

*From De Beers to the BEE: The relationship between Politics, Big Business and the IFIs in South Africa until 1997*

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From the discovery of gold and diamond in Kimberley and Witwatersrand, the history of South Africa has been influenced and modeled from its relationship with big business, in particular the mining sector. This paper would to reproduce a brief history of this relationship with a reconstruction of the salient moments and the principal influences that big business and the International Financial Institutions (IFIs) has had in shaping the post-apartheid South Africa. In particular this paper would to offer a critical assessment of the great leverage that mining and energy sectors has in the formulation of the ANC’s politics in the democratization process. In this study will be explored the political and economic orientation of ANC and how this has been shaped by two force: big business and international force. In this way will be addressed a brief exploration of the Black Economic Empowerment, in particular until 1997. In the final part there will be two conclusions. The first is that big business was “*under a glass bell*”, because of its great importance for the economy of South Africa. The second one, and related to the first, is that ANC, despite his will to redress the imbalance of the Apartheid with BEE, has had to adapt to the leverage of mining and international forces, searching for a quiet transformation and transition from a white – dominated state to an anti- discrimination one.

## 1. Introduction

This paper would be a little essay about the history of South Africa, related to its great wealthy products and, in the same time, great problem: the mining industry. The research is a brief study about the relationship between the political and economic system and the great business in South Africa. This study doesn't want to be a critic to the political system of South Africa, but is just a brief reconstruction of the salient moments of the political and economic history of the country. Putting together the various studies and the different research on this argument, the resulting picture is of difficult assessment. On the one hand, the great business around the mining sector is of great importance for the South African economy; on the other hand the same business provides a kind of "*development's loop*" around the neck of economic development of the country.

## 2. Historical Background

The relationship between the mining sector's business and the South African society has its roots in the middle-80<sup>th</sup>. With the discovery of gold in 1867 and diamonds in 1886, the economic and social structure was disrupted. The economy of the country, and particularly the production system, has been modified from a system founded on the subsistence production, to one in which the mining need of great capital and cheap labour.

Related to the increasing importance of the mining, gave the birth to the first legislations and rules that aimed to excluding the black people from the social, economic and political life of the country. It's from this period, to the beginning of the "*Apartheid Era*" that the "*Two Nations*" State seed were planted.

The discovery of mineral deposits attracted worldwide attention on the country, causing a large influx of foreign capital and skilled labor, aimed at increasing the level of production in South Africa. Alongside the growth of European immigration intersect two trajectories that contribute decisively to shaping the South African economy.

1. The country joins fully in the global economy as a supplier of raw materials;

2. To increase the production was in need of a broader and cheaper labor.<sup>1</sup>

The process of economic growth and capital accumulation by the white population was based on a number of laws that was intended to exclude the black population from enrichment, and creating an army of cheap labor.

The Mine and Works Act of 1911 instituted the colour bar in the mining sector, through some posts that prevented black workers to actively participate in the industrial production. The prohibition of the breaking of contracts, in favor of other works involving higher wages, the Labour Relations Act was formalized in the same year. To these are added the Land Act of 1913, legislation which restricted the ownership of the Africans, and the pass law system, with which were controlled labor flows that moved to urban centers. The creation of the Bantustans was instrumental in this process: to separate the two souls of the country to achieve economic benefits.

How sustained Marais, around this system, several processes were developed:

1. The growth of racial division of labor and social development of the workers themselves;
2. The marginalization of the black people;
3. The “proletarianization” of black labour, on the which roots will born the trade unions and the anti-apartheid movements;
4. A class differentiation, also between the white people;
5. The bifurcation between economic orientation, of mining towards the market economy, and agriculture / industry in favor of state investment, especially in trade.<sup>2</sup>

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1 Marais, Hein “*South Africa : limits to change : the political economy of transition*” - 2. ed. - London ; New York : Zed books ; Cape Town : University of Cape Town press, 2001, p. 8

2 Marais, op. cit., pgg. 9-10

Over time the relationship between the state and mining intensifies, and this is linked with two factors:

1. The increasing reliance of the country on the export of rough material;
2. The process of accumulation of political power of white businessmen.

