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**MALAYSIA, SOUTH AFRICA
AND THE MARKETING OF THE COMPETITION STATE:
GLOBALIZATION AND STATES' RESPONSE**

by

Janis (Johannes Erasmus) van der Westhuizen

**Submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy**

at

**Dalhousie University
Halifax, Nova Scotia
July 1999**

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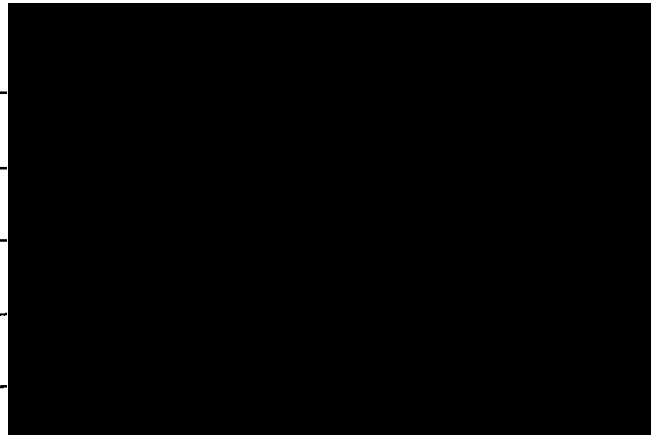
The undersigned hereby certify that they have read and recommend to the Faculty of Graduate Studies for acceptance a thesis entitled "Malaysia, South Africa and the Marketing of the Competition State: Globalization and States' Response"

by Janis van der Westhuizen

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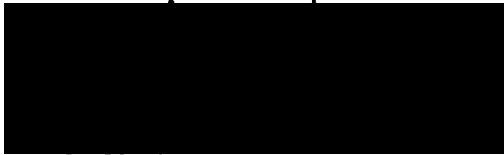
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To my parents *en die familie*
both cause and consequence of the triumph and tragedy that keeps us going.

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Abstract

By analyzing how intermediation processes, state strategies and the structure of the international political economy interact, this study analyses how state elites in Malaysia and South Africa attempt to minimize the socially disruptive effects of globalization. Drawing on the competition state model, the case is made for societal corporatism in South Africa and patron-client rentierism in Malaysia as vital intermediation processes, whereby the cross-pressures generated by international expectations and domestic demands are managed, thereby facilitating the transformation towards the competition state model in ethnically deeply divided societies.

Apart from highlighting the similarities and differences between the Malaysian and South African political economies, this study also introduces the significance of marketing power as a particular competition state strategy whereby state elites appropriate the global visibility of the domestic film and popular music and especially sport industries to both externally “market” the country and internally reinforce a sense of national identity. By directing attention to the adaptability of the state (and its associated economy and civil society) to the challenges of globalization, this study underscores the extent to which the state is both a vehicle of globalization and is itself reconstituted by it.

List of Acronyms

AAC	Anglo American Corporation
ANC	African National Congress
ASB	Amanah Saham Nasional (National Unit Trust)
ASEAN	Association of Southeast Asian Nations
BICC	Bumiputera Industrial and Commercial Community
COSATU	Congress of South African Trade Unions
CGF	Commonwealth Games Federation
CHOGM	Commonwealth Heads of Government Meeting
DAP	Democratic Action Party
DDEP	Discussion Document on Economic Policy
DPG	Draft Policy Guidelines
DNU	Department of National Unity
EPU	Economic Planning Unit
EROSA	Economic Research on South Africa
ERWG	Ethnic Redistribution With Growth
ESCOM	Electricity Supply Commission
ESOP	Employee Stock Ownership Programme
ET	Economic Trends Research Group
FDI	Foreign Direct Investment
FEER	<i>Far Eastern Economic Review</i>
FVB	Federale Volksbeleggings
GEAR	Growth Employment and Redistribution
GNU	Government of National Unity
HCI	Hoskins Consolidated Investments
HICOM	Heavy Industries Corporation of Malaysia Bhd.
ICA	Industrial Co-ordination Act
IDC	Industrial Development Corporation
IOC	International Olympic Committee
ISI	import-substituting industrialization
ISCOR	Iron and Steel Corporation
JCI	Johannesburg Consolidated Investments
JSE	Johannesburg Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
M&G	<i>Mail & Guardian, The</i>
MAS	Malaysian Airlines System

MERG	Macroeconomic Research Group
MPBH	Multi-Purpose Holdings Bhd
MCA	Malaysian Communist Party
MCI	Malaysian Indian Congress
MCP	Malaysian Chinese Association
NEAC	National Economic Association Council
NEC	National Economic Consortium
NECC	National Economic Consultative Council
NEDLAC	National Economic Development Labour Council
NEF	National Economic Forum
NEM	Normative Economic Model
NEP	New Economic Policy
NFC	National Finance Corporation
NDP	National Development Policy
NGO	non-governmental organization
NOCSA	National Olympic Committee of South Africa
NP	National Party
NUM	National Union of Mineworkers
OPP	Outline Prospective Plan
OPP2	Second Outline Prospective Plan
PAS	Parti Islam SeMalaysia (Malaysian Islamic Party)
PERNAS	Perbadanan Nasional Berhad (National Corporation)
PNB	Permodalan Nasional Berhad (National Equity Corporation)
RDP	Reconstruction and Development Programme
SAIRR	South African Institute of Race Relations (Annual Survey)
SACP	South African Communist Party
SADC	Southern African Development Community
SAF	South Africa Foundation
SANCO	South African National Civics Organization
SEDC	State Economic Development Corporation
SOE	State Owned Enterprises
NACTU	National Council of Trade Unions
NUMSA	National Union of Metalworkers of South Africa
UIC	union investment company
UMNO	United Malays' National Organization

Acknowledgements

(As a variation on the tune of the Beatles' "Long and Winding Road")

A dear friend and colleague once warned that the journey to a Ph.D is a "very long and a very lonely road". I could never imagine how long and lonely that road would really be. Fortunately, my ability to stay the course owes much to others: family, friends and fellow comrades in the academic struggle. I am grateful to the Almighty not only for the privilege to embark on the journey in the first place, but also for the many who cheered me on. Without them, I certainly could never have completed it.

Sarel and Sune, but especially my parents, often got me back on the road after stumbling into the depths of despair. Equally, without the coach I had in the form of Tim Shaw, my journey would not have lasted very long. As mentor, friend and supreme slave-driver -- "you only do it once" -- he kept me from falling by the wayside. David Black was one of the first to encourage my ideas on the "culture stuff". His reassurance and help during those first few culture shocked days in August 1995, also kept me from leaving the race. Robert Boardman, the third member of my committee provided useful advice not only during the thesis but throughout the programme. And as the end became near, Jane Parpart was a relentless source of encouragement.

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My motivation for pursuing a North American Ph.D was to benefit from its more structured approach. Blending the American and British approaches, my Canadian Ph.D experience was a thoroughly rewarding one and I owe a great deal of thanks to all the faculty in our Department, especially Tim Shaw, Robert Boardman, Robert Finbow, David Black, Denis Stairs and Gilbert Winham. However, I am exclusively responsible for the ramble which follows.

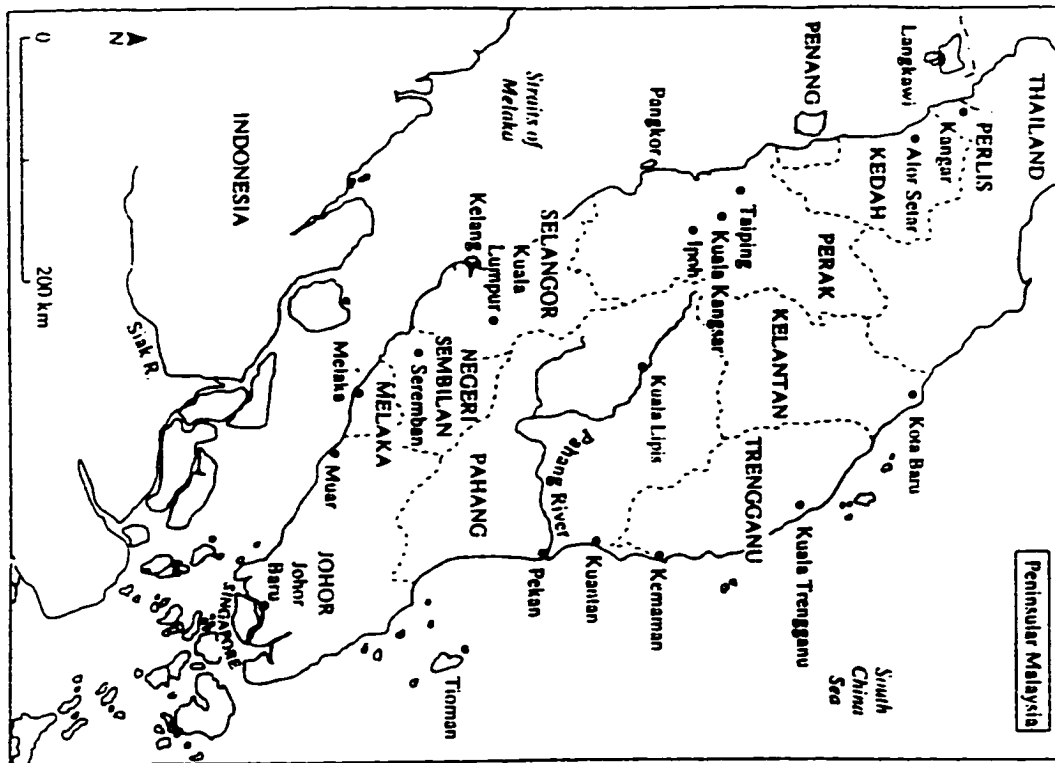
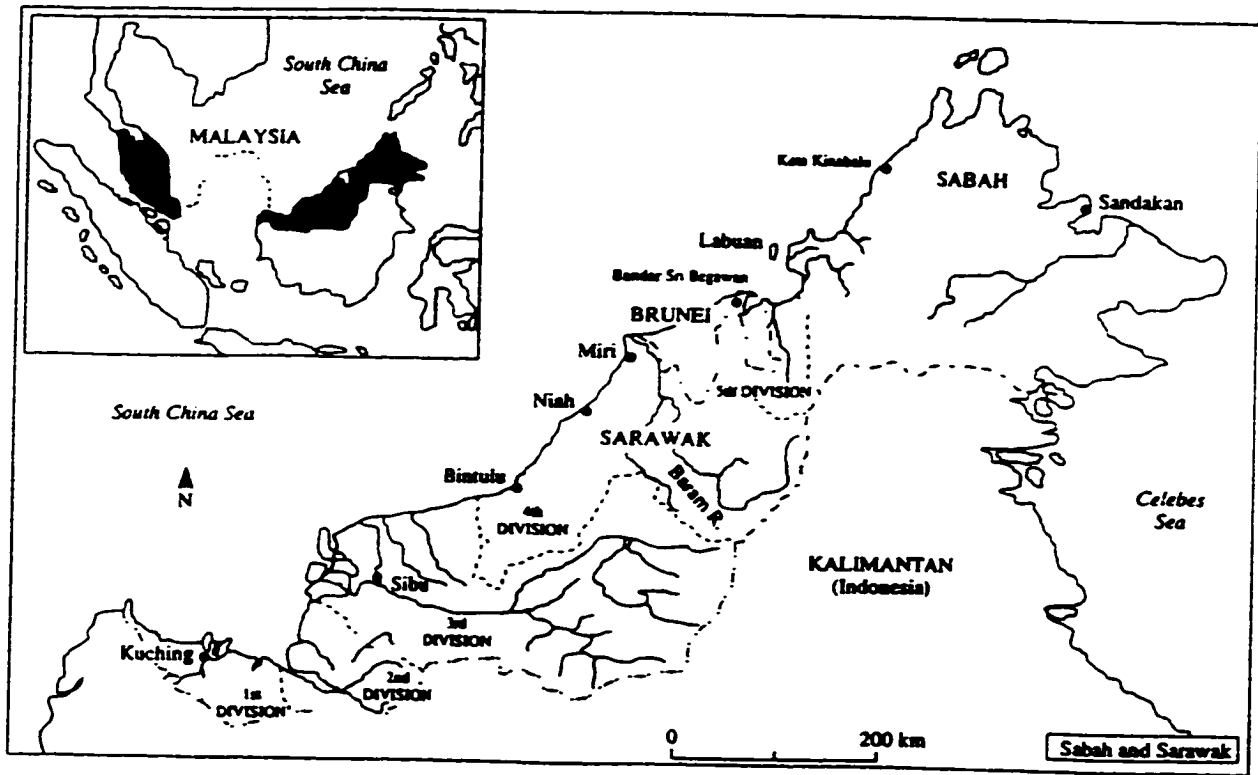
All journeys cost money. I was very lucky to be awarded two scholarships through which my journey could be funded. The Human Sciences Research Council's Centre for Science Development (now the National Research Foundation) awarded to me a Prestige Scholarship for Doctoral Studies Abroad in both 1995 and 1996. The financial assistance of the Centre for Science Development (South Africa) towards this research is hereby acknowledged. Opinions expressed and conclusions arrived at, are those of the author and are not necessarily to be attributed to the Centre for Science Development.

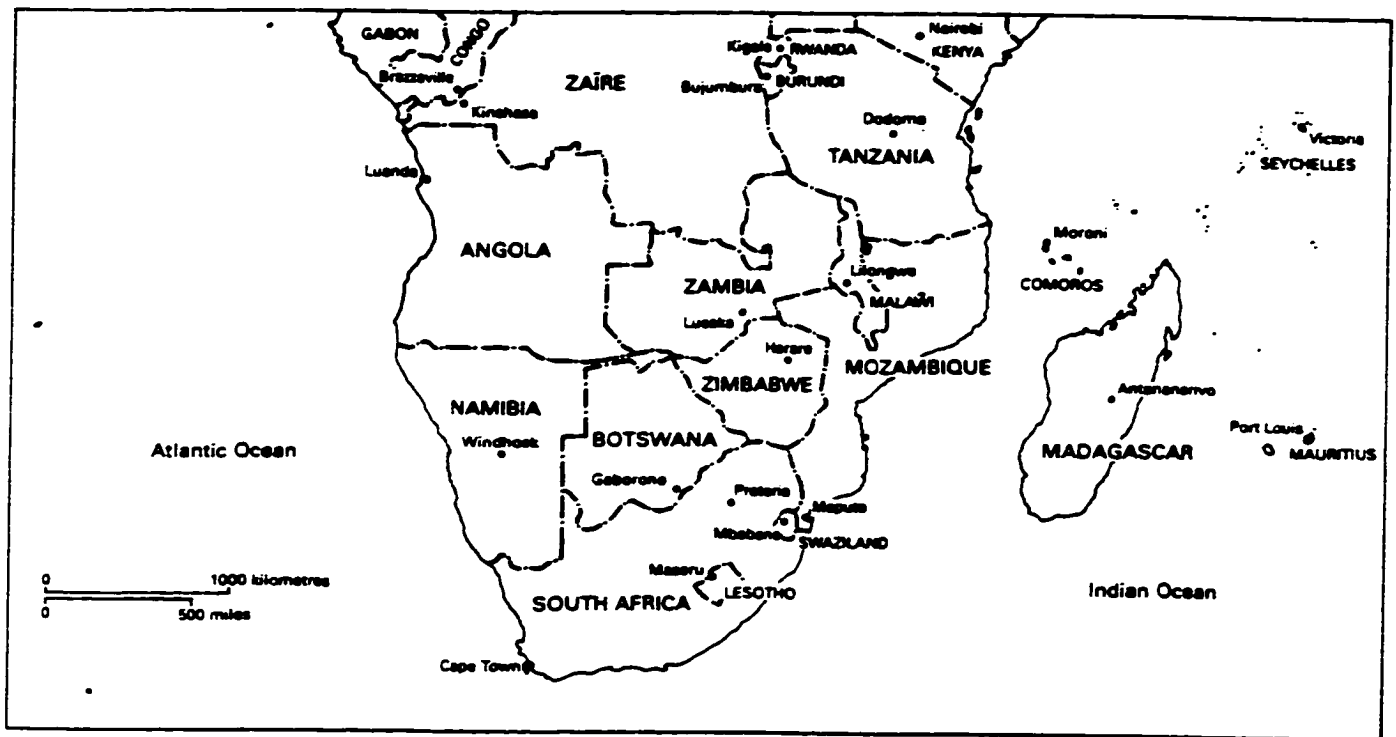
As an international student I remain grateful to Canada and Dalhousie University in particular for its generosity. Not only did Dalhousie University waive my differential fees but I was greatly honoured to be awarded a Killam Pre-Doctoral Scholarship for both the 1997-98 and 1998-99 academic years.

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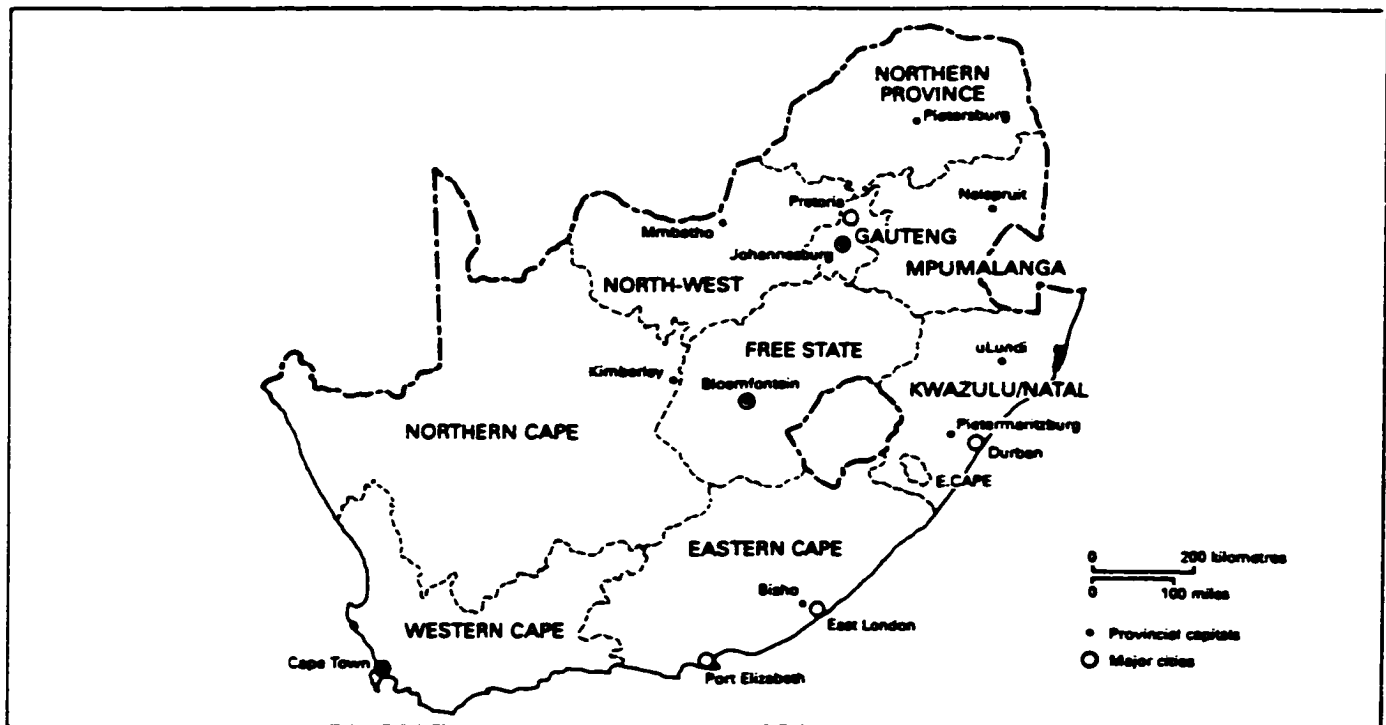
Far from being the Northern equivalent of the Antarctic (which I initially thought Nova Scotia might be), Halifax proved to be the ideal place from which to reflect, at a considerable distance, upon Malaysia -- but especially South Africa.

July 9, 1999
Halifax, Nova Scotia
Canada.





Southern Africa



South Africa: provincial boundaries

Hegel remarks somewhere that all the great events and characters of world history occur, so to speak twice. He forgot to add: the first time as tragedy, the second as farce.

- Karl Marx (1977:147)

1

Introduction

Intermediation Processes, State Strategies and the Structure of the International Political Economy

"I've lost my voice"

- Mahathir Mohamad, *Asiaweek*, March 27 1998

"...the process of globalization is an inherent mode of existence of capital. It is therefore neither the invention of some reactionary cabal that sits somewhere in the world nor can it be stopped"

- Nelson Mandela, *Report to the African National Congress' 50th National Conference*

As these epigraphs suggest, Nelson Mandela, South Africa's president responded to the challenges of globalization quite unlike the Malaysian prime minister, Mahathir Mohamad. In fact, the latter argued that the Asian crisis of the 1990s, represented a concerted Western attempt to bring the Asian "miracle" to an end. Since its first democratic election in 1994, the "new" South African regime has persistently adhered to neo-liberal policy prescriptions despite tremendous domestic expectations of significant state intervention in favour of the redistribution of wealth. In contrast, Malaysia, the "shining star" economy of the 1990s, with its established practice of massive state intervention, rapidly discovered that with the Asian crises, profound political problems emerged. Whereas South Africa largely responded to the effects of the crisis by simply "biting the bullet" and drastically increasing interest rates, by late 1998, Malaysia completely abandoned flexible exchange rates and imposed restrictions on currency trading. Leadership personalities aside, and given the remarkable degree of similarity between these two "emerging markets", how are such profoundly different policy responses to be explained?

In this analysis, I attempt to do so by examining how intermediation processes, state strategies and the state's location in the international political economy, shapes the way in which states (and their associated economies and civil societies) respond and adapt to the challenges of globalization. Globalization is not simply an "iron cage", nor should the profound consequences of globalization simply be dismissed. Rather, globalization provides states with both new opportunities as well as constraints.

Yet, despite the vast literature on globalization, it is unable to help us answer these particular questions. Firstly veering between - on the one hand - a "denial" of the profound

consequences of globalization and the unprecedented “withering away” of the state, on the other, the debate has failed to focus attention on the way in which states *adapt* to the challenges of globalization. Secondly, apart from platitudinous reflections on the degree to which globalization exacerbates inequalities between the North and South, state responses to globalization have tended to focus on the advanced, capitalist world, to some degree the NIC's (especially Korea, Taiwan, Singapore and Hong Kong) but, until the Asian crisis, very little in relation to the near-NICs (Malaysia, Thailand, Indonesia) and most decidedly not African states¹. Even Linda Weiss (1998) who has made the case for the *Myth of the Powerless State* by redirecting attention to individual state capacity, does not deal with states in deeply divided societies². In short, the globalization literature has yet to deal with the more “messy” business of accounting for the way in which states in ethnically polarized societies deal with the challenges of globalization.

Yet, it is the emerging markets - especially the so-called strategic Big Ten³ - which are often most at risk (Garten, 1997, Chase, Kennedy *et al.* 1996). Considering their dependence on foreign direct investment (FDI) and the fact that the overwhelming amount of FDI circulates between the Triad economies, states in the developing world are more prone to transform policy and risk a potential domestic political fall-out in order to be regarded as an attractive “lean and mean” site for international investment. Given the degree of inequality and ensuing polarization, policy-makers are often caught in the inevitable tensions arising from domestic demands versus external pressures and conditionalities. Moreover, their task is complicated even further by the ever persistent danger of renewed political, often, ethnic mobilization triggered by those disadvantaged by globalization.

If the globalization literature has yet to pay greater attention to state adaptation in deeply divided societies, issues of political economy are not a particularly salient feature of the ethnicity literature. A notable exception is Milton Esman's work on the relationship between ethnic power and economic power. Where minority domination of the economy is perceived along ethnic lines, deeply divided societies are particularly prone to efforts at ethnic mobilization. Esman (1987) contends that, in such cases, where governments represent the economically disadvantaged majority, two responses are possible. Firstly, they may choose to take no specific action, fearing that any action taken to address economic inequalities could frighten capital away, weaken and disrupt the economy and lead to a serious loss of skilled human resources. Considering that such a strategy could actually

¹ Where the impact of globalization on African states has been considered, the tendency has been to emphasise notions such as the “failed”, “collapsed” or “predatory” African state, playing much to the tune of the “powerless state” discourse.

² Weiss' (1998) case studies, for example include Sweden, Germany and some of the “strong” developmental states of East Asia (i.e. South Korea and Taiwan).

³ These include Poland, Argentina, Mexico, Brazil, China, Egypt, Turkey, India, Indonesia and South Africa. Some analysts however, include and exclude one or two other countries.

inflict more damage on the disadvantaged majority, they may rather choose to tolerate the economic subordination of their constituents in the hope of gradual vindication of such imbalances through “autonomous but unspecified economic processes”⁴. Alternatively, such governments may believe they can immediately end minority domination and adopt draconian measures to that effect - i.e. through expropriation, or nationalization of assets or even by expelling ethnic minorities. Though these measures may follow a revolutionary struggle, it is not a characteristic consequence of such takeovers⁵. Finally, a strategy of “ethnic redistribution with growth”(ERWG) may be pursued in which the state’s allocative apparatus is

put to use for explicitly ethnic economic objectives, to provide middle-class employment opportunities and acquire economic assets for constituents of the new ethnic masters of the state and thus redress the original, unfavourable ethnic division of labour (Esman, 1987:395).

The deficiency of Esman’s ERWG framework is that it stops short of indicating how the strategy of ERWG unfolds in those societies attempting to either continue, or pursue it amidst globalization. How can ethnic redistribution with growth be employed at a time when the nature of the international political economy, unlike the 1960s and 1970s, places severe restrictions upon states engaging in this kind of social engineering? How does the state react in these circumstances and what is the likely outcome of pursuing ethnic redistribution with growth amidst globalization? *This is the key question guiding this study.* In this study I therefore attempt to overcome some of these shortcomings both in the globalization literature generally and in Esman’s framework specifically.

Ethnic Redistribution with Growth Meets Globalization

Ethnic political power is converted into ethnic economic power through a deliberate state managed strategy, but without massive economic disruption or expropriation. Of the best known examples of state elites pursuing such a strategy, namely in Quebec, Malaysia and South Africa, I focus on the latter two. Not only are both upper-middle income developing countries but the South African case provides the rare instance in which a succession of ethnic majorities have sought to enhance their social stratification through state

⁴ Examples where governments representing an economically disadvantaged ethnic majority, essentially pursued no action include Quebec before 1960, Malaysia before 1969, Ireland after 1922, Thailand, the Ivory Coast, Senegal and Kenya, where neocolonial economic relationships largely continued to prevail.

⁵ Algeria, Egypt, Vietnam (against its Chinese minority), Uganda (against its Asian minority) and Iraq (against its Jewish minority) are examples of both populist and postcolonial revolutionary regimes employing the expropriation strategy.

intervention, albeit under very different circumstances⁶. Whereas the same type of constituency has sought to perpetuate ERWG in the Malaysian case, it stands in contrast to its termination amongst Afrikaners with the demise of the apartheid state.

The necessary conditions for the positive-sum strategy of ERWG include: (i) a demographic majority; (ii) economic subordination; (iii) political opportunity which allows the majority to gain control of the state; (iv) a nationalist ideology and (v) unoccupied fiscal space (Esman, 1987:416). It is predicated on the acknowledgement that the cumulative and reinforcing effects of lack of skills, capital, confidence, educational opportunities and discrimination in the labour market, makes it well-nigh impossible for the economically subjugated group to overcome its inferior position in the national economy and division of labour through sheer competition within the market (Esman, 1987:415). Extensive state intervention is crucial since, with very few exceptions, it is almost impossible to address the economic subjugation of a political majority simply through autonomous market forces⁷.

With limited economic disruption, the ERWG strategy allows for more sustained economic growth. By producing economic increments, governments can capture through borrowing and taxation, access to higher education can be financed, new state enterprises can be established and government can capitalise on new private business in order to advance the previously subjugated majority into the middle class (Esman, 1987:415). Wherever the ERWG strategy has been pursued, the underlying conviction of the incumbent regime is that continued investments of both the economically powerful minority and foreign stakeholders are of critical importance to finance the ascendancy of the new middle class. The realisation usually coincides with, and is confirmed by, the lack of managerial skills amongst the disadvantaged ethnic majority upon which the new incumbents ultimately depend for political support. The continued participation by the ethnic minority in key roles of the economy is thus tolerated, often against the wishes of more zealous nationalists and anti-capitalists within the ranks of the new state, in order to realize the benefits which a more accommodating approach is expected to bring to the wider community (Esman, 1987:416). Ethnic redistribution with growth also imposes political constraints on the new regime, as it forces them to protect, from more aggressive demands from extremists within their own ranks, the economic rights of the better-off minority upon whom they must depend.

⁶ In the case of the first instance, namely the advance of the Afrikaners in the early twentieth century they constituted a majority amongst *whites* in relation to the smaller, but more prosperous English.

⁷ Esman (1987:418) for example cites only one case - the Flemish majority in Belgium - also an economically deprived ethnic majority, whose economic subordination has been rectified simply through market forces.

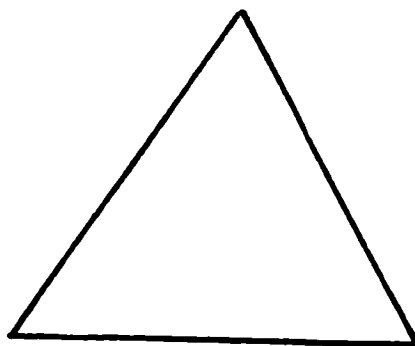
Structuring the Argument

In this study I attempt to bridge these deficiencies by examining how the structure of the IPE, intermediation processes and particular state strategies, determine the way in which ethnically polarized states respond to globalization. To do so, I draw on two theoretical approaches in particular. Milton Esman's conceptualization of ethnic redistribution with growth and Cerny's model of the competition state. The diagram below summarizes this analytical approach.

Intermediation Processes

Malaysia:
Patron-client
Rentierism

South Africa:
Societal
Corporatism



Structure of IPE
Fordism/Keynesian Welfare
State
Post-Fordism/Competition
State

State Strategies
(Marketing Power)

Using Philip Cerny's analytical model of the competition state - introduced in chapter 2 - I show how state elites in South Africa and Malaysia have sought to make domestic expectations of redistribution compatible with international pressures for growth and liberalisation. Whereas both Malay (chapter 3) and Afrikaner (chapter 4) nationalists pursued ERWG with considerable success (using similar means) during the heyday of Fordism, and thus evince a great deal of *convergence* as alluded to in Part 1, post-Fordism and the changing nature of the international political economy since the mid-1970s, have effectively forestalled emulation of ERWG in the late 1990s. Both cases thus exhibit a greater degree of *divergence* as Part 2 suggests from the 1980s onward.

Because of this divergence, the need for measures to contain the disruptive effects of rapid integration in the world economy also acquires greater significance as state elites negotiate domestic demands against international expectations. As the weight of the enquiry relates to the question of *state adaptation*, this section examines this issue in greater detail. Chapter 5 suggests that rentierist patron-client linkages have allowed state

elites to manage Malaysia's transformation to a competition state⁸. However, since the 1980s, as Malaysia has become increasingly subject to volatilities in the world economy this has been reflected in growing tensions between competing patron-client factions, particularly within the ruling United Malay Nationalist Organization (UMNO). It also coincides with a tendency to reassert political control through populist-authoritarian means as both the economic crisis of the late 1980s and 1990s clearly indicate.

In contrast, South Africa's birth, post-Cold War but also post-Keynes, owes much to corporatist intermediation facilitating both a relatively peaceful democratic transition as well as rapid transformation along competition state lines. Whereas a more *dirigiste* developmental state afforded Malaysians more time and scope to adapt to the demands of the competition state model, the international political economy of the 1990s into which the 'new' South Africa has been inducted affords it no similar indulgence. Whilst Malaysia's adaptation to the competition state model has been more protracted since the 1980s, South Africans have had to respond with far more speed and agility to these pressures. In fact, as I illustrate in chapter 6, it all happened in less than a decade. Given the difficulty of pursuing a strategy of ERWG amidst globalization, Chapter 7 demonstrates how the 'new' South African state - like the Malaysian state since the 1980's - has attempted to advance an African middle class through the private sector, by extending corporatism⁹ as an intermediary process in the form of black economic empowerment (i.e. share holding and ownership; corporate advancement; and contracting black-owned small, medium and micro enterprises).

Not all chapters are of equal length. As there is an established literature dealing with Afrikaner Nationalism and the apartheid state in particular, chapter 4 largely serves as a comparative or contrasting example for subsequent chapters. Due to South Africa's

⁸ Tollison (1987:144) defines rent as "a return to a resource owner in excess of the owner's opportunity cost". Political patronage perpetuates rent-seeking "by those seeking to induce government decision-makers to allocate various state rents in their favour in return for economic and political support" (Gomez & Jomo, 1997:6). Jagdish Bhagwati has also extended the definition to include any "directly unproductive profit-seeking" activities, including the evasion of tariffs, premium seeking, revenue seeking and subsidies (cf. Schneider & Maxfield, 1997:4). For more on rent-seeking, see Clark (1992); Alexeev & Leitzel (1991) and Tollison & Congleton (1995).

⁹ According to Schmitter's (1974) classic definition, corporatism is "a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports". Throughout this analysis, the reference is to societal corporatism as "a process of bargaining which, while highly circumscribed at some levels, was still somewhat open and competitive at others, if only because outcomes were still indeterminate in crucial ways. In other words, because of the limited number and oligopolistic nature of interests themselves, bargaining could take place only within a relatively restricted arena of 'interest intermediation' "(Cerny, 1990:149-50).

dual pursuit of ERWG, firstly with the Afrikaner Nationalist state and thereafter, with the predominantly African Nationalist state, that case is approached in a more synoptic fashion. In contrast, the course of the Malaysian trajectory is analysed in more linear terms. Finally, although questions of race are undeniably an intrinsic feature of both political economies, in this analysis I have chosen to rather focus on the significance of class, especially in the South African case in order to illuminate the basis for state transformation. A more comprehensive analysis needs to incorporate the salience of race in more nuanced terms.

Marketing Power as a Competition State Strategy

Like any other organization, states also pursue various strategies to improve their position within the IPE. Following Palan, Abbott & Deans (1996:6) a competitive strategy is “a set of policies that are explicitly aimed at improving the climate for business (national or international) and hence at enhancing the ‘competitive’ advantage of such countries in the global economy”. Since states pursue a plethora of strategies (industrial policy, taxation, welfare, foreign policy, etc.) one should not assume that all these strategies are necessarily compatible or that they are pursued concomitantly without some degree of tension or priority. Strategies aimed at the manufacturing sector may be quite different from those aimed at the financial sector for example. As Palan, Abbott & Deans (1996:5) suggest, equally important questions are (i) how are such strategies being adopted and (ii) who chooses the options and how?

The immediate implication of these questions is to acknowledge that the way in which the state responds to globalization, is determined both by the interplay between the “inside” (domestic institutional structures, or what I call intermediation processes and strategies) and the “outside” (the structure of the IPE). As the segmentation of this dissertation into distinct parts clearly suggests, during particular historical periods, domestic pressure groups may even enjoy greater leverage than external actors, but the equation can also be turned around. Indeed, even on the ‘inside’ dimension, at various times different domestic constituencies enjoy greater salience over others. As chapters 4 and 6 in the South African case and 3 and 5 in the Malaysian case reveal, in both countries the developmental pendulum shifted from growth to redistribution up to the late 1970s, and thereafter back to growth as the neo-liberal orthodoxy became ascendant in the 1980s. The point, in short, is that the process of evolution toward the competition state model is not a given. The three levels of analysis within the analytical pyramid point to a *bargaining process* and as such it is not inconceivable to imagine - in the Polanyian tradition - that societal pressures may even force a reversal away from the evolution towards the competition state. Nonetheless as Palan, Abbott & Deans(1996:6) indicate:

The state is not negated or about to disappear, but it is reacting by devising a number of strategies of competition. These strategies may or may not be effective in terms of improved competitiveness. Yet in devising strategic responses, the fact that so many states worldwide are shifting in this direction is an important

development and represents nothing less than the institutionalization of globalization in the state system.

Rather than focus on the entire gamut of competitive state strategies pursued by South Africa and Malaysia - which are, after all - well covered in other distinct literatures, I have focussed on one particular strategy namely, what I call "marketing power".

Intensified levels of competition in the world economy have made "visibility" a sought after strategic resource for states as much as for commercial enterprises. Much of the literature in established, state-centric and security focussed IR does not reflect this awareness at all. A continued fixation upon power-as-resources has meant that more nuanced tools of analysis capable of revealing power-as-visibility or attraction, has largely escaped scrutiny.

Yet, the significance of marketing power merely needs to be related to the growing importance of the tourism industry worldwide to illustrate its value as a competition state strategy. According to the World Tourism Organization (WTO, 1994:1), international tourism receipts grew faster than world trade in the 1980s. Tourism now constitutes "a higher proportion of the value of world exports than all sectors other than crude petroleum/petroleum products and motor vehicles/parts/ accessories". Indeed, the tourism industry is one of the very few post-industrial means with which even some of the world's least developed countries can participate in the post-Fordist global economy. And although the developing world has over the past few decades, in relative terms, enjoyed greater rates of tourism growth than even the OECD world, the more developed the region, the lower the level of tourist expansion is needed to attract new projects to enable tourism to continue to expand. Hence, for states in the developing world, *it is therefore all the more imperative to play up their marketing power.*

After conceptualising marketing power in greater detail in the following chapter, part 3 demonstrates how small states appropriate the international visibility derived from high-profile sports events and cultural industries to both "put the country on the world map" whilst prevailing upon these initiatives as a symbolic focus of commonality and thus shore up political legitimacy. Although state elites market Malaysia as a model, modern Islamic society, Islamic resurgence and censorship also constrains the extent to which Malaysia can enhance its international attractiveness through popular music and film production. As chapter 8 illustrates, high-profile sports events, such as the lavishly hosted 16th Commonwealth Games, became one of the few means through which such a state can forcefully both design and shape the idea of Malaysia as the model, modern, sophisticated Islamic society, both multicultural and at the cutting edge of the next "Asian Century".

Successful deployment of marketing power internationally depends on a well-consolidated sense of national identity. As suggested in chapter 9, the apartheid state tried to appropriate music and film production to both legitimise apartheid internally and sell

South Africa externally. However, the absence of a popular sense of national identity effectively stymied the expansion of South Africa's marketing power. In contrast, state elites in post-apartheid South Africa have seized upon popular culture and sport in particular - as the bid for the 2004 Olympic Games reveals - to vigorously market the "Rainbow Nation" to the world, and celebrate a sense of national identity internally.

Besides examining the dynamics of pursuing a strategy of ERWG amidst globalization and the role of marketing power, a third, though less fundamental concern of this analysis is whether the Malaysian case provides any "lessons" to the South African state.

The Malaysianization of South Africa?

What the post-modernists would call the "sub-text" of this dissertation is the extent to which the future of the post-apartheid state can be read against Malaysia's past. Numerous academic analyses (Hart, 1994; Southall, 1997) have highlighted both the similarities between the 'new' South Africa and post-colonial Malaysia and the high degree of "like-mindedness" between Pretoria and Kuala Lumpur. The latter has not only become the second largest investor in South Africa after the United States, but close diplomatic relationships are also echoed along party lines (Padayachee & Valodia, 1997; Muda, 1996)¹⁰.

These linkages are not so much due to the small Islamic presence in and around Cape Town, but a decided South African attempt at emulating Malaysia's ascendance into "NIC-dom". The depth of the Malaysian interest, for example, is reflected in Malaysian prime minister, Mahathir's right hand man, Tun Daim Zauddin's "twelve month attachment to the Harvard Institute of International Development, where he advised faculty members on how South Africa's political leadership and economic system might be restructured" (*Asian Business*, March 1993: 48).

Although the "Malaysian model" has become a significant part of the South African policy debate regarding affirmative action, very little broader comparative analysis has appeared. As I attempt to illustrate throughout this dissertation, being semi-peripheral parts of the world system, with similar dynamics of social stratification; British colonial influences; anti-communist histories and federalist pretensions make for a very apparent comparability. However, a number of fundamental differences, most notably the political power of labour, Islamic revivalism as well as the differential distribution of power in Southeast Asia and Southern Africa, also justifies the choice of South Africa and Malaysia as "hard cases".

Limitations and Agenda for Future Research

Being a comparative macropolitical study, the inevitable consequence has long been to paint with very broad brushstrokes. As such the emphasis is on broader trends,

¹⁰ Malaysia was at the forefront of efforts to suspend South Africa's membership of the Commonwealth in the 1960s, and donated close to US \$ 5 million to the ANC's 1994 election campaign, Muda (1996).

similarities and differences, rather than a detailed analysis of any one particular case. Secondly, it should be emphasised that this dissertation remains largely an exploratory effort and merely lays the foundation for further interdisciplinary research linking issues around tourism and politics (Hall, 1994); politics and popular culture (Street, 1997); politics and marketing; sport and international politics (Houlihan, 1994) as well as state/business linkages in the developing world (Schneider & Maxfield, 1998).

Although I allude somewhat to the impact of state transformation upon foreign policy, further research is required to examine - "from the inside looking out"- whether competition states exhibit similar foreign policy patterns. Specifically does the nature of their state-societal complexes reveal a particular foreign policy reflection? Elsewhere for example (Van der Westhuizen, 1998), I have illustrated how South Africa's post-apartheid emergence as a middle power is a clear external reflection of its internal corporatist political culture. The challenge is to ascertain whether and to what degree the salience of rentierist patron-client linkages are also manifested in Malaysian foreign policy. It has for example, been alleged that the phenomenal growth of Malaysian investments in Africa in recent years is due to the ease with which Malaysian and Overseas Chinese venture capital "can buy access to State House, launch joint ventures with local compradores, bypass the usual bureaucratic red tape which frustrates investors, and obtain a formal promise of priority access to foreign exchange or anticipated super-profits"¹¹. In addition, regional dynamics and the extent to which competition states attempt to promote "competitive regions" in order to make the most of their geopolitical strengths/weaknesses is particularly instructive. The degree to which the ANC may be tempted to "off-load" the costs of South Africa's transformation towards a competition state within a region where it is indisputably hegemonic (see Shaw, 1994; Ahwireng-Obeng & McGowan, 1998), is part of the agenda for future research.

Another deficiency is relating the competition state model to gender relations (Chin, 1998; Ng, 1999). Considering the dependence of the Malaysian semi-conductor and electronics industry - a vital part of the overall attempt to transform Malaysia into a competition state - upon a gendered division of labour, the need for further analysis is equally vital. Moreover, the Islamic/modernity nexus in the Malaysian case (Nagata, 1994; Esposito & Voll, 1996) makes it imperative.

Finally although some reference is made to the significance of transnational social forces (van der Pijl, 1984), especially in chapter 6, more extensive analysis is required to highlight its influence in the Malaysian case, particularly after the Asian crisis.

¹¹ Cooksey, B. "Malaysian-Chinese Investments in Africa", www.mshale.com/asrireport1.html. Accessed: 28 January 1998.

2

Globalization and the Competition State

“I used to think that if there was a reincarnation, I wanted to come back as the president or the pope. But now I want to be the bond market: you can intimidate everybody”
- James Carville, Clinton election adviser

When the value of the Rand declined during February to April 1996, South African Finance Minister Trevor Manuel called the international money markets ‘racist’ and ‘amorphous’. Yet, he was not alone. Jacques Chirac, the French prime minister described speculators as “the AIDS of the world economy”. And in Poland, graffiti on a wall read: “We want democracy, but we ended up with the bond market”. (*The Economist*, 1995:5). More recently, Malaysia’s prime minister, Mohamad Mahathir, blamed international currency speculators, such as George Soros, for the sudden devaluation of the ringgit and threatened to impose restrictions on Malaysian currency trading.

Globalization is neither a panacea nor an inherently destructive process. Rather, it involves from a variety of perspectives, “the spatial reorganisation of production, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods to distant countries, massive transfers of population within the South as well as from the South and the communities in formerly tight-knit neighbourhoods, and an emerging worldwide preference for democracy”(Mittelman 1996:2).

Globalization, in other words, is characterised by four distinct features, namely (i) interpenetration or interconnectedness; (ii) transnationalization; (iii) homogenisation and (iv) dialectic responses. It refers to the **interpenetration** of events, relations or dimensions - what Charles Tilly (1995:1) has called “an increase in the geographic range of locally consequential interactions, especially when that increase stretches a significant proportion of all interactions across international or intercontinental limits”. In a slightly more post-structuralist vein, Smart (1994:152) has described this as “the growing worldwide interconnectedness of structure, culture and agency”.

Globalization also reflects the importance of **transnationalization**. That is, the degree to which “social relations become less tied to territorial frameworks” as Jan Aart Scholte (1997) put it. Borders are not so much crossed or opened as transcended. This process is most clearly visible in the sphere of transport and communications, (air travel, telephony, the Internet); organisations (transnational corporations, non-governmental organisations, civic groups); trade (growing importance of transworld production, distribution and marketing of goods and services); the volatility and salience of finance (from currency speculation to eurobonds and derivatives); ecology (ozone depletion, decline in biological diversity); and finally, consciousness (as in popular conceptions of a ‘global village’) (Scholte 1997:432).

Globalization also brings with it a new level of **homogenisation** of business practices, norms, values, rules and regulations, as well as popular culture toward the emergence of what Susan Strange (1990) described as a global “business civilization”. In this regard, the significance of what Kees van der Pijl (1995; 1997) calls “transnational social forces” and associated elite planning networks, should not be discounted:

Every relationship of “hegemony”, Gramsci writes, is necessarily an educational relationship and occurs not only within a nation...but in the international and world-wide field, between complexes of national and continental civilizations. Transnational elite networks in this context play a role as “international political parties which operate within each nation with the full concentration of the international forces”. They should be understood as (collective) ‘intellectuals’:

whose function, on an international scale, is that of mediating the extremes, of ‘socialising’ the technical discoveries which provide the impetus for all activities of leadership, of devising compromises between, and ways out of, extreme solutions (cf. Van der Pijl, 1995:107).

Yet, this is also a *globalizing* world that is not yet entirely *globalized*, because the process does not affect societies equally. Rural women living in Bangladesh experience the effects of globalisation much more negatively than software designers in Seattle do. The four elements in my definition of globalization therefore are also meant to suggest the *differential impacts* of globalization, with interconnectedness as level one, transnationalization as level two and homogenisation as the cumulative effects of globalization’s interconnecting and transcending features. This is not to suggest that these categories are mutually exclusive or more than analytical constructs. Rather, such a definition seeks to direct attention to the diversity of responses which globalization engenders as it affects different societies in very different ways. Instead of viewing globalization as a totalizing process my emphasis upon **dialectical responses** attempts to highlight globalization’s dynamic qualities. It follows Polanyi’s notion of a “double movement” of unprecedented market expansion and massive social dislocation activating new demands on the state to counteract the deleterious effects of the market.

Globalization, in short, *denotes an incremental, market-led process, but shaped in turn by the influence of transnational social forces, in which the interpenetration of diverse actors and issue areas increasingly transcends traditional borders, rapidly homogenising the world whilst triggering counter responses amongst those individuals, groups and societies that bear the brunt of its socially disruptive consequences.*

Globalization has caused a profound shift of power in the world economy across a variety of societal, economic, cultural and political dimensions. This however, is not to pretend that the state has simply “withered away”. How the state has *adapted* to these challenges should guide the theoretical analysis of globalization. In this chapter, I introduce Philip Cerny’s model of the competition state as a heuristic method with which to examine how intermediation processes, state strategies and the state’s location within the international political economy, mediate the social and political impact of globalization, with Malaysia and South Africa as comparative cases. Accordingly Part 2 explicitly focusses on the way in which state elites have attempted to adapt to

the challenges of globalization and overcome ostensibly incompatible claims by domestic political constituencies and global market expectations.

I contextualize both the debate about globalization and Cerny's particular approach, according to three dominant theoretical perspectives. Thereafter I highlight the significance of marketing power as a complementary strategy employed by small states to overcome some of the challenges of globalization.

The Theoretical Debate: The Three Tenors of Globalization

The contention that the state is in retreat has activated a massive and ever growing literature on the nature, causes and consequences of globalization. Given the degree to which the globalization discourse has virtually "colonised" the social sciences, it has prompted some to declare that "it is the most significant development and theme in contemporary life and social theory" (Albrow, 1996). Others contend that "globalization may be the key concept of the 1990s, a key idea by which we understand the transition of human society into the third millennium" (Waters, 1995:1). Indeed, Strange (1995) even suggested that the "retreat of the state" has rendered all social science redundant. Rather than attempt the impossible - providing an extensive review of the entire globalization literature - it is more useful to briefly contrast the most significant debates in terms of emerging schools of thought.

Anthony McGrew (1998) has provided a useful typology of the globalization debate between "globalists", "skeptics" and "transformationalists". These are not entirely cogent or uniform schools of thought but rather loose approaches and are best conceived as points on a theoretical continuum (ranging from globalists at one end, then transformationalists, and skeptics at the other end).

The Globalists

Globalists contend that "traditional nation-states have become unnatural, even impossible business units in a global economy" (Ohmae, 1995:5). Privileging the economic over the political, the market over the state, globalists see national economies being gradually transplanted by transnational networks of production, trade and finance (Greider, 1997). As economic globalization brings about the decline of the nation-state, national governments are relegated to "little more than transmission belts for global capital" on the one hand and, on the other, are becoming "ultimately powerless institutions marginalized by the growing significance of local, regional and global mechanisms of governance" (McGrew, 1998:303). The globalist view of the nature of the state has been cogently captured by Jessop (1994:264):

The national state is now subject to various changes which result in its 'hollowing out'. This involves two contradictory trends, for, while the national state still remains politically important and even retains much of its national sovereignty (albeit as an ever more ineffective, primarily juridical fiction reproduced through mutual recognition in the international community of nations), its capacities to project its power even within its own national borders are decisively weakened both by the shift towards internationalized, flexible (but also regionalized) production systems and by the growing challenge posed

by risks emanating from the global environment. This loss of autonomy creates in turn, both the need for supranational coordination and the space for subnational resurgence. Some state capacities are transferred to a growing number of pan-regional, plurinational, or international bodies with a widening range of powers; others are devolved to restructured local or regional levels of governance in the national state; and yet others are being usurped by emerging horizontal networks of power -local and regional -which by-pass central states and connect localities or regions in several nations.

Within the globalist camp considerable normative divergence of opinion exists: ranging from neo-liberals who welcome the eclipse of the state by free markets to the neo-Marxists who view contemporary globalization as highly oppressive or a vindication of Marx's prediction of capitalism reaching the height of its development and its consequent disruptive effects (Gill, 1992; Jameson 1991). For both neo-liberals and neo-Marxists, globalization means that global capitalism imposes a particular economic discipline upon all states to such a degree that "politics is no longer the 'art of the possible' but rather the practice of 'sound economic management' (McGrew, 1998:303).

According to globalists, globalization has turned the old North-South division into an anachronism, since a new global division of labour has replaced the more conventional centre-periphery model. A more complex architecture of economic power, in which there is growing polarisation between winners and losers in the global economy, now exists. Moreover, it coincided with the demise of the Keynesian welfare state and traditional models of social protection. Neo-liberals view globalization as the harbinger of a new global civilization in which international financial institutions like the IMF and other disciplines of the world market act as mechanisms of "global governance" to which both public, private as well as regional authorities are increasingly subjected. In contrast, radicals and neo-Marxists (e.g. Cox, Gill), merely see the new global civilization being the first global "market civilization" (McGrew, 1998:304).

Globalization therefore ushers in a fundamentally new world order in which national societies - much like international airports - tend to become the site of transnational flows, rather than the primary container of socioeconomic activity. Jurgen Habermas has called it "the double crisis of rationality", because the state can no longer protect its citizens from the disruptive effects of the market as it could in the past, it also creates a crisis of legitimation, since the state can no longer rely on the loyalty of its citizens (Cable, 1995:43). Finally, given the erosion of national borders, globalists see the foundation for a global civil society strengthening as a multitude of political, economic, social and cultural issue areas intersect with a host of non-state actors gaining a greater degree of primacy.

The Skeptics

Hirst and Thompson (1996) and Hirst (1997) as well as Weiss (1997; 1998) have been the most ardent proponents of the "skeptical school", contending that historical evidence does not suggest that contemporary globalization constitutes an unprecedented degree of economic or even financial integration. Indeed, they argue that the late 19th century, as well as the era of the Classical Gold

Standard, represented a much higher degree of internationalisation, suggesting that transnational flows are quite dependent upon the regulatory power of national governments to ensure and guarantee sustainable levels of economic liberalisation.

Rather than globalization, the late 20th century world economy is undergoing a process of growing *regionalization* with the establishment of several significant and distinct financial and trading blocks, contradicting the process of globalization (Grugel & Hout, 1999). Diametrically opposing the globalists, the skeptics contend that we are decidedly not in the throws of a new, less state centric world order, but one in which states have become even more central in regulating and actively promoting cross-border interaction; they are in fact, the main architects of globalization (McGrew, 1998:305).

Globalization does not so much bring about an erosion of the North-South divide but an exacerbation of inequalities as many developing societies are marginalized and trade and investment flows are increased between the economies of the Northern Triad (the EU, Japan, USA). Ruigrok & Van Tilder (1995), for example, also contend that the widespread notion, that corporations are truly global creatures, negates the fact that the bulk of foreign investment flows are between the advanced capitalist states and as such the majority of multinational corporations remain firmly anchored in their home states or regions. The skeptics, in other words, see globalization merely as the deepening of hierarchy in the world economy with its attendant inequality and its structural nature having changed very little during the past 100 years (McGrew, 1998:306).

Given the emphasis upon inequality and regionalism, the skeptics foresee greater possibility for various types of fundamentalisms to become more assertive. In contrast to the globalists, they suggest that we are most certainly not witnessing the appearance of a "global civilization" but rather its fragmentation into civilizational blocs and ethno-cultural enclaves (Huntington, 1996). Instead of multilateral management through "global governance", the Western powers continue to set the tone of change within the international system and always to ensure that it is Western power which ultimately prevails (McGrew, 1998:306).

Rejecting the notion that state sovereignty is being undermined by economic internationalisation, the skeptics contend that globalization as a discourse rather tends to serve other masters (Sjolander, 1996; Waters 1995), providing a ready excuse for governments to blame their own acquiescence to neo-liberalism upon a greater "unstoppable force" (McGrew, 1998:307). In contrast to the popular belief that globalization has led to a convergence of macro-economic policies all over the globe, theorists like Weiss (1998), Scharpf (1991) and Armingeon (1997) note that governments have not become totally immobilised. Although economic conditions do constrain all national governments, their effects are not undifferentiated across various types of markets or states.

The Transformationalists

Contrary to the skeptics, transformationalists concede that globalization is historically unprecedented in the sense that the traditional dividing line between domestic and foreign policy or the internal/external dichotomy is essentially an artificial one. Hence, Rosenau (1997) conceives of a "New Frontier" in which the expanding political, economic and social space of communities is decided in terms of the international/national distinction being increasingly eroded.

Unlike the globalists or the skeptics, transformationalists see the future trajectory of globalization as uncertain, dynamic and open ended. Contrary to the skeptics - who evaluate the historical significance of globalisation in terms of an ideal type globalized world - transformationalists do not see contemporary patterns of interaction giving way to a kind of fixed, ideal global market or global civilization. The quantitative shifts skeptics invoke to validate their claims are dismissed as transformationalists seek to examine the qualitative changes globalization activates in the nature of societies and the way in which power is exercised. In other words, even if we concede that the 19th century world economy was far more integrated than the contemporary global economy, such quantitative evidence is incapable of revealing the social and political *impacts* of intensified trade relationships (McGrew, 1998:311).

The focus is therefore less teleological and positivist. Transformationalists emphasise conditions for conjunctural change and the consequent stratification of world society in which the North-South bifurcation is giving rise to a new division of labour in which "the familiar pyramid of the core-periphery hierarchy is no longer a geographic but a social division of the world economy" (Hoogvelt, 1997). The old North-South division cuts across geographic boundaries with developed/developing society distinctions appearing in both the South and the North. Hoogvelt (1997) for example sees global social stratification in terms of three concentric circles cutting across national boundaries delineating the elites, the contented and the marginalized.

Transformationalists like Reich (1991), Ruggie (1996) and Castells (1996) however concede the globalist point that economic power is increasingly less defined by national space and more by the dynamics of transnational interactions between production, exchange and finance. Indeed, at the core of the transformationalist thesis is the fundamental re-engineering or reconstituting impact of globalization upon the nature of power, the functions of national governments as well as the authority of supranational institutions (Shaw, 1997). Unlike the globalists, the continued primacy of states is not disputed, although state supremacy is "juxtaposed, to varying degrees, with the expanding jurisdiction of institutions of international governance and the constraints of, as well as the obligations derived from, international law" (McGrew, 1998:308). Globalization transforms, or as Ruggie (1993) would have it, "unbundles" the relationship between sovereignty, territoriality and state power. More nuanced theoretical explorations therefore require unravelling the impact of globalization in much more differentiated terms, reflected as much in cultural, political or social dimensions as in economic conditions (McGrew, 1998:311).

In terms of the continuum suggested above, transformationalists firmly reside between the

globalists at the one extreme and skeptics on the other, rejecting both claims by the former that the nation-state is in retreat, and the sceptical acclaim by the latter that “nothing much has changed” (McGrew, 1998:309). Rather, as Robert Keohane (1995) has noted, sovereignty is “less a territorially defined barrier than a bargaining resource for a politics characterised by complex transnational networks”. Territorial boundaries retain their political, military and symbolic significance, but are no longer the primary spatial markers of modern life as powerful new non-territorial forms of economic and political organization - transnational social movements, multinational firms, international financial institutions - emerge (McGrew, 1998:309).

States remain resilient and adaptive creatures actively seeking and creatively producing various strategies with which to engage globalization. How the state mediates, contests or resists the consequences of globalization as well as its differential impact, stands at the core of the transformationalist research agenda. Hence, state responses to globalization have activated a variety of models, from the neo-liberal competition state (Cerny, 1990); to the developmental state; and the social state (Armstrong, 1998). In short, transformationalists contend that

the power of national governments is not necessarily diminished by globalization but on the contrary it is being redefined, reconstituted and restructured in response to the growing complexity of processes of governance in a more interconnected world (McGrew, 1998:310).

For both globalists and transformationalists, globalization poses profound questions regarding the continuation of democratic processes given that democracy defines membership in terms of peoples within the territorial borders of the nation-state. As McGrew (1998:31) notes, “[W]ithout exception, democratic thinkers, from J.S. Mill to Robert Dahl (1962) have assumed a direct symmetry between the institutions of representative democracy and the political community which they serve”.

Also in this respect, the effects of globalization in the developed and developing world are not uniform. In the developed world the result has been a certain degree of democratic deficit, inducing an issue-dependent depoliticisation of the advanced democratic state. Concerns that globalisation is causing power to be, as Walker (1988) notes, “elsewhere, untouchable”, risks reducing popular democracy to a form of technocracy (Saul, 1997). How global governance can be transformed to accommodate republican notions of active participation and consent remains a profound challenge (Sandel, 1996).

Although all three schools of thought foresee the emergence of a global civil society unleashing new progressive political forces and energies to offset the democratic deficit, the disjuncture between global civil society and established territorial forms of governance remains a profound challenge. Globalization requires transfiguring traditional notions of citizenship into a politics of emancipation on the principle of “duties beyond borders” (McGrew, 1998:320).

Although similar challenges loom for those living in the South, the democratic deficit of globalization is decidedly more complex. Whereas legitimacy and hence authority in advanced capitalist states are intimately tied to efficiency, in the developing world, state elites resort to a

multitude of other measures to retain authority as legitimacy declines. For example, Shaw & Quadir (1997:49) note

In order to avoid social unrest, political chaos and authoritarianism, some parts of the South might again be forced to move toward corporatist frameworks, whilst others would still find it worthwhile to take risks to attain goals of democratic development.

Table 2.1 highlights both major similarities and differences between these three schools of thought.

Theoretical Approach	Concept	Causation	Period	Impact	Democratic Form
Globalists	Singular condition/ideal type. Teleological	Singular (Economic/Cultural)	Unprecedented	State severely constrained	Authority and legitimacy severely eroded
Sceptics	Singular condition/ideal type. Teleological.	Singular (Economic/Cultural)	Not novel at all (rather regionalism).	Quantitative effects. No more integration than the 19 th century.	No change
Transformationalists	Open-ended/Conjunctural change. Long term; historical.	Multicausal	Unprecedented	Social and political impact mediated by domestic institutional structures; state strategies and location in IPE	State power and authority reconstituted.

Table 2.1 Globalization: Three Theoretical Approaches
(Source: McGrew, 1998).

Globalization and Competitiveness

With the ascendancy of neo-liberalism, globalization and competitiveness have become nearly synonymous terms. Educational programs, health, taxation, transport - all traditionally considered to be "domestic" issue areas - are increasingly subject to the degree to which they enhance the state's "competitiveness". A buzzword subject to as much abuse as globalization, competitiveness has become a powerful part of social and economic orthodoxy. The very notion of competitiveness has become an instrument of hegemonic discourse, providing decision makers with a ready excuse to both attract, as well as curtail, a multitude of initiatives and public policy changes, consistently arguing that decisions made simply reflect the realities of globalization and the need to be competitive, leaving them with "no other choice"¹².

Competition state theory owes its popularity to business studies and economics, where the debate about the means through which firms and national industrial policies can enhance their competitiveness, is an established one. Recently it has regained primacy in the business literature following the publication of Michael Porter's influential *The Competitive Advantage of Nations* (1990).

With the exception of work by Susan Strange, Philip Cerny and more recently, Palan, Abbott & Deans (1996) drawing on the latter, this debate has largely been ignored both in International Relations and International Political Economy. These authors however, share the transformationalist conviction that despite the significance of globalization, the state remains capable of responding and adapting to the challenges it poses. Strange (1995:55) for example remarked that we are not witnessing the "withering away of the state", but rather that the "nature of the competition between states in the international system has fundamentally changed". Accordingly, states are now "competing for world market shares as the surest means to greater wealth and greater economic security".

Although competition theory has an old pedigree, the vast literature on competition has tended to be prescriptive and uncritical, primarily concerned with the empirical identification of a secular or structural trend. Scant attention has been paid to the political consequences of such trends or resistance to them, largely due to an inability to reflect upon the problem of treating the national unit as a competitive entity in the world market. In short, as Palan, Abbott & Deans (1996:7) indicate, the literature has lacked "a concern with the social implications and even less with the broader theoretical problems that are raised by the alleged rise of the competition state". Employing Cerny's notion of the competition state, this study is primarily concerned with the way in which state elites in South Africa and Malaysia attempt to transform a deeply divided society into a "competition state".

Being of a comparative macro-political nature, the following analysis paints with broad brushstrokes in order to relate the social and political impact of globalization to the way in which it is mediated through intermediation processes, state strategies and the state's location within the

¹² A recent empirical survey of the South African policy elite for example, clearly confirms such a proposition (Nel, Van der Westhuizen *et al.* 1998).

hierarchy of the international political economy (especially part 2). Before doing so, however, the framework for analysis requires brief explication.

Globalization and Cerny's Competition State

Financial Markets and the 'Internationalization' of the State

The competition state emerged as the successor to the gradual decline of the post-war national welfare state coinciding with profound change in the structure of the international political economy, beginning with the liberalisation of financial markets.

In 1944 at Bretton Woods both the U.S. and Britain conceded that a liberal financial order was incompatible with the new welfare state¹³. There was a wide-ranging consensus that a liberal financial order was not compatible with a stable system of exchange rates and the liberal trading order which they sought to create. Bretton Woods therefore envisioned that governments would have considerable freedom to pursue national economic objectives, yet establish a monetary order based on fixed exchange rates in order to prevent the repetition of competitive currency depreciations which characterized the 1930's. Hence the aim was to marry solutions to two of the most extreme problems that beset the world: Bretton Woods attempted to avoid subordination of domestic activities to the stability of the exchange rate embodied in the classical gold standard, whilst avoiding the need to sacrifice international stability to domestic policy autonomy. What John Ruggie (1982) famously called "embedded liberalism" sought to promote the pursuit of Keynesian growth strategies at home without disrupting monetary stability abroad, through institutional mechanisms which would limit the impact of the clash between international liberalisation and domestic stabilisation. In practice this meant isolating some elements of economic life whilst promoting other aspects of the market at the same time. In short, it was decidedly seen as part of political 'modernization' for the state to expand its social and economic functions along these lines (see chapter 3 & 4).

From the 1960's onward, however, domestic structural costs, the consequences of growing external trade and the increasing salience of international financial transactions, made it increasingly difficult for welfare states to insulate national economies from the global economy in which they were located. When governments tried to do so, the arrival of 'stagflation' in the 1970's suddenly

¹³ Four main considerations motivated the Bretton Woods proposals. Firstly, capital controls were needed to protect the new macroeconomic planning mechanisms developed in the 1930's from financial movements that were speculative and would cause disequilibrium in the system. Secondly, "as welfare expenditures grew, governments could no longer afford to allow their corporations and citizens to move funds abroad to evade taxes. Third, it was clear that the domestic financial regulatory structures built in many countries during the 1930's and 1940's to facilitate industrial and macroeconomic planning would be eroded if domestic savers and borrowers had access to financial markets abroad. Finally, and most broadly, the welfare state had to be protected from 'flights of hot money' induced by 'political reasons' or a desire to 'influence legislation' " Helleiner (1994:164).

started to turn the tables. Inflation, which had hitherto been seen as a stimulus to growth and as benefiting both business and labour alike, came to be seen as inhibiting investment. As Robert Cox (1994: 46) has noted, “governments were made to understand that a revival of economic growth depended on business confidence to invest, and that this confidence depended on “discipline” directed at trade unions and government fiscal management”.

The impending post-war crisis was also accelerated by the shift from Fordist (part 1) to post-Fordist production processes since the late 1970s (part 2). Politically, it would coincide with the demise of calls for a New International Economic Order (NIEO) and the growing hegemony of neo-liberalism (Murphy, 1984). As Eric Hobsbawm (1995:404) remarked, no longer was it the age of Ford - large, integrated plants employing large numbers of semi-skilled workers for mass production of standardised goods - but the age of Benetton. For production was increasingly based on both manufacturing and communicating economies of high-speed *flexibility*, rather than economies of *scale* ¹⁴.

Moreover, both governments and corporations had increasingly in the 1960s, relied on debt - and particularly *foreign debt* - to finance the massive projects with which welfare states provided mass employment (see especially chapter 5 on Malaysia and chapter 4 on South Africa). Because this meant that such loans were negotiated in foreign currencies, governments had to become more sensitive to their international credit ratings. And as the proportion of state revenue going into debt payments increased, (chapters 5 & 6) governments often became more accountable to external bond markets than to their own constituents (Cox 1994:47). These new structural constraints and the growing global centralisation of policymaking, has led to the “internationalisation of the state”, as Cox (1994:49) has described it:

Its common feature is to convert the state into an agency for adjusting the national economic practices and policies to the perceived exigencies of the global economy. The state becomes a transmission belt from the global to the national economy, where heretofore it had acted as the bulwark defending domestic welfare from external disturbances. Power within the state becomes concentrated in those agencies in closest touch with the global economy - the offices of presidents and prime ministers, treasuries, central banks. The agencies more closely identified with domestic clients - ministries of industry, labour ministers, etc. become subordinated.

The cumulative effects of these conditions in the developing world are readily apparent in the extent to which these states have become subject to structural adjustment programmes either imposed directly by the leading Bretton Woods institutions or more indirectly where state elites succumb to a process of self-imposed structural adjustment (Augelli & Murphy, 1988) or what I

¹⁴ Hobsbawm (1995: 404) has argued that “computerized inventory control, better communications and quicker transport reduced the importance of the volatile ‘inventory cycle’ of the old mass production which produced enormous stocks ‘just in case’ they were needed at times of expansion, and then stopped dead while stocks were sold off in times of contraction. The new method, pioneered by the Japanese, and made possible by the technologies of the 1970’s was to carry far smaller inventories, produce enough to supply dealers ‘just in time’, and in case with a far greater capacity to vary output at short notice to meet changing demands”

describe in chapter 6 as “self-policed competitiveness” in the South African case¹⁵.

Whereas the welfare state attempted to take some economic activities out of the market - to ‘decommodify’ it through embedded liberalism - the competition state actively pursues its own marketization so as to “make economic activities located within the national territory, or which otherwise contribute to national wealth, more competitive in international and transnational terms” (Cerny, 1997:259). In contrast, the most salient feature of the post-war national welfare state was that it assumed the task of civil association by intervening heavily in the economy and thereby enhance conditions for the state’s *Gemeinschaftlich* role. As amplified in Part 1, the state therefore sought to

...insulate certain key elements of economic life from market forces while at the same time promoting other aspects of the market. These mechanisms did not merely mean protecting the poor and helpless from poverty and pursuing welfare goals like full employment or public health, but also regulating business in the public interest, ‘fine tuning’ business cycles to promote economic growth, nurturing ‘strategic industries’ and ‘national champions’, integrating labour movements into corporatist processes to promote wage stability and labour discipline, reducing barriers to international trade, imposing controls on ‘speculative’ international movements of capital and the like (Cerny 1997:259).

From Welfare State to Competition State

The *competition state* - as Philip Cerny (1990) initially dubbed it - seeks to lessen its internal social obligations by replacing public provision with private provision (i.e. medical care, pensions, prisons and the like) or none at all (i.e. heavily reduced unemployment compensation) whilst minimising inflation to enhance its appeal amongst the international business and financial community in the external or global realm. One of the most salient characteristics of the competition state (as chapter 6 on South Africa and chapter 5 on Malaysia argues), is the extent to which government spending has been reduced in order to minimize the ‘crowding out’ of private investment through state consumption and the deregulation of economic activities, most notably in the financial markets. In fact, the *internationalization of finance* lies at the heart of the development of the competition state. For deregulation as an on-going process places the financial sector in a hegemonic position over the real economy, thereby “undermining not only policy autonomy but the very bases of state authority and democratic legitimacy” (Cerny 1996:91)¹⁶.

¹⁵ Not all states necessarily participate in the global game of competitiveness. Oil exporting states can simply rely on oil revenues to shield them from the impact of the world market (Palan, Abbott & Deans, 1994:11). In the case of the so-called “collapsed” or “failed” African state, where power is essentially captured in the central Bank, the President’s Office and the military, one could also contend that these states have abandoned the quest for competitiveness. However, this is not to deny that the process of globalization nevertheless impacts fundamentally on both sets of states.

¹⁶ For a more detailed analysis specifically of financial globalization, see Cerny (1996).

These conditions have forced a number of significant shifts. Firstly, from macroeconomic to microeconomic interventionism as reflected in deregulation and industrial policy. Secondly, a shift in the focus of that interventionism from the maintenance of strategic or basic activities for the sake of self-sufficiency in key sectors, to flexible responses to competitive conditions in a variety of different economic issue areas, i.e. the pursuit of competitive advantage as opposed to comparative advantage. Thirdly, the control of inflation and strict monetary control in order to facilitate non-inflationary growth. And, finally, a reversal of state political discourse from how to maximise the distribution of welfare within the nation (full employment, redistributive transfer payments and social service provision) to a politics of enterprise promotion, innovation and profitability in both public and private sectors - see especially chapters 5 and 7- (Cerny 1997:260).

Although the purpose of the welfare state was to save the market from its own dysfunctional tendencies, it carried within itself the potential to undermine the market in turn. From a market perspective, the welfare state has to be restrained and regularly deconstructed or deregulated in order to avoid the so-called 'ratchet effect' leading to 'stagflation', the fiscal crisis of the state and the declining effectiveness of each increment of demand reflation and functional expansion (Cerny 1997:262). If deregulation was not forthcoming, it would result in a lumbering, muddling, 'overloaded' state. Amidst the international recession of the 1970's and 1980's, the norms according to which decision-makers operated on a daily basis changed fundamentally, as part 2 suggests. For the 'overloaded state' was seen to run into four specific types of constraint which were seen to hinder rather than reinforce international competitiveness.

Firstly, chronic deficit financing by government during periods of slump was seen to soak up resources which otherwise could be used for private allocation and caused interest rates to increase in ways which 'crowded out' private investment. In addition, it raised the cost of capital and finally, channeled resources both into consumption - increasing inflationary pressures and import penetration - as well as into non-productive financial outlets (Cerny, 1997:262). Secondly wages, and thereby inflation, was being pushed up by neocorporatist structures and nationalized industries, whilst preventing rises in productivity and/or the shedding of newly redundant labour amidst the increasing obsolescence of fixed capital and the pressing need for conversion. Profits consequently declined due to labour market rigidities (Cerny 1997:262).

Thirdly, the need to maintain overall levels of economic activity through the maintenance of demand and infrastructure as well as the imperative to prevent unemployment conjured images of the state as a 'lame duck' - taking on an ever widening burden of social responsibilities and increasingly unprofitable sectors of the economy. The degree to which the state intervened in the economy with the attendant level of state expenditure and the fear of real and potential budget deficits (chapter 3 & 4) were seen to have negative consequences for the balance of payments and exchange rate (Cerny 1997:262).

Protectionism as a response could invite retaliation or simply act as a massive drag on trade generally, whilst devaluation could have a knock-on effect exacerbating the other three constraints. Taken together, these four conditions interact during periods of recession, thereby restricting the ability of private capital to perform its supply-side function (Cerny 1990:222). Hence, state officials today seek

...to confront the perceived limitations of the state - mainly to attempt to combine a significant measure of austerity with the retention of a minimal welfare net to sustain sufficient consensus, while at the same time promoting structural reform at the mesoeconomic and micro economic levels in order to improve international competitiveness.

Political Economies of Scale and State Adaptation

As recent as these changes would appear to be, they reflect the historical evolution of political economies of scale. These developed through the interaction of states and markets, as

[O]ptimal political economies of scale therefore continually shift, adjusting to technological, sociological and political change. Indeed, they have been shifting dramatically in the late twentieth century, both upward to the transnational and global levels and downward to the local level. In this more fluid environment, actors' choices have significant consequences for the changing structure of the state and indeed for the wider evaluation of politics and society" (Cerny, 1995:599).

Regardless of their specific historical origins, modern states developed not solely for the purpose of providing a new and wider range of public goods, but also to optimise conditions for the stabilisation and promotion of rapidly expanding market processes. The evolution of states as political economies of scale pass through a number of historical turning points, which appear when

...the requirements for providing (at its simplest) both public goods and private goods in some workable combination *increase beyond the capacity of the institutional structure [of the state] to reconcile the two over the medium-to-long term* (emphasis added, Cerny 1995:602).

This expansion of the state's capacities became imperative during what has been called the second industrial revolution of the late nineteenth and early twentieth centuries. Typically, the features of second industrial revolution states converged around a fairly centralised state and were

concerned with a growing range of policy functions: the promotion and maintenance of large-scale mass industries, providing the requisite level of demand and regulation management to ensure that specific assets will not be undermined by economic downturns, and the creation of mass markets as well as a disciplined work force “to keep the factories humming” (Cerny 1995:605). Better known as the era of Fordism, it saw the United States emerge as the world’s leading industrial producer with the state tying society and economy closer together, particularly in the U.S., Japan and Europe where differentiated levels of state intervention privileged such industries as steel, chemical and automobile production (Murphy 1994; Carnoy, 1993). Central to the growth of these industries was the provision of financing capital, whether through the state or privately as was more readily the case in the United States (Rupert, 1995). Along with these developments, national-scale processing and packing industries, the emergence of large chains of retail firms and nationally integrated systems of distribution gave way to the rise of the modern corporation and the ‘science’ of management.

Unable to adapt to the changing structures of the second industrial revolution, Britain’s decline opened the way for American leadership starting with the intense national competition of the 1930’s as embodied in the rise of Fascism and Stalinism, as well as President Franklin Roosevelt’s New Deal in the U.S. It was this worldwide shift from first to second industrial revolution which Karl Polanyi described as *The Great Transformation* ¹⁷.

Whereas the first industrial revolution attempted to create a global self-regulating market, with the notable exception of the United States, the form of state which followed the Second World War had already begun to crystallize in the 1930’s as the corporatist, social democratic national welfare state (Cerny 1995:605).

The instability of the 1920’s and 1930’s represented a major loss of financial control by both authoritarian and liberal states over international economic processes. States immediately tried to reassert control, either through more autarchic or authoritarian regimes, or the withdrawal of liberal states behind trade barriers. America’s emergence however, “created productive financial and trade links that drew second industrial revolution states out of their national shell and into an international web of linkages” (Cerny 1995:606). Hence, by the late 1960’s, the kind of public goods which the second industrial revolution produced were firmly integrated into an ever-widening international market.

As the third industrial revolution - characterized by flexible production systems and organizational structures, market segmentation, and the intensive application of information and telecommunications - commenced, national states faced increasing difficulties maintaining all the kinds of public good which they had so decisively provided previously. This became most

¹⁷ “the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet other ways. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it” (Polanyi, 1957:3-4).

prevalent amongst the three most primary kinds of public good: (i) the regulation of a workable market framework, (ii) state controlled or sponsored activity relating to production and distribution as well as (iii) redistribution of specific kinds of public good¹⁸. An increasingly open free trade regime, the impact of new information technology and the difficulties states face in trying to support property rights attest to the challenge of maintaining regulatory responsibilities. In the sphere of the production and distribution of public goods, the declining support for industries that had earlier been considered to be of 'strategic value' (e.g. shipbuilding, or the industries for chemicals, railroads, aircraft, motor vehicles and even basic energy) meant that they were all being privatized throughout the 1980's and 1990's (see chapter 5 & 7). Public ownership was seen as perpetuating the 'lame duck syndrome' of the state, eroding the once-perceived benefits from national planning, employment and social justice.

This was not only true for 'advanced' Northern industrialized states. Even in the developing world, import substituting industrialisation (ISI) and the (relative) autarchy advocated by the dependency school rapidly came into disrepute. The aim of the state now is to promote the country as a favourable destination in which transnational capital can invest. Hence the need to increasingly prevail upon vehicles to further the state's marketing power (see below). States have therefore continually narrowed their range of public goods to those which furthered their competitive edge most, namely the development of human capital (the skills, experience, education and training of the work force); infrastructure (from public transportation to high-technology information highways); support for a critical mass of research and development; a fairly good quality of life for those occupying the middle to upper level working positions in firms as well as the overall maintenance of a public policy environment conducive to the attraction of investment either by foreign owned or domestic capital (Cerny 1995: 609-10).

Finally, in terms of the state's redistributive capacity, corporatist bargaining and labour practices are under pressure with the provision of education and training taking priority over direct labour market intervention and worker protection. In the case of welfare states, the major purpose, at best, is to simply try and comply with existing commitments in the wake of ballooning unemployment compensation and entitlement programs due to industrial downsizing, increasing inequalities of wealth, the aging of populations in industrialised societies and homelessness (Cerny 1995:612).

¹⁸ Whereas the state had initially only fulfilled a limited range of socioeconomic functions, it increasingly assumed a greater number of responsibilities - the stabilization of the social order, promotion of a national culture, the establishment and defence of national borders, increased regulation of economic activity and the provision of a legal system enforcing contracts and protecting private property (Cerny 1995:603).

From Second to Third Industrial Revolutions and State Transformation

What Cerny calls the *third industrial revolution* has been ushered into existence by five primary trends¹⁹: firstly, the development of flexible manufacturing systems - post-Fordism - and its spread to both old and new industries; secondly, in the changing hierarchical form of firms and bureaucracies to conform to the dictates of "lean management"; thirdly, in the expanded capacity of decision-makers and managers to monitor labour performance through information technology; in the fourth instance, through differentiation of markets in a more segmented market society; and finally, in the emergence of increasingly autonomous transnational financial markets and institutions.

The reason why the state could not take industry under its wing - as it had done during the second industrial revolution - relates to the nature of flexible production itself. As Cerny states, this process "requires not an integration but a differentiation - both of distinct stages of the production process and of increasingly complex and variable production-line tasks themselves" (Cerny 1995:613).

Unlike the production process characteristic of the second industrial revolution, *flexible specialisation* does not revolve around the hierarchically organized firm, but is marked by increased subcontracting in proper and peripheral manufacturing processes; much more autonomous labour and management teams tasked to conceive more efficient ways of getting things done; and shortened process and product cycles for both technological and organizational teams in order to switch both machines and workers quickly from task to task and product to product. In other words, what sets this mode of production apart from any before it is the requirement to have

not merely a work force that is both flexible and highly trained but also the latest in high-technology production techniques such as robots, reprogrammable machine tools and computerised production lines. These production facilities require a range of new conditions to operate efficiently, including such factors as the availability of greenfield sites - sites away from the decaying fixed capital and unionized work forces of the second industrial revolution industries, e.g., in the U.S. Rust Belt - and proximity to other, similarly structured industries (Cerny 1995:614).

Post-fordism did not only change the structure of states, but also firms. Apart from reducing labour through downsizing and subcontracting, the third industrial revolution firm emphasized the need for both entrepreneurship (envisioning new processes and products from outside the established structures) as well as intrapreneurship (leaders of autonomous teams within large but flexible organizations who could change the direction of those institutions). As new information technology processes allow workers and lower-level managers more autonomy, it also creates a more rigorous system with which to monitor working performance, even leaping national borders, thereby bringing firms, markets and consumers into a single, global production process

¹⁹ For more on the consequences of the third industrial revolution and the emergence of the "knowledge economy", see Thurow (1999).

with an escalating number of industrial sectors (Cerny 1995:615).

If the flexibilization of production, firm structure and monitoring represent the supply-side of the equation, the demand side involves the evolution of a more sophisticated and complex segmentation of the consumer market. As markets became saturated by the boom of first-time buyers at the end of the 1960's, consumers making a subsequent purchase of washing machines, refrigerators or television sets, demanded higher specifications and greater choice, leading to growing consumer demand for foreign-produced goods and in turn, forcing both *firms* to internationalise and pressurising *states* to provide the requisite public goods.

Finally, the third industrial revolution has been swept to power by the globalisation of financial markets. Having become the exemplar of a flexible industry, the financial markets are rapidly occupying a position of structural hegemony in the wider world economy. It is not only that the volume of financial transactions is widely estimated to be between twenty to forty times the value of merchandise trade or that such crucial determinants of business deals as, say, exchange and interest rates, are profoundly affected by world market conditions, but the fact that trade and production structures

will be increasingly coordinated through the application of complex financial controls, accounting techniques, and financial performance indicators (because nonfinancial performance is complex and difficult to measure in a globalizing world) (Cerny 1995:617).

As the following changes in policy terms suggest, the overall purpose of the competition state is to get the state to do "both more and less at the same time" (Cerny 1997:263). An essential concern within trade policy for example, is to maintain a free trading international order whilst seeking temporary forms of protection through the establishment of demarcated free trade areas (i.e. ASEAN, NAFTA). Monetary and fiscal policy priority has also been reversed so that tighter monetary policy is being pursued with a looser fiscal policy or through a range of tax cuts. And exchange rate policy, difficult as it is to manage in an era of floating exchange rates, remains essential. Industrial policy, as well as 'strategic' trade policy seeks to support the development of much more flexible manufacturing systems with transnational economies of scale and major efforts to manipulate the conditions which determine competitive advantage (Cerny 1997:264). Of these, the most notable include the encouragement of

mergers and restructuring; promoting research and development; encouraging private investment and venture capital, while providing or guaranteeing credit based investment where capital markets fail, often through joint public/private ventures; developing new forms of infrastructure; pursuing a more active labour market policy while removing barriers to mobility, and the like.

Furthermore, the pursuit of deregulation is based on the assumption that national regulations stifle transnational activity and do not take into account the rapid shifts in the conditions which have spurred current levels of competition (Cerny 1997:264). In short, these conditions have made the competition state the main state-like agency of globalization, transforming itself from a nation-state to a quasi-'enterprise association' so that the essential functions of the state are becoming increasingly residual in relation to the range of available policy instruments and outcomes (Cerny, 1996:636; 1997:251).

Competing Forms of the Competition State

The existence of these defining features of the competition state does not imply the absence of variations between types of competition state as they have emerged in reaction to these exigencies. France and Japan constituted the earliest attempts at the creation of competition states in the form of more interventive strategic or developmental states.

Until the Asian crisis of the late 1990s, a similar emphasis upon strong-state technocratic *dirigisme* continued in the form of the near-NICs and other upwardly-mobile Third World states. My analysis of the Malaysian case (especially chapter 5) clearly confirms Cerny's contention that the scope for control over market outcomes through rentierist linkages between the state and clientelist firms rapidly recedes as the integration of these economies into the world economy proceeds apace. Moreover, as chapter 6 indicates, in as much as post-apartheid South Africa's political transition was a "small miracle", and sought to emulate the East Asian economic miracle, the IPE had already foreclosed the autonomy of the South African state to do so, despite the unprecedented acclaim with which Mandela's South Africa was welcomed and reintegrated into the world economy.

The Anglo-American variant - the neo-liberal state - was born amidst Reaganomics and Thatcherism in the 1980's which resurrected the *raison d'etre* of laissez-faire free market economics, characterized by firms increasingly willing to go multinational and embrace lean management and downsizing. Moreover, the relative flexibility of American and British labour forces in conjunction with an arm's length state tradition in both societies is widely thought to have made these industries more competitive as a result and to ward off the political motivation for the strategic/developmental state. This is not to say that state intervention has receded entirely. Rather, bureaucracies which provide public services directly are monitored more closely while other services are contracted out (Cerny 1997: 266).

Even the European neo-corporatist model²⁰, once thought to have successfully combined the best from both the Japanese and Anglo-American permutations - is under threat by those who see the European Monetary Union as deflationary and the liberalization and deregulation of European economies being encouraged with greater zeal than ever before (Cerny 1997:265-6).

The emergence of the competition state draws out three paradoxes of globalization. In an attempt to cope with the range of complex changes in the social, political, economic and cultural fields of interaction, state and market actors are redesigning the state to conform more broadly to the philosophical aspirations of the quasi-'enterprise association'. The first paradox - consistent with transformationalist accounts of globalization - is that there is no simple retreat of the state as such, but rather a *de facto* expansion of state involvement in the name of competitiveness and market flexibility. The second paradox - which complements the first - is that whilst multinational non-states; transnational actors and institutions try to adapt the state to the challenges described above, they actually promote or instigate more complex forms of globalization causing a further restructuring of the state.

Thirdly, globalization complicates the state's traditional *gemeinschaftlich* role associated with its civil associational form. The question therefore is whether -at the socio-psychological level - the transformation of the state reduces its *gemeinschaftlich* affinity. If so, could the state as the primary repository of identity, be eclipsed by an alternative sense of belonging or increasingly find that it can only lay claim to a partial sense of loyalty? Advanced capitalist economies in Europe, Japan and North America - with the potential capacity to provide infrastructure, education systems, work force skills and the kind of quality of life amenities with which to attract mobile footloose capital - would seem to be better suited to weather the unweaving of their social sense of cohesion. At the same time

...[T]he ability of states to control development planning, to collect and use their own tax revenues, to build infrastructure, to run education and training systems, and to enforce law and order gives actors continuing to work through the state a capacity to influence the provision of immobile factors of capital in many highly significant ways (Cerny 1995:619).

Those living in societies less well-endowed, may find that mobile international capital can more easily destabilise fragile governmental systems vulnerable to being torn between groups with divergent claims to recasting the state's *gemeinschaftlich* sense of loyalty along religious, ethnic, or other grassroots identities (Cerny 1995:620). Hence, the need to retain a strong sense of national identity remains critical in deeply divided and developing societies, especially those pursuing a strategy of ethnic redistribution with growth.

For example, as I illustrate in both the Malaysian and South African cases (chapters 4, 5 and 7 as well as the idea of an "African and Asian Renaissance"), the nationalist imperative behind

²⁰ Characteristically, the pursuit of conservative monetary policies, the institutionalisation of wage bargaining and other social issues through corporatist frameworks, the promotion of extensive training policies and a universal banking system seen to nurture and stabilise industry without strategic state interventionism were considered to be cutting a middle way between the liberalism of the Anglo-American versus the developmental state derivative in the Third World.

the ethnic redistribution with growth (ERWG) strategy becomes a powerful tool with which to recast or mask the growing class divergence which becomes manifest *within* the new ascendant ethnic middle class, as integration with the global economy intensifies.

It is this need to overcome the disruptive effects of globalization upon the state's *gemeinschaftlich* role yet *simultaneously* promote the state as an attractive tourist destination, trading partner and site for foreign direct investment which prompts the drive to enhance its marketing power (see chapters 8 and 9). The final section of this chapter conceptualizes the notion of "marketing power" as a complementary strategy towards competition state transformation.

Marketing Power and the Competition State

Not unlike successful advertising campaigns to promote the intangible value of driving a luxury German car or designer label jeans, globalization has made it imperative for state elites - especially those in the developing world - to "soft sell" their country through hallmark events, sports and cultural industries, and thereby compete with over a hundred other states to attract tourists, foreign direct investment, and trade. For small, relatively unknown countries, the simple fact of being "visible" constitutes a form of power. Opportunities to enhance their global appeal and "put them on the world map" have become a sought after goal. Being able to host events, ranging from high-profile international sports competitions such as the Olympics to regional beauty competitions, arts festivals, medical conventions or merely the international release of a major feature film, serve to heighten international visibility. Indeed, the kind of power which accrues from a bolstered global profile reflects the extent to which the "ideology of competitiveness" is forcing states to participate in the global "beauty contest" as Stephen Gill (1992) has described it.

There is much that can be borrowed from the literature on marketing, specifically its conception of power and strategy. The social foundations of marketing are highly attuned to ways in which needs and wants can be optimized in order to enhance brand, product or service appeal. However, if marketing in itself is rarely seen as a form of power in International Relations, Marketing in turn, fails to pay attention to the political bargaining elicited, precipitated or followed by a particular marketing strategy. The marketing literature tends to treat this process as an essentially apolitical endeavour. Compare the following definition:

Marketing means working with markets to actualize potential exchanges for the purpose of satisfying human needs and wants (Kotler, 1986:11).

Where the marketing literature has dealt with the process of marketing cities, provinces and even nations, it has paid scant attention to the very political nature of the process²¹. Partly, this is because most of its literature is heavily consumer driven, focussing on products, brands and consumer behaviour. Once various state and non-state actors are included, a new analytical orientation and approach is required. Questions which would immediately arise amongst

²¹ See for example, Kotler, Haider & Rein (1993); Kotler, Jatusripitak & Maesincee (1997); Ashworth & Goodall (1991).

students of political economy, namely power and interests, often remain unasked and unanswered. This is where international political economy can be usefully deployed. Transnational corporations, social movements, states, non-governmental organizations, even individuals are all involved in the particular political process of marketing themselves with the expectation that their preferences might prevail over others. The point, in short, is that whilst Marketing pays too much attention to the “how to” dimension of the process, International Relations tends to discount it.

The concept “marketing power” attempts to bridge this divide. It denotes a variety of strategies a state employs in order to enhance its international projection²². Sports and cultural industries as well as hallmark events are the predominant means through which the state attempts to enhance its capacity to attract capital, tourism and a range of subsequent “spinoffs”.

Marketing power also reveals the *two level games* in which states are engaged. **Internally**, marketing power refers to attempts by state elites to shore-up political legitimacy, reinforce a sense of national identity and placate those constituencies adversely affected by the growing internationalization of domestic-issue areas. In other words, these initiatives help create a symbolic focus of commonality, enforcing the sense of identity and loyalty to which the state as civil association would more readily lay claim.

Marketing power also serves an **external** political purpose since state elites justify the huge costs of hosting an event or subsidising a local film or music industry on the basis of its potential to “export” the country and “put it on the world map”. As flip sides of the same coin, the pursuit of marketing power therefore fulfils both a domestic role in attempting to shore up support for a sense of *gemeinschaftlich* commonality diluted in the transformation to competition state; and externally, ‘markets’ the country as a complement to other policy initiatives.

The concept of marketing power is consonant with Pierre Bourdieu’s (1987) emphasis upon the relationship between symbolic and material capital. According to Bourdieu, various forms of symbolic capital (i.e. goodwill, prestige, influence, power and credit) can also be invested, accumulated, invested or spent, much like material capital. In fact,

symbolic capital is created by the investment of material capital and time into a project. While the short-term benefits, which are symbolic, appear to be non-economic and therefore disinterested, the complete cycle of circulation of symbolic capital indicates that material capital is invested to produce symbolic capital, which is ultimately converted back into material capital. Thus symbolic and material capital become interconvertible (cf. Feinsilver, 1989:3).

However as my analysis of the Malaysian (chapter 8) and South African (chapter 9) exercise of marketing power indicates, the symbolic/material capital nexus is subject to considerable societal contestation and like any other strategy, not without considerable risk (an

²² Revisiting the entire gamut of theoretical discourse regarding “power” is beyond the scope of this analysis. However, for a particularly useful organization of the literature into “indirect institutional power”; “non-intentional power” and “impersonal power”, see Guzzini (1993).

issue which I address below).

Marketing power should not be equated with Joseph Nye's (1990; 1990a) celebrated notion of "soft power". Fond of equating all kinds of behaviour by both state and non-state actors to their use of "soft power", some fail to recognise the profound limitations of the concept²³. Firstly, Nye's explication of American power in the realm of ideas, institutions and culture is of course, everything but soft. In fact, it is quite structural. Closely related, the second deficiency is its hegemon centricity, thus continuing to privilege a top-down orientation in the analysis of world politics (Van der Westhuizen, 1999).

In contrast, marketing power acknowledges that the scope for international signalling amongst 'lesser' states is ultimately determined by their location in the hierarchy of global power, and accordingly much more restricted. For many smaller states, especially those in the South, their signalling capacity is therefore largely confined to marketing themselves as competition states.

Unlike Nye's fairly open-ended concept of soft power as both ideas, institutions and culture, the terms of reference for marketing power is much more restricted. The predominant means through which marketing power is exercised relates to one or more of the following categories, namely (i) sport; (ii) cultural industries and (iii) hallmark events.

Yet, even this relatively restricted definition bears upon a broad range of mediums to enhance international projection. Cultural industries encompass a wide variety of "cultural" pursuits, from broadcasting, literature and publishing to the visual and performing arts, traditional craft manufacturing, as well as motion picture and music production. Furthermore, sport has become an entire industry in its own right with enormous sponsorships, television broadcasts, the trading of sports stars and product endorsements. And finally, hallmark events are "major one time or recurring events of limited duration, developed primarily to enhance awareness, appeal and profitability of a tourism destination in the short or long term²⁴. Such events rely for their success on uniqueness, status or timely significance, to create interest and attract attention" (Ritchie in Hall, 1992:2).

Since the focus of this study is upon state adaptation to the challenges of globalization, I only focus on three sectors, namely sport, popular music and film production. Given the potential for mass participation in these three forms of popular culture, the degree to which state elites attempt to appropriate the kind of marketing power which these genre's engender, can more readily be assessed. In short, music, film and sport especially, provide the most visible means through which a national identity can be transmuted to the world beyond. Music as a form of performance expression

does not derive solely from the minds of creative individuals. It emerges as an aspect of social action and resonates with emotion and meaning among members of communities in

²³ For similar lines of critique in relation to the Canadian case, see Kim Richard Nossal, "Foreign policy for whims", *Ottawa Citizen*, April 23, 1998.

²⁴ More extensive analyses of hallmark events are beyond the scope of this study as an established literature already exists (i.e. Gold & Ward 1994; Hall 1992; Getz 1991; Syme & Shaw 1989).

the context of social institutions (Copland, 1985:5).

Film is a particularly vivid carrier of a nation's marketing power. Accordingly,

Cinema as perceived by the entire world, is an expression of national identity. It is the so-called highest expression of art and business. Because it is so capital intensive, it always requires state supervision, in order to regulate the interests of culture and business. Because it trades in ideology and information, it is often the tool of politicians. *It is the coal-face where politics, business, entertainment and art all meet* (Nathan, 1991:61, emphasis added).

And finally, in the case of sport, Nixon (1994:135) has powerfully argued that

Most national or ethnic nationalist groups feel economically, politically and geographically peripheral to the centers of world power. Such notions ordinarily enjoy scant control over their destinies and are seldom afforded visibility on the world stage. Sport often offers the only arena in which nations can redress feelings of marginality and bask, however fleetingly, in the sensation of being a global force. Cameroon's triumphs over more illustrious nations in the 1990 World Cup Football typified sport's ability to bestow this surrogate sense of national power. The same applies to Western Samoa's defeat of more celebrated sides in the 1991 Rugby World Cup, to Zimbabwe's humbling of England in the 1992 Cricket World Cup and during the Cold War era, to East Germany's spectacular performances at the Olympics. White South Africans' paranoid obsession with the sports boycott was rooted in an ethnic nationalist exasperation at being denied just such opportunities to compensate for the smallness of their population, their geographical marginality, and their political ostracism.

The more difficult challenge however, is determining when are which "tools" of marketing power more effective than others? Although no final answers can be given, a number of propositions emerge from this analysis. Firstly, successful deployment of marketing power usually coincides with a well consolidated sense of national identity of which the United States, despite its overwhelming structural power is the most celebrated example. Yet, the allure of marketing power is that it is more often than not sought after by state elites in societies marked by quite a profound lack of national identity. Of the two case studies, this is most clearly revealed by the degree to which the apartheid state intervened in the South African film and music industry to effectively sell state sanctioned notions of national identity (see chapter 9).

The ironic political twist tends to result in a typical "catch-22" dilemma: as state elites seek to enhance their legitimacy by prevailing upon the state's sources of marketing power, this process can very often exacerbate or expose their very lack of legitimacy. In the case of sport, this is especially well illustrated in the case of the 16th Commonwealth Games which Malaysia hosted (see chapter 8). Since competition for foreign direct investment, tourism, and trade is particularly fierce amongst states in the South - who also happen to lack a strong sense of "self" - the quest for marketing power throws up a multiplicity of complex dilemmas.

Secondly, the comparative analysis regarding the influence of the music, sport and film industries to enhance South Africa and Malaysia's marketing power, suggests that in the order of effectiveness, international signalling is more difficult to achieve through film production,

thereafter through music, whilst sport events would seem to offer small, deeply-divided societies such as Malaysia and South Africa, the most accessible medium to expand their marketing power.

Film production is a particularly demanding marketing process. Not only because of the difficulty of breaking into the global film market, extraordinarily dominated both in production and distribution by the United States²⁵, but also due to the tendency of authoritