regard, it is important to note that big business had another channel for conveying its views to key policy makers. For example, Freund[4] and Terreblanche[5] argue that the regular meetings at the Anglo American Corporation (AAC) Brenthurst Library between the doyen of South African business Harry Oppenheimer and Nelson Mandela offered business an important opportunity to shape economic policy. Freund[6] adds that business also made use of scenario planning to communicate its views. The most prominent of these were the ones from Old Mutual/Nedcor, Sanlam, and the Mont Fleur bird flight simulations of August 1992.[7]

Another channel for business–ANC discussions on the economy for a democratic South Africa was the Consultative Business Forum (CBF)

1 Gelb S, 'Macroeconomic in post-apartheid South Africa: Real growth versus financial stability', in Ffrench-Davis R (ed.), *Seeking Growth under Financial Volatility.* Palgrave Macmillan, 2006, pp. 184–218.
2 *Ibid*.
3 Michie J & V Padayachee, 'South African business in the transition to democracy', *International Review of Applied Economics*, 2018, pp. 1–10.
4 Freund B, 'A ghost from the past: The South African developmental state of the 1940s', *Transformation: Critical Perspectives on Southern Africa*, 81/82, 2013, pp. 86–114.
5 Terreblanche S, *A History of Inequality in South Africa 1652–2002*. Pietermaritzburg: KwaZulu-Natal Press, 2002.
6 Freund B, *op. cit*.
7 Michie J & V Padayachee, *op. cit*.

which was set up by local 'liberal' business groups to lobby the ANC about economic and business policy issues.[8]

The ANC's challenge was that it was going to inherit an economy in crisis. It recognised that the resumption and sustainability of economic growth depended on increased exports and capital inflows, and on improving investment ratios and industrial productivity. As a result, the ANC made an implicit bargain with (white) big business that once it came to power, it would adopt business-friendly economic policies in return for the de-racialisation of (private) economic power.[9]

This implicit bargain has shaped the evolution of South Africa's SBR. It has also constrained the transition of the South African economy, which is still characterised by high levels of structural unemployment, poverty and inequality and it is a contributing factor in the country's growing budget deficits and rising public debt.

3 The implicit bargain and global economic integration

Following the 1994 peaceful transfer of political power, the ANC was forced, for several reasons, to prioritise the country's political, economic and cultural reintegration into the rapidly changing global environment. It would be unable to address the terrible legacy of apartheid without the resources that would be generated from the trade, direct investment and finance that it hoped this reintegration would stimulate. Moreover, the ANC was seeking to join the global community soon after the collapse of its ally, the Soviet Union, and before the rise of China, and at a time when its own links to the global hegemon were limited. It was therefore particularly dependent on South African business, with its reasonably strong global connections, to actively support its reintegration efforts.

This situation raised the stakes associated with the implementation of the implicit bargain between the state and business. The ANC government fulfilled its part of the bargain by adopting, at considerable political cost,

8 Spicer M, 'The business–government relationship: What has gone wrong?', *The Journal of the Helen Suzman Foundation*, April 2016.

9 Habib A, *South Africa's Suspended Revolution*. Johannesburg: Witwatersrand University Press, 2013; Hirsch A, *Season of Hope: Economic Reform under Mandela and Mbeki*. Scottsville: KwaZulu-Natal University Press & International Development Resource Centre, 2005; Terreblanche S, *op. cit*.; Marais H, *South Africa Pushed to the Limit: The Political Economy of Change*. Cape Town: University of Cape Town Press, 2011; Bond P, *Elite Transition: From Apartheid to Neoliberalism in South Africa*. Pietermaritzburg: University of Natal Press, 2000.

the Growth, Employment and Redistribution (GEAR) macroeconomic framework. GEAR, which was unpopular with the ANC allies in the tripartite alliance and with many ANC members, included many elements of the Washington Consensus such as fiscal and monetary discipline, a liberalised trade regime, and deregulation of the economy. It expected business to respond with a surge in private investment in non-traditional tradable sectors that could drive rapid employment and export growth. It also anticipated that the business community would take actions to increase black participation in ownership and control of the economy through a combination of the transfer of stakes in restructured conglomerates and the facilitation of new entrants.[10]

Coincidentally, the ANC government's economic policy was very similar to the policies that the apartheid regime had adopted in 1988 based on the South Africa Foundation's blueprint for the economy in a democratic South Africa. This blueprint had been rejected by the broader anti-apartheid movement in the economic policy debates that took place in the transition period between 1990 and 1994.

The ANC's action embedded policy continuities in macroeconomic policymaking. It also underpinned the nature and form of South Africa's state–business relations in the democratic era. As a result, Nattrass and Seeking[11] argue that the relationship between state and business in post-apartheid South Africa appears broadly cooperative in the early years of the democratic era. The ANC leadership focused its attention on the government's budget, public procurement and state-owned enterprises. It allowed the business community to continue conducting 'business as usual' without implementing its side of the implicit bargain despite growing structural unemployment, poverty and inequality.[12] The result is that the apartheid-era form of capitalism has not only survived the transition from apartheid to democracy, but it continues to flourish in the post-apartheid environment.[13]

The ANC's efforts to uphold the implicit bargain did not result in stronger state–business relations. New bodies were established to try and improve these relations. For example, in 1998/99 the business community, drawing on the experience of the transition-era Consultative Business Forum, established the Business Trust (BT). Spicer[14] explains that the motivation was that big business recognised it needed to do something

10 Gelb S, *op. cit*.
11 Nattrass N & J Seekings, *State, Business and Growth in Post-Apartheid South Africa*. Manchester: IPPG (Institutions and Pro-Poor Growth) Programme Office, 2010.
12 *Ibid*.
13 *Ibid*.
14 Spicer M, *op. cit*.

to address the fact that the implementation of GEAR would temporarily delay the addressing of many of society's developmental needs and postpone meeting pent-up expectations while the economy was being stabilised.

It is important to note that these initial efforts excluded small and medium enterprises as well as sectoral interest groups such as the agricultural sector. This led to the establishment of additional new institutions that were intended to fill this gap. They were invited to participate in meetings between the state and the business community. However, the enlarged meetings became talk shops without any concrete plans to deal with inclusive economic growth to reduce poverty, unemployment and inequality. Spicer[15] notes:

> Given that meetings typically involved some 40 to 50 people (and well over 100 when all the Working Groups met jointly), government resorted to 'party postures' which did not allow easily for frank personal views. … And from business's side, most white executives felt on the defensive as they were increasingly criticised and demonised by black counterparts in the Black Business Working Group for 'failing to transform', a perception often shared by government. (President Mbeki however used to complain in private that the Black Business Working Group was a one-note orchestra that was unwilling to move beyond its obsession with transformation to contribute to other pressing issues.)

The issue of deracialising the South African economy was a major point of disagreement between business and the state. Business argued for growing an inclusive economy through promotion of education and skills formation. Government thought the transformation process needed to be quicker and pushed business to transfer shareholdings to black South Africans, supported by concessional vendor financing, as an urgent priority. These differences generated tension and led to a significant deterioration in SBR. It also caused business to reassess its approach to the South African economy and to adopt more overtly internationalising strategies. In 1999 Deputy President Mbeki reluctantly acquiesced in Anglo American and some other companies moving their primary listings to London.

These developments adversely affected SBR. They also highlighted the need for new institutional arrangements for effective SBR.

4 New institutional arrangements

Initially two new business institutions were established to promote, *inter alia*, better SBR. Business Leadership South Africa (BLSA), established

15 *Ibid.*

in 2005 as the successor to the apartheid-era South Africa Foundation, is an association of South Africa's largest corporations and major multinational companies that have a significant presence in South Africa. Business Unity South Africa (BUSA), formed in 2003 at the request of President Mbeki by a merger of Business South Africa (BSA) and the Black Business Council, is a confederation of South African chambers of commerce and industry, professional and corporate associations and uni-sectoral employers' organisations. It is the main representative of South African business.

The Black Business Council (BBC), which continues to have a separate existence, is an umbrella organisation, which has two divisions, a business division and a professional division. The business division is composed of the National African Federated Chamber of Commerce and Industry (NAFCOC), the African Council of Hawkers and Informal Businesses (ACHIB) and the Foundation of African Business and Consumer Services (FABCOS). The professional division consists of the Black Lawyers Association (BLA), Association of Black Accountants of South Africa (ABASA), Black Management Forum (BMF) and the Association of Black Securities and Investment Professionals (ABSIP).

5 Focusing on the rest of Africa

On its side the South Africa government, led by President Mbeki, developed a new approach to its relations with the rest of Africa. It supported efforts to strengthen economic integration within the Southern African Development Community (SADC) which were formalised at the 1997 Southern Africa economic summit. In addition, in August 1996, it signed the SADC Trade Protocol. The Protocol had four main elements: the simplification of trade procedures to facilitate and promote trade; the elimination of tariffs and non-tariff barriers; the promotion of industrial development and diversification, and the provision of safeguard measures and exceptions for special cases.

The Mbeki government also supported and helped lead the New Partnership for Africa's Development (NEPAD), a pan-African strategic framework for the socio-economic development of the continent. This initiative was officially adopted by the African Union in 2002 as the primary mechanism to coordinate the pace and impact of Africa's development in the 21st century. Its primary objective[16] was to:

16 DIRCO (Department of International Relations and Coordination), *The New Partnership for Africa's Development (NEPAD)*. Pretoria: DIRCO, 2001.

- Eradicate poverty;
- Place African countries, both individually and collectively, on a path of sustainable growth and development;
- Halt the marginalisation of Africa in the globalisation process;
- Accelerate the empowerment of women; and
- Fully integrate Africa into the global economy.

In addition, President Mbeki actively promoted African interests on the global stage. For example, in 2005 at the Gleneagles G8 Summit, in alliance with the British government led by Tony Blair, President Mbeki and his African colleagues were able to get an agreement that resulted in the writing-off of multilateral debt for the world's poorest countries.

However, President Mbeki's international efforts created tensions within the ruling tripartite alliance. The ANC's alliance partners argued that the effect of these efforts was to promote the interests of big business. They also maintained that President Mbeki was choosing which black business interests would benefit from the business opportunities being created by black empowerment transactions with white business and from government procurement contracts.[17]

The internal tensions in the tripartite alliance contributed to the election of Jacob Zuma as the leader of the ANC in December 2007. Zuma had a different view of the business community from Mbeki and on the role that the state should play in transforming the economy. He was focused on the state and SOEs as engines of economic growth and development and on extending black economic participation through procurement including, if necessary, bending the rules to promote radical economic transformation.

6 SBRs and radical economic transformation

Corruption had been a growing problem during President Mbeki's term. For example, the controversial contract between Hitachi Power Africa, in which Chancellor House, the ANC's investment vehicle, was a 25% shareholder, and Eskom was initiated towards the end of the Mbeki era. This transaction, which relates to the controversial Medupi coal-fired power project that was funded, *inter alia*, by the World Bank and the African Development Bank, has had adverse consequences for the ANC and the government's relations with both the international and local business communities.

17 Mondi L, 'The Political Economy of the Restructuring Eskom 1985 and Beyond', Unpublished PhD Thesis, University of the Witwatersrand, 2019.

Jolobe[18] provides a useful discussion of the events that led to this transaction. Tenders for the boiler works were received from Alstom S&E and Steinmüller Africa in consortium (the Alstom Steinmüller consortium) and from Hitachi Power Africa and Hitachi Power Europe in consortium (the Hitachi consortium). In August 2007, Eskom accepted the Alstom Steinmüller consortium tender, but subject to certain conditions. The parties were unable to satisfactorily deal with these and Eskom decided to invite the Hitachi consortium to resubmit its tender.[19] The Hitachi bid included more than 30% local content (as compared to 10% for the Alstom-Steinmuller bid), but was more expensive.[20] After a reassessment of the two proposals, and despite the higher cost of the Hitachi Power proposal, Eskom awarded it the contract.[21]

The ANC's beneficial interest in Eskom's programme emerged as a major public issue in 2010, when it became clear that Eskom would require massive tariff hikes to fund its capital projects. The ANC's conflict of interest – it formally opposed the tariff hikes, but stood to benefit from them through Chancellor House – became a matter of national debate. It also had an adverse effect on South Africa's international reputation and on SBR.

Spicer[22] argues that in the second half of the 2000s South Africa was characterised by corruption undermining society and economic performance. The gravity of the problem was underscored by evidence of wrongdoing on the part of leading politicians including President Zuma and the phenomenon of tenderpreneurs.[23] These were black entrepreneurs who became wealthy by soliciting tenders from government at national, provincial and local levels, often in ways that bypassed due process, and in areas where the lives of the poor were directly affected.

Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart.[24] And from a left wing or racial perspective 'white monopoly capital' continued to make excessive profits from exploiting the poor and indulging in anticompetitive behaviour.[25]

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18 Jolobe Z, 'Financing the ANC: Chancellor House, Eskom and the dilemmas of party finance reform', in Butler A (ed.), *Paying for Politics: Political Funding and Political Change in South Africa and the Global South*. Johannesburg: Jacana, 2010, pp. 201–217.

19 Mondi L, 2019, *op. cit*.

20 *Ibid.*

21 Jolobe Z, *op. cit.*

22 Spicer M, *op. cit*.

23 *Ibid*.

24 *Ibid*.

25 *Ibid*.

At the same time, as Zalk[26] has argued, the dynamics of the political economy entrenched the interests of white conglomerate groups and the small emerging black business community. Eschewing any compromise with other stakeholders in the economy, these groups were able to limit the government's ability to further transform the economy and to promote their own interests.[27]

Hence, it could be argued that both the state and business had complex vested interests that undermined SBR. In addition, the state was moved to adopt policies that were intended to promote a 'radical economic transformation'. According to President Zuma, radical economic transformation means a fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans – especially the poor, the majority of whom are African and female.[28] In other words, radical economic transformation referred to an ambitious project, not simply to create black-owned small- and medium-sized enterprises, but to control the commanding heights of the economy.[29]

This policy resulted in the state marginalising established white-led businesses in favour of emerging and inexperienced black business leadership in regard to state procurement policies and in their formal access to policy makers. It has also resulted in the fragmentation of South African business which remains conspicuous for its racial character. One example of this development is that in 2011, at the Black Business Summit, the Black Business Council (BBC) suspended its participation in BUSA.[30]

At the summit, President Zuma, appeared to oppose this action, arguing that 'the unity of the business sector is paramount in ensuring the achievement of the transformation goals. As government, we need

26 Zalk N, 'The Things We Lost in the Fire: The Political Economy of the Post-Apartheid Restructuring of the South African Steel and Engineering Sectors', PhD Thesis, SOAS University of London, 2017.

27 *Ibid*.

28 Zuma J, *State of the Nation Address*. Cape Town: The Presidency, 2017.

29 Bhorat, H *et al*., *Betrayal of Promise: How South Africa Is Being Stolen*. Johannesburg: PARI (Public Affairs Research Institute) State Capacity Research Project, 2017, pp. 1–72.

30 The summit was attended by a broad range of groups representing black business interests. The participants represented the IT Forum, ABSIP, ABASA, BMF, BLA, FABCOS, NAFCOC and the Black Business Executive Circle, the National Black Business Caucus, the South African Black Technical and Allied Careers Organisation, the National Society of Black Engineers South Africa, South African Women Entrepreneurs' Network, South African Women in Construction, and Women in Food and Hospitality.

a unified and united business voice to work with'.[31] Spicer[32] argues that although the state regretted the rupture, through its funding and other material support it was happy to support an exclusively black organisation. Spicer's argument was based on the support the BBC received from the state through its development finance institution, the National Empowerment Fund (NEF). This entity provided the BBC in 2012 with R3 million to grow black economic empowerment.[33]

The support was meant to provide an alternative voice to what was perceived by the state as a marginalised group given the history of South Africa. The dti also provided support amounting to R7 million for similar purposes. Organisations affiliated to the BBC also assumed a higher profile role in the delegations of businesspeople taken on President Zuma's international travels, according to Spicer.[34] Zuma had shown himself particularly eager to woo black business.

The Black Business Council was re-launched on 1 March 2012 with a mandate to support historically disadvantaged people and help get them involved in business. The first president of the re-launched BBC, Sandile Zungu, articulated its mission as follows: 'The objective is to make sure that black people are first and foremost, the beneficiaries of our efforts.'[35]

While these developments resulted in closer relations between the state and a part of the black business community, they exacerbated relations between the state and other sections of the business community. While the state was focused on black business domestically, some South African businesses were focused on expanding internationally, particularly into the rest of Africa. In the absence of effective SBR, these businesses were compelled to go on their own into the rest of the continent. Their experience is instructive in thinking about South Africa's economic relations with Africa in the 2020s. In the next section the experience of South African multinational companies (MNCs) is discussed to highlight the cost to business of venturing into the rest of Africa in an environment of ineffective fragmented SBR.

31 *Mail & Guardian*, 'Black businesses opt out of Business Unity South Africa', 7 September 2011, https://mg.co.za/article/2011-09-07-economic-revolution-black-businesses-quit-busa/ (accessed 20 February 2020).

32 Spicer M, *op. cit*.

33 Mondi LP, 'Black Business and the State in South Africa'. Paper presented at Economic Society of South Africa, (Rhodes University, Grahamstown, South Africa, 30 August-1 September 2017)

34 Spicer M, *op. cit*.

35 Quoted in *New Age*, 1 March 2012 (no longer available on *New Age* website).

7 South African MNCs in Africa

South African multinational companies (MNCs) have made significant investments in the banking, retailing, tourism and mining sectors of SADC's economy. For instance, Standard Bank and SABMiller (now part of the Anheuser Busch group of companies) have investments in all 14 SADC countries. Also, investments in these countries in information and communications technology (ICT), particularly in the Global System for Mobile telecommunication (GSM), sector have been dominated by South African MNCs. For example, the MTN Group of Companies, Telkom SA and Vodacom have made investments running into billions of dollars. Other noteworthy investments are in the extractive sector; for example, the Industrial Development Corporation (IDC) invested $600 million and Billiton $500 million in Mozambique.[36] Other noteworthy investments have been made in the region by South African retail companies such as Wimpy (fast food), Engen (service station), Kwikserve (mini-supermarket), Woolworths (food and clothing), Game (general merchandise – now rebranded as Massmart and part of the global Walmart Group)) and Shoprite-Checkers (food supermarket).[37] Further analysis of the activities of South African MNCs shows that they have performed well and empirical evidence has also revealed that these firms have positively contributed to the growth of the SADC zone.[38]

South African banks have also been active participants in this process. Studies conducted by the SARB[39] suggest that they have played an important role in regional integration by facilitating settlements of transaction and the financial integration of African central banks. They have also contributed to the growth of the Johannesburg Stock Exchange (JSE). This expansion has also proven to be profitable for the banks, leading to higher revenues and profit ratios for banks such as ABSA, Nedbank, Standard Bank and Investec. This is particularly useful given

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36 LRS (Labour Research Services), *South African Multi-National Corporations in Africa – Trends in 2016. Cape Town: LRS, 2016*; Carmody P, 'The informationalization of poverty in Africa? Mobile phones and economic structure', *Information Technologies and International Development*, 2012, pp. 1–17; Valsamakis A, 'The Role of South African Business in South Africa's Post-Apartheid Economic Diplomacy', Unpublished PHD Thesis, University of Birmingham, 2012.

37 LRS, *op. cit.*; Miller D, Saunders R & O Oloyede, 'South African corporations and post-apartheid expansion in Africa: Creating a new regional space', *African Sociology Review*, 12, 1, 2008, pp. 1–19.

38 Mathew EE & RA Adewale, 'The odyssey of South African multinational corporations (MNCs) and their impact on the Southern African Development Community (SADC)', *African Journal of Business Management*, 11, 23, 2017, pp. 686–703.

39 SARB (South African Reserve Bank), *Selected South African Banking Sector Trends*. Pretoria: SARB, 2012.

the banks' relatively modest domestic results. The PwC[40] *South Africa Major Banks Analysis* shows South Africa's lacklustre economic conditions translated into heightened credit risk and subdued client activity across all customer segments particularly in relation to the major banks' South African operations. However, comparatively more positive contributions came from regional operations outside South Africa – emphasising the growing importance of those businesses and the rest-of-Africa growth strategies all the major banks have focused on over recent years.[41] They contributed, up to one-third of total earnings of the major South African banks.[42]

However, this expansion outside South Africa has not been without its challenges. For example, in 2016 the mobile operator MTN was fined \$5 billion by the Nigerian authorities which was later negotiated down to \$1.7 billion for failing to disconnect unregistered subscribers. In 2018 the Nigerian central bank ordered MTN to return \$8.1 billion in dividends it allegedly illegally transferred out of the country between 2007 and 2015. During the same period the Nigerian attorney-general's office demanded about \$2 billion in back taxes from MTN. This knocked MTN's share price by a third, destroying shareholder value by well over R100 billion. Standard Bank was implicated in an investigation by the Nigerian central bank regarding remittances it made on behalf of MTN Nigeria between 2007 and 2015. It was fined about R75 million.

Both MTN and Standard Bank were able to resolve their difficulties through direct negotiation with the Nigerian authorities. The South African government played no explicit role in resolving these disputes. However, their experiences raise other issues about the resolution of commercial disputes on the African continent.

It is inevitable that investor–state disputes have a political dimension, which in some cases may trump commercial realities. For example, politicians may decide that African unity and solidarity should take precedence over upholding private commercial interests even if this means ignoring the rights and remedies established in international agreements between the states. For example, in the MTN–Nigerian dispute, the South African government preferred to be a silent diplomatic player rather than working with its MNCs to enforce bilateral treaties.

Although MNCs have had a strong incentive to engage in the private settlement of investment disputes, they ultimately need their home state to support these efforts. To date, the South African state has only played

40 PwC, *South Africa: Major Banks Analysis*. Johannesburg: PwC, 2019.
41 *Ibid*.
42 *Ibid*.

a limited role in supporting South African MNCs. There is no effective dispute settlement forum available to South African MNCs operating in Africa, although in some cases they may have access to the World Bank Group's International Centre for the Settlement of Investment Disputes (ICSID). In other cases they may be able to buy political risk insurance from institutions like the Multilateral Insurance Guarantee Agency (MIGA) and the South African Export Credit Insurance Corporation (ECIC). It should be noted that this insurance will only cover certain categories of risk such as expropriation of property without adequate compensation.

As a result, South African MNCs have had to try and develop their own form of political cover to support their activities outside South Africa. For example, MTN, the mobile operator, has formed an international advisory board whose function includes assisting with the resolution of disputes and assistance in strengthening its bargaining and negotiating capabilities. The MTN Group is of the view that its operations in 21 countries in Africa and the Middle East have been well served by its IAB which is chaired by former President Mbeki. Other members include former Ghanaian President John Kufuor; former African Union commissioner for political affairs Aisha Abdullahi; former International Atomic Energy Agency director-general Mohammed ElBaradei; in addition to businesspeople such as the Total president of marketing and services Momar Nguer; and former MTN CEO and chairman, Phuthuma Nhleko.

In January 2020, the Nigerian tax tribunal ruled in MTN's favour that it did not have to pay the corporate tax on a 330 billion naira ($1.1 billion) fine. It is not clear whether a politically led advisory board had a hand in the reversal of this decision. If it was involved, it raises a number of questions around the role of regulatory bodies and their independence and the possibility of capture by interest groups. It could also be a sign that the South African government is beginning to play a more active role in promoting the interests of South African businesses in Africa. However, the differences between Nigeria and South Africa on the appointment of the first secretary-general of the African Continental Free Trade Area (AfCFTA) indicate that the relationship between South Africa and Nigeria[43] remains challenging.

43 Nigeria put forward Cecilia Akintonde (former vice president and general secretary of the African Development Bank) to contest the appointment of South Africa's Wamkele Mene (SA chief trade negotiator). After a series of voting, which is unusual at the African Union for a technical position, Mene was elected to the position of secretary-general of the AfCFTA Secretariat. See Hunter Q, 'South Africa wins bitter fight with Nigeria over top AU job', *Sunday Times*, 10 February 2020, https://www.timeslive.co.za/politics/2020-02-10-sas-wamkele-mene-wins-bitter-fight-with-nigeria-over-top-au-job/ (accessed 25 February 2020).

8 A platform for effective SBR in the 2020s

Ironically, SBR got a boost on 9 December 2015 when the minister of finance, Nhlanhla Nene, was fired by Zuma. Led by financial institutions who had suffered heavy losses at the JSE following Zuma's action, business came out of the boardroom and pressured Zuma to change his decision. Their actions convinced Zuma to move the new finance minister, Des van Rooyen, who had only served for days, to Cooperative Governance and Traditional Affairs and to appoint Pravin Gordhan as the new minister of finance. Some business leaders also became more active in supporting the eventual winner of the ANC presidency, Cyril Ramaphosa, during the process leading to the 54th ANC elective conference in 2017. Following his election, business initiated the Thuma Mina campaign[44] under the umbrella of the Private Public Growth Initiative (PPGI).

There have been other initiatives to improve relations between the presidency and big business. A business team convened by Nick Binedell of the Gordon Institute of Business Science (GIBS) at the University of Pretoria, Roelf Meyer,[45] a chief negotiator on behalf of the NP in the transition to democracy, and Johan van Zyl of Toyota have formed an umbrella body referred to as the Public-Private Growth Initiative (PPGI).[46] The PPGI has developed a short paper on how South Africa can achieve 5% GDP growth annually. CEOs and chairpersons from 19 sectors of the economy presented their plans to the government for increasing South Africa's GDP by 5% annually over the next five years, in partnership with the government. Some of these plans are likely to have implications for the country's international economic relations.[47] For example,

- The ICT sector's potential impact on increased GDP and South Africa's international economic linkages is at best understated. The expressed vision and projections of leaders of this sector should be recognised and supported as an essential pillar to grow the South African economy to its fullest potential.
- The chemical sector in South Africa contributes about 3% to GDP and 23% to the total manufacturing gross value-add that occurs in South Africa. While the sector is not a massive creator of direct jobs, given that chemical plants are highly automated and capital-

44 Thuma Mina ('Send Me') is inspired by the speech made by President Cyril Ramaphosa during the 2019 State of the Nation Address to inspire the spirit of self-sacrifice, service delivery and volunteerism in South Africa.

45 Roelf Meyer and Ramaphosa were key negotiators in the Codesa negotiations and the Constitutional Assembly that led to the adoption of the constitution of the Republic of South Africa in 1996.

46 PPGI (Public Private Growth Initiative), *Thuma Mina*. Johannesburg: PPGI, 2018.

47 *Ibid*.

intensive, it has strong multiplier effects on both employment (of 12 times) and on GDP (5.5 times), as recorded in 2017. Inhibitors related to the sector strategy 2035 must, however, be removed to unlock the full value in this sector. Chemicals are also an important element in global supply chains.
- The growth and contribution of particular sectors, such as agriculture and tourism, have an exponential impact on the value-added contribution to GDP of other sectors that cannot be quantified accurately at this stage, but should be recognised. They also have significant potential to increase South Africa's exports.

The PPGI proposals project the employment of a vast number of new people over the next five years. This is based on predicted GDP growth in the country of between 1% and 3% per year. However, the PPGI also highlights challenges in the investment climate that could undermine the achievement of these ambitious employment-rich growth rates. These include creating the macro investment climate necessary to attract investments; ensuring reliable, competitively priced electricity; a solution to the lack of appropriately qualified technical experts in the government sector and SOEs; as well as addressing the lack of capacity in municipalities; and resistance to involving the private sector. In addition, the country needs to overcome the legacy of the poor state of SBR under President Zuma.

If these challenges can be successfully met the PPGI estimates that the country could attract in excess of R500 billion over the next four to five years.[48]

Can state–business relations go beyond the promises highlighted above in the 2020s? In the next section, the chapter looks at what President Ramaphosa should focus on in the 2020s.[49]

9 Towards the 2020s – planting seeds for economic interest

Following South Africa's ratification of the African Continental Free Trade Agreement (AfCFTA) in December 2018, President Ramaphosa

48 *Ibid*.

49 In response to President Ramaphosa's declaration in March 2020 of a national lockdown to deal with the COVID-19 pandemic, the business community established an umbrella body of all business formations called Business for South Africa (B4SA). It coordinates strategies for economic revival post-lockdown with the government. As this book goes to press, it is too soon to know whether this development will result in a permanent improvement in SBR.

has an opportunity to re-define South Africa's economic relations with the rest of Africa and the world.

Currently, South Africa accounts for approximately 16% of the continent's GDP.[50] In 2017 Asia was the largest regional export destination for South Africa, accounting for 32% of total exports by value (primarily mineral commodities), followed by the rest of Africa (26%, mainly minerals, machinery and automobiles), and Europe (22%, mainly minerals, automobiles and agricultural products).[51] South Africa accounted for close to 70% of world exports to the rest of the Southern African Customs Union (SACU) in 2016, and roughly 17% of world imports from the rest of SACU.[52] This dynamic changes dramatically beyond the SADC region, with South Africa's share of trade being negligible in the North African region, represented by the Arab Maghreb Union (AMU).[53]

The AfCFTA has the potential to change South Africa's current trading relations and open up important new opportunities. It creates a market consisting of 55 countries with a combined population of 1 billion people and combined GDP of USD3.4 trillion. To date, the continent is poorly integrated. Intra-African trade is about 16% of total African trade based on UNCTAD data for 2017.[54] This compares to intra-North American trade of 40%, and intra-EU trade of 63%.[55] However, it should be noted that intra-African trade may be understated. It is estimated that 40% of intra-African trade is informal trade.[56]

The developmental opportunities from intra-African trade are substantial. About 70% of cross border traders are women and currently about 46% of goods traded between countries are manufactured goods such as garments, leather goods, among others. Africa's population of about 1.27 billion people is projected to rise to 1.7 billion by 2030 with the middle class targeted to be 600 million.

However, in order to take full advantage of these opportunities South Africa will need to think strategically and act tactically. It will need to carefully assess how economic relations with the rest of the continent will help it deal with its urgent domestic priorities: addressing the oligopolistic

50 WTO (World Trade Organization), *World Trade Statistical Review*. Geneva: WTO, 2018.
51 *Ibid*.
52 *Ibid*.
53 Ramkolowan Y, Craig S & S Munro, *The Dynamics of South African Investment in the Rest of Africa*, Discussion Paper. Johannesburg: GEG (Global Economic Governance), 2018.
54 UNCTAD (UN Conference on Trade and Development), *Handbook of Statistics*. Geneva: UNCTAD, 2019.
55 *Ibid*.
56 *Ibid*.

structure of its economy and the ongoing legacy of an economy that was designed to serve the interests of a racial minority while leaving the majority of the population poor and unemployed.

The history of the past 25 years highlights the scope of this challenge. It shows that due to the power of the vested interests in both business and the state, there has been, in fact, limited political will to actually effectively address these challenges. The efforts of the state and business to deal with these issues have had limited success. As a result, the challenges have continued to grow, big business has continued to look outside the country for growth opportunities and the state has become more internally focused.

This means that for South Africa to effectively exploit the potential of the AfCFTA and to become a serious continental player, both the state and business will need to make changes. The starting point for these changes is to strengthen SBR. This will require both parties to recognise their own shortcomings and commit to correcting them.

The nature and depth of fragmentation of the South African business community makes effective SBR complicated. In addition, the complexity of the issues and their difficult relations over the past decade may make it hard for the state and business to develop good relations in regard to both domestic and international economic issues in the short run. This suggests that the parties should focus on sub-sets of issues where success is easier to achieve. They can also act as confidence-builders before the state and business address more complicated issues. African economic relations is potentially a low-hanging fruit in this regard because the interests of business and the state are more easily aligned. It is in both their interests to have South African businesses succeed – both financially and reputationally – in their operations across Africa.

One possible way to promote better relations could be for business to incorporate retired government officials and politicians in their operations such as the MTN Group efforts discussed above. This provides advisory board members with post-retirement professional opportunities that may reduce their incentive to seek to enrich themselves while in office. It also provides business with an opportunity to learn more about the complex political realities in Africa and assistance in dealing with these challenges.

The South African government should also give its development finance institutions, such as the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC) a broader continental mandate. The provision of just over R3 billion to South African Airways by the DBSA in 2019 and the positive signal by the South African government on the proposed used of state employee retirements funds indicate that the Ramaphosa government is on a mission. Perhaps, that mission could include financing South African MNCs in their operations outside South Africa. An interesting model in this regard is the work that the Brazilian development bank, BNDES, did in promoting the internationalisation of Brazilian MNCs. The Public Investment Corporation (PIC) with over R1 trillion assets under management could be a source of funds for infrastructure investment in effecting the AfCFTA. The diversification of its portfolio to include investments in the rest of the continent will also reduce its dominance in the South African capital markets.

10 Conclusion

To date, the South African government has lagged behind South African MNCs in promoting South Africa's economic integration into the rest of Africa. While the MNCs have been torchbearers in the rest of the continent, they have done this with a narrow focus on shareholder returns and with limited attention to the national interest or economic diplomacy. It is time for the state to take charge and ensure that this integration process is implemented in a way that is sustainable and inclusive and consistent with South Africa's political, economic and strategic interests. This could also promote the transformation of the South African economy so that it overcomes apartheid's terrible legacy of poverty, inequality and unemployment. The new AfCFTA and the respect that President Ramaphosa enjoys both with Africa's political leaders and with South Africa's business community creates an opportunity for the state to take this action.

South Africa cannot afford to allow this opportunity to go to waste. The cost in terms of lost growth and stunted lives for the people of South Africa, its neighbours, and the rest of the continent is too high.