To understand what is the weight of the mining sector and how this has affected the Black Economic Empowerment, we must analyze the process of democratic transformation that South Africa undertook in the early '80s, and how this process and the subsequent foreign policy decisions of the ANC white has been influenced by the white business.

In the late '70s and early '80s, developed and intensifies a dialogue between ANC and black business through which the democratic movement will be led to reconsider the purposes of redistribution and nationalizations that had distinguished his anti-apartheid struggle. The great South African businessmen had the need to remain anchored to the capitalist system. In this way they would continued to benefit from being a net exporter of precious metals and raw materials worldwide. No coincidence, the areas affected less by the economic crisis of that time were just the extractive sectors, especially gold and silver.<sup>3</sup>

The international position that the industry had acquired, allowing investors and white capitalists to make huge profits and to protect themselves from the international economic imbalances, as the raw materials they produced, such as gold and diamonds, were “safe assets”.

The African National Congress, in this period, faced two challenges. The South African Economy comes from a decade of stagnation.

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<sup>3</sup> Zamponi, Mario *“Breve storia del Sudafrica: dalla segregazione alla democrazia”* Roma : Carocci, 2009. - 152 p.:

**TABLE 5.1. Level of Alienation (Urban Africans)**

	1977 <sup>a</sup>	1979 <sup>b</sup>	1984 <sup>c</sup>	1985 <sup>d</sup>
<b>Alienated</b> (“angry”)	39%	44%	50%	66%
<b>Prealienated</b> (unhappy)	25%	17%	16%	—
<b>Number of</b> <b>respondents</b>	(592)	(422)	(551)	(800)

<sup>a</sup>Theodor Hanf et al., *South Africa: The Prospects Peaceful Change* (London: Rex Collings, 1981), p. 442.  
<sup>b</sup>Lawrence Schlemmer, in Hanf et al. p., 442.  
<sup>c</sup>Lawrence Schlemmer, “Black Attitudes, Capitalism and Investment in South Africa” (Centre for Applied Social Science, University of Natal, Durban, August 1984), p. 10.  
<sup>d</sup>Mark Orkin, *The Struggle and the Future* (Johannesburg, Raven Press, 1986), p. 34.

The table above shows what was in those years, the level of alienation of the population living in urban areas. This feeling came from the fact that, although there was an opening of the government on the issue of racial oppression, problems stemming from the economic situation as a low level of wages and unemployment, is going to pass on the weakest class, the most of the black population of South Africa.<sup>4</sup>

The second problem faced by the ANC was the greatest influence of big business and the necessity to mediate it in the context of a democratic transition.

### 3. **A Democratic Transition?**

In the second half of the '80s, the SACP and the ANC, did not have a definite economic policy, the concept of black economic empowerment had not yet assumed a specific and distinctive meaning. The gravitational center of their development revolved around the concept of nationalization and the redistribution of the revenues obtained. It was at this time that the white business, and the NP government, shaped the idea of "*black advancement*".

The concept itself has inherent different elements of characterization. On the one hand, the development of the entrepreneurial class color was wanted by the NP to

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<sup>4</sup> Price, Robert M. ; “*The apartheid state in crisis : political transformation in South Africa*”, 1975-1990 / Robert M. Price. - New York ; Oxford : Oxford University Press, 1991, p.154

reduce the pressures for change on the part of the social movements of those years. On the other hand, multinationals played a crucial role in supporting black advancement.

The so-called "*Sullivan Code*" explicitly that corporations that invested in sub-Saharan countries have implemented since then. The process was based on anti-discrimination of workers of color and "Corporate Social Responsibility".<sup>5</sup>

Just at this time, begin to develop some of the meetings with representatives of South African economic elite. One of the most important events that involved Mandela, Cyril Ramaphosa (one of the most important figures in shaping the economic thinking of the ANC), and generally anti-apartheid forces, in laying the foundations for the development of the next economic development was their meeting with Gavin Relly, one of the most important men of Anglo-American, a very influential corporations in South Africa. This gathering testifies to what later became the leitmotif of the Black Economic Empowerment. The creation of a "*black middle class*" will be linked to reports that the ANC will have with the South African capitalists. The effect of "trickle down" as a direct result of the acquisition of some important economic areas by these few Africans, would bring benefits to the entire black population, by opening up spaces that otherwise would not have been possible to create.<sup>6</sup>

The political and economic reforms that soon after the ANC were implemented, some changes were influenced by continental and even international. The reduction of emphasis in favor of ideological source, socialist redistributive policies and policies aimed at nationalizing the companies, was a direct result of the transformation of the international environment. The dissolution of the Soviet Empire had influenced the pro-socialist movements around the globe. In this variation did not remain immune to the South African Communist Party, the movements of social

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5 Gqulule, Duma "*A Brief History of Black Participation in the Economy of South Africa before 1994*", in AA.VV "*Making Mistakes, Righting Wrong*", op. cit., p. 95

6 Anthony, "*Black Economic Empowerment since 1994: Diverse hopes and differentially fulfilled aspirations*", disponibile al sito : <http://www.yale.edu/macmillan/apartheid/butlerp2.pdf>, p.4

struggle and, in general, all the political and economic orientation of the ANC. The end of the concept of communism that is parallel to the revival and radicalization neo-liberal orientation of the "Consensus".<sup>7</sup> The relationship that the ANC and other government forces had with the "white business" in South Africa, must be interpreted according to these changes and the composition that the domestic economy of the country had inherited from the past.

The structure of the Constitution "BEE Companies" makes explicit the level of influence that white capitalists still held in South Africa. Two examples of all. Nail and Real Africa were two of the most successful processes for equity ownership, but they were built in a particular way. They were formed in the capital on sharing, a pyramid of which the two companies represent only the top.

Normal control, through voting rights, was actually given to some entrepreneurs of color, but it was the white capitalists to hold real control, getting the majority of economic benefits.<sup>8</sup> In general, therefore, the financial power, mostly because of the improper functioning of the *Special Purpose Vehicle*, the funding method, was held by whites.

The *Special Purpose Vehicle* instrument was used in these acquisitions to provide financial aid to the black managers who were involved into the transactions. Around the SPV met several critical voices. Explaining the mechanism of operation of the SPV, Gelb said that the sale of assets:

*"[...] was financed by loans that were often supplied by the manufacturer and usually were financed by the future earnings of the company itself [...]"<sup>9</sup>;*

Such insurance on the loan, of course, often resulted in high rates to pay off the seller, so do not represent a benefit, but an obstacle to the development of autonomy in the

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<sup>7</sup> Ivi, p.6

<sup>8</sup> Gqulule, op. cit., p.93

growth of the business of color.

The mechanism of operation of the SPV was a kind of exploitation of the shares as collateral for loans.<sup>10</sup>

In SPV, the lender provided the cash in exchange for a mix of debt and equity. The companion that aimed at achieving BEE under the canons obtained the right to vote. But it was the same lender who obtained the real benefits of shareholders. These benefits were the lender up to a ceiling determined by a minimum rate of return (*hurdle rate*), above which the dividends were divided in favor of the debtor company. The main problem is evident if one considers the situation in the South African economy and its exposure to the turmoil we can finance the '97-'98 biennium. The sub-Saharan countries, as discussed above, was in an economic situation that not allowed to expose themselves in favor of major reforms of capital that could really help the black population to reduce the gap with the white minority. At the low rate of growth of the economy must be added the government's inability to implement major reforms in strategic sectors of the economy (mineral resources in particular) and the lack of a connotation of redistributive economic policies, that could aimed to reducing the historical gap of the Gini coefficient.<sup>11</sup>

Only in this way it would be possible to connect the word "*growth*" the adjective "*sustainable*", which is necessary for an economy like South Africa. Given these negative trends, the international financial crisis fueled the growth of interest rates, making the repayment of debt contracted with the vendor even more

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9 Cit. Stephen Gelb, 2004; In Acemoglu, Daron Gelb, Stephen Robinson, James A. “ *Black Economic Empowerment and Economic Performance in South Africa*”; August 2007, p. 6; disponibile al sito: <http://www.treasury.gov.za/publications/other/growth/06-Procurement%20and%20BEE/02-BLACK%20ECONOMIC%20EMPOWERMENT%20AND%20ECONOMIC%20PERFORMANCE%20IN%20SO.pdf>

10 Cit. Butler, op. cit., p.16

11 Gqubule, Duma, “*Black Participation in the Economy of South Africa After 1994*”, in AA.VV “*Making Mistakes, Righting Wrong*”; p. 103



difficult. Suffice it to say that lenders demanded a minimum rate of 20% per annum, which is unsustainable for any business facing for the first time in the capital market. To reach this height of interest, a BEE Company would continue for ten years, a growth rate of 6.5%.<sup>12</sup> Comparing this with the general trend of the economy, which grew at a rate of 3%. A differential of 3.5% would not be bearable for a newborn company. Then it could be notice a discrepancy between what supposedly a new company should pay off in a situation of economic stability, and what he found himself at this juncture and economic context.

In this economic context we can see different that many others problems affected the South African economy.

The South African labor market should be divided into two parts, one catered for the formal sector and the other informal sector. The salary of a worker in the formal sector, for which you want a job that includes a guaranteed minimum salary, medical coverage, the right to trade union membership, etc.. was twice that of workers who received the informal sector.<sup>13</sup> While employment in the formal sector declined, the informal expanded 8% per annum. There was a correlation between racial origin and employment. The regime had fostered racial minority and low level of education of Africans. The same democratic government had failed to look for programs that reduce this negative legacy. The reforms that had protected the incomes of the white population during the previous decade were now used to reduce wage fluctuations of a few Africans. The result of this political tendency is that the focus was shifted on the investments and capital, rather than going for the growth of domestic capital, directly affecting African workers.<sup>14</sup> Another structural factor that characterizes the South

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<sup>12</sup> Ivi, p. 104

<sup>13</sup> Kingsdon, Geeta and Knight, John “*Unemployment in South Africa, 1995-2003: Causes, Problems and Policies*”; in *Journal of African Economies*, Volume 16, Number 5, pp.813-848; p. 820

<sup>14</sup> Seeking, Jeremy Nattrass, Nicoli “*Class, Distribution and Redistribution in Post- Apartheid South Africa*”; in *Transformation: Critical Perspective of Southern Africa*, 50, 2002, pp. 1- 30; p. 6

African economy in those years, is the high concentration of economic interests in the hands of whites.

Most companies in the country belonged to the large capitalist conglomerates.

The 85, 7% of the industrial facilities were owned by big business-men of European origin.<sup>15</sup> This peculiarity is also found from the point of view of the market because the big companies were also divided the marketing of consumer goods.

A sort of monopolistic tendency can be recorded in the construction industry, in that of wine production, etc..

The high concentration of economic power produces two effects:

1. Generating low incentives to invest, harm the competitive system;
2. The "monopolization" of some sectors of the economy on the one hand leads to low product quality, on the other to increase the price of the asset.

In this economic situation, the mining sector played a pivotal role.

	1985	1990	1991–1995
Anglo American Corp	53.6	44.2	38.9
Sanlam	12.2	13.2	12.7
Stanbic/Liberty Life	2.0	2.6	5.8
Rembrandt/Remgro	3.8	13.6	13.2
SA Mutual/Old Mutual	10.6	10.2	11.2
Anglovaal	2.1	2.5	3.1
Black-owned groups	–	–	–
Top 5 groups collectively	82.3	83.9	85.9

<sup>a</sup> Control is assessed by taking into account the various cr may be associated with a relatively small direct shareholder  
Source: McGregors (various years).

Given the weight of the mining sector on the economy, as noted in the table, the leader of the ANC could not risk, at a time so delicate, to facing a reduction in

15 Hirsch, Alan “*Season of Hope, Economic Reform under Mandela and Mbeki*” University of KwaZulu-Natal Press, IDRC / 2005, p. 195

investment and an outflow of capital, which would compromise the whole process of democratization of South Africa.

#### 4. Rethinking the first wave of BEE

At this point, we could rethink to the global discourse on the true nature of the Black Economic Empowerment.

The argument that the first wave of BEE has been a direct emanation of the aspirations and the idea of development that the tripartite alliance, has some shortcomings.

The ANC, in particular, could not afford to move away from democratic discourse, and economic process that would have resulted, the white capitalism, and had no resources or means, especially political means, strong enough to take the road that would lead to nationalization. Underlying this rationale has to be included the need to introduce, within the major national corporations, some black managers. This was an attempt to create a sort of "*ideological shield*"; BEE and the same can be partially evaluated in these terms. In particular, the reference to the HDSA, the "historically disadvantaged" has to be considered, since the enunciation of this principle, and be analyzed referring to two objectives:

1. From the word of Moeletsi Mbeki we can see that the underlying logic of the BEE was to extract wealth from those who took advantage of the country, the white minority, in favor of historically disadvantaged persons. This goal, however, provides, in social terms, the radicalization of the division and differences. This means that the minority, to be able to repay the "debt" was to remain in the social and economic situation in which it was, consequently also the disadvantaged, to benefit from the HDSA policies, had to remain in their status;<sup>16</sup>

2. On the other hand, the BEE can be a real arrangement of the Alliance for change, understood as a reduction of the economic power of the minority through the sale of certain assets to the African entrepreneurial class, thus creating a virtuous circle

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16 Mbeki, Moeletsi "*Architects of Poverty*" - Pan Macmillan (April 28, 2009), 216 pgg.: p. 70

which would have benefited society and become an example for the empowerment extended to the rest of the population. This idea is related primarily to the role that unions and SACP were covered during the anti-apartheid struggle and to the economic “*trickle down*” theories.

Directly connected to the first point and this issue is the “*corrupting*” nature that takes the first phase of BEE.

The relationship between the state and black elites generated in South Africa, and in reference to empowerment, a mechanism for which the first was taken to provide "reparations" in terms of pay, the HDSA.

According to Mbeki, this mechanism generates a vicious circle of corruption, in which a prominent role was played by white business, since it also needed the complicity of the State to generate more profits.<sup>17</sup>

Based on this analysis, therefore, the first phase of BEE assumes the traits of a "*patronage*", in which the State will recognize the two souls of the country, through the giving of benefits to both. A problem arises when to benefit from this logic are people who were part of the Alliance, or who were close to political circles, both to national or local level.

To the cases of Motlana (NAIL), Zwelakhe Sisulu and Dkigang Moseneke (a leftist journalist and a former militant of the Pan Africanist Congress, that received a “benefit bonus” of 35 million of Rands for their great job’s results), the most important and significant have been other cases of personal enrichment through access to corporations.

Cyril Ramaphosa, has developed over the years various interests within the country's largest companies, such as De Beers, Standard Bank and Macsteel.<sup>18</sup> Tokyo Sexwale

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17 Ivi, p. 71

18 Southall, Roger “*Ten preposition about Black Economic Empowerment in South Africa*”, HSRC Research Outputs No 4433, <http://www.hsrc.ac.za/module-SearchBlox-search.phtml>, p.10

has extended its influence in ABSA and Northern Platinum.<sup>19</sup> Mzi Khumalo has been strongly criticized for having invested millions of Rands in a family-controlled firm.<sup>20</sup> Money that came from his Johannesburg Consolidated Investments (JSI), that collapsed in the late '90s. Respectively, the three, were: Secretary of the ANC, Governor of Gauteng and former fighter of the Umkhoto we Sizwe.

We can see an environment in which the upper middle class ruled the state policy, and economic level an "*economic oligarchy*" in her hand the productive sector.<sup>21</sup> To understand this point you should refer to that known "*Mineral-Energy Complex*"(MEC).<sup>22</sup>

The MEC has created a form of economy that is:

*"[...] dominated by the extraction of minerals from the ground, which are transformed into metals through the use of electricity and chemistry and are sold to the rest of the world [...]"*<sup>23</sup>

The "*do ut des*" of the democratic transition was also based, and above all, on the desire to reduce the unfavorable pressures to MEC, a major supplier of aggregate value of the country. At the MEC, to continue to produce for the country's GDP and

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<sup>19</sup> Ibidem

<sup>20</sup> Bond, Patrick "*Elite Transition: From Apartheid to Neoliberalism in South Africa*", Pluto Press, 01/02/2000, p. 43

<sup>21</sup> Mbeki, op. cit., p. 69

<sup>22</sup> Ivi, p. 73

<sup>23</sup> In Mbeki, op. cit., citation of the work in : Fine, B. and Rustomjee, Z. (1996) *The Political Economy of South Africa: From Minerals Energy Complex to Industrialisation*. London: Hurst and Company

be profitable, need cheap labor. Unlike the past, this work is created through the import of consumer goods abroad. In this way the cost was reduced by reducing the cost of consumption of the population and therefore the wage ratio decreased.

In this process of the first wave of BEE we can see a Congress Alliance dominated by the ANC, with the COSATU and the SACP that, although they criticized its neoliberal conversion, especially the former, were blocked in a “*corporatist process*”.<sup>24</sup> Referring to Barchiesi, in this process developed negotiations between capital, labor and ANC, and the COSATU were treated just “*like another interest group*”.<sup>25</sup>

In this first wave there were no limits, political or social, to the bargaining process between ANC and white business, especially mining sector.

To sum, in South Africa the development discourse of BEE has been influenced by a political environment that were in close relations with mining sector, and white capitalism in general, that formulating an empowerment policy based also on some of the pre-apartheid principles, like the creation of a black elite. In this analytic framework, the nature of the BEE has been influenced from this close relationship, reducing the redistributive focus and creating a mechanism of corruption that distorts the real aim that could be achieved through an empowerment policy.

Also the theoretical basis of the BEE could be discussed.

The empowerment model of Malaysia was considered an example from the Congress Alliance.

The Malaysian example of empowerment is most meaningful when we notice the similarity properties of the structure of economic production in the two countries.

Even in Malaysia the economy has racial boundaries, as most economic activity was held by the Chinese minority. To try to increase the economic participation of the majority ethnic group, the Bumiputera, Asia, the government

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24 Barchiesi, Franco Bramble, Tom “*Rethinking the labour movement in the new South Africa*” - Aldershot, UK ; Burlington, VT, US : Ashgate, c2003. – XII, p. 46

25 Ivi, p. 53

initiated a plan of acquisition / creation of state enterprises, through which it would be possible to increase the occupation of the Malaysian population. The plan, known as NEP (New Economic Plan) was launched in 1970 by the *United Malays' National Organisation*. In less than 30 years, far more than 600 companies were created and the share of ownership established in the plan, which revolved around 30%, was almost reached in the mid 80s.

One of the main objectives of the first phase of the black economic empowerment was, in fact, related to the reduction of economic power held by the white minority. In particular, the government wanted to try to reduce the influence of large financial conglomerates in the hands of South African capitalists, who owned approximately 86% of the country's economic activities.

However, there are conceptual and practical differences between the two cases. The New Economic Plan, was the reduction of chronic poverty and the imbalance of ownership. Regarding the latter point, Malaysia provided a balance of properties, through targeted interventions and the leading role of the state.

Another difference lies in the reforms implemented by both countries. In the country of Southeast Asia, the ownership, were combined with other indicators, such as growth and development of education, health, and diversification of production. Malaysia began to get positive results after about thirty years since the reforms. There was also the "Mineral-Energy Complex" and the development was driven by government interventions at multiple levels. The reduction of inequalities is then accompanied the criteria of redistribution of wealth and sustainable growth. Finally, in the case of South Africa, lacked the large inflow of foreign direct investment and, above all, the knowledge needed by workers, which in turn made it very low level of specialization of labor.

## 5. Concluding the first wave of BEE

The first post-apartheid BEE ended between 1997 and 1998. To stop this wave of empowerment will be a collapse in the prices of the stakes of BEE Companies, in the JSE in the aftermath of the financial turmoil from the Asian financial crisis. The high exposure of empowerment's companies in the financial markets causes reduction of BEE agreements and changes of ownership in the late '90s.

Directly connected to the weak role of these activities in the economy was the mismanagement of the process of acquisition, connected to the already mentioned inability to find a mechanism of market access that would be sustainable.

Just the international environment, however, has played a key role in South Africa, taking away space for poverty reduction policies and influencing the transition to neoliberalism in the country.

Paradoxically, it was the choice and the neo-liberal funding mechanism that had arisen, the cause of the collapse of the shares of BEE Companies.

Again, international actors come on stage during the transition period, mainly since the early 80s, although some interventions in favor of direct loans to industry or country, can be traced from the beginning of the apartheid regime.<sup>26</sup>

During the struggle for democratic transformation, the International Financial Institutions (IFIs) conform to the attitude of international governments, disrupting cash flow direct to South Africa. On the other hand, the relationship between IFIs and the Sub-Saharan country continued, changing the setting.

The International Monetary Fund (IMF) went directly to join the negotiation process through some of its analysts, thus affecting future policy choices.

The international financial institutions enjoyed support within the country, which stemmed mainly from the white capitalist class; an example can be set the neo-liberal

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26 Bond, op. cit., p.158



attitude assumed by the Urban Foundation. On the other hand, the early 80s saw the IFIs criticized by various stakeholders from civil society such as NGOs, mainly due to economic orientation that the World Bank and the IMF were following very closely the ideas of so-called "*Reaganomics*" of the U.S. president.<sup>27</sup>

Even if, as a result of various internal criticism Alliance (in particular COSATU), the ANC announced in the document *Ready to Govern* that wanted to continue with the relationship with the IFIs, wanted to follow a path that could lead the country not to aggravate existing deficit problems, avoiding excessive debt with the IMF.<sup>28</sup> In spite of this, with the accession to GATT principles and the announcement of openness to foreign direct investment flows, the Alliance had begun to be more and more favorable neoliberal orientation.<sup>29</sup>

The relationship between IFIs and South Africa has also been characterized in the early 1990's, with a loan of nearly \$ 900 million, granted by the IMF to the country, with some clauses to be respected, including the reduction of the deficit / GDP ratio and the reduction of wages in the public sector. An agreement that has remained hidden until 1994, and was intended to finance the RDP.<sup>30</sup>

From this point of view, policies included reducing the emphasis on the public sector as the driving force of redistributive policies, to promote growth and investment in the private sector. The ANC had brought forward the idea of the welfare state since the '50s, but has had to adapt to certain macroeconomic conditions dictated by the IMF, in an economic stalemate, after the transition.

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27 Bond, op. cit., p. 162

28 Hirsch, op. cit., p.53

29 Ivi, p. 54

30 Bond, op. cit, 178

Within these dynamics, we must analyze the internal economic and financial environment of the country. South Africa had inherited a huge foreign debt by the apartheid regime, with highly volatile capital and a public debt that risen to nearly ten percentage points of GDP.<sup>31</sup> At that point, ANC had to find a highly productive sector of the economy that could drive the country's growth. The choice fell on the mining sector, which was oriented to the international market, conducive to economic globalization.

Along with the loan over-quoted, there was a document of the World Bank, which became the focus of the negotiations for the economic policy choices. The report "*Reducing Poverty*" pointed to the growth of wages of black workers as the main cause of the reduction of the creation of jobs in the mid 80s.<sup>32</sup> This paper was followed by a report of the IMF<sup>33</sup> demanding the reduction in average wages, productivity growth and the reduction of public spending.<sup>34</sup> The policies contained in these two documents can be traced in GEAR.

In the aftermath of the failure of the RDP, the choice of the South African government fell in favor of neoliberalism, institutionalized through the adoption of GEAR in 1996. In the middle lie the various points that have made the first phase of the BEE a failure for the South African political class. The decision to reduce public spending has an impact on the features that had to take BEE. Reducing the possibilities and economic aid to the poorer classes, reducing the cost of education and the efforts in favor of increasing jobs, the "*pro-ownership*" orientation became the focus of these

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31 Hirsch, op. cit., p. 112

32 Marais, Hein "*South Africa : limits to change : the political economy of transition*" - 2. ed. - London ; New York : Zed books ; Cape Town : University of Cape Town press, 2001, p.129

33 Key Issues in the South African Economy, 1994

34 Marais, op. cit., p.129

policies. The exclusive emphasis placed on this indicator reduced the chances of advancement and social development. If we add these factors to the economic dominance of mining and the process of corruption that were established around the creation of the black middle class, we understand how the international system may have influenced the process of empowerment.

After this little overview of the external influence on the economic choices of South Africa, it is possible to see some constraints to the effective implementation of BEE.

Internally, the big capital from the mining sector was pressing for opened up to international markets. In the same alliance, COSATU and SACP had no numbers or the ability to really tackle the majority party. At the international level, the IFIs pushed for economic liberalization and trade openness.

It comes in this way to GEAR.

The choice for the ANC was between to remain isolated, with a resulting flight of capital and investment that would have been disastrous for the country and that would undermine the same democratic path, or open up to international markets, while reducing the instances in favor of real empowerment, which could involve as many people.

As Marais says:

*"The neo-liberal programmes that have defined the globalization have not so much rolled back the states as redefined its key priorities. This has taken the form of redirecting state resources away from the social welfare system towards law and order functions and increased subsidies and supports for business [...]. In essence, neoliberalism represent an attack not on the state per se but on the manner and interests according to which state resources are allocated [...]."*<sup>35</sup>

The social costs have been reduced in this case and have characterized and influenced the effective implementation of empowerment policies.

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35 Marais, op. cit., p.153

Another possibility is to formulate a GEAR as a self-imposed Structural Adjustment Programme (SAP) to prevent an increase in the influence of international institutions in the country. In this context, it is possible that South Africa has decided to adapt to the logic of globalization and the extension of the *Washington Consensus* also to avoid borrowing more and taking of the PAS that they were less responsive to the internal environment.

It is on this basis has been developed a new discourse, carried out by Mandela's successor, Thabo Mbeki and the BEE Commission, which started its work in 1997.

## 6. **Conclusion**

This little essay wants to explain, minimally, the relationship between ANC, Big Business, particularly the mining sector, and the IFIs that influenced the democratic transition and the first wave of BEE.

How it is possible to see from this study, the mining sector has shaped the economy, the politics and the social environment of South Africa from the middle of the XIX century.

What is important to say is that the great reliance of the South African's economy from one sector, made impossible to implement a comprehensive development framework from which the majority of population could benefit.

ANC had to adapt and come to terms with the internal business and international actors do not undermine the transition process. The problem concerns the consequent

high reliance from the international market and the high exposition of the country's firms to financial crisis, like the Asian one of the 1997-1998.

Like other country that based their economy on the mining, Nigeria or Brasil for example, the Gini coefficient demonstrates that only a few people govern the economy and has the major financial stake.

The close relationship between the Govern and the big business has created a philosophy of "*patronage*", an exchange in which neither can live without the other, with a devastating effect on the social welfare and the poverty of the country.

Without the creation of employment and lacking of a good policies management, a "*sustainable growth*" has been hampered. The accumulation mechanism, especially for white business, and the consequent capital flights, with the delocalization of profits in other countries like UK, Australia or Canada, reduced the revenues for the implementation of a real social welfare system.

South Africa will face many other challenges concerning its development and the redistribution of wealth. The impression is that. If the reliance on mining will be perpetuated and the country will be unable to diversify its economy, problems that affected the vast majority of the black people couldn't be mitigated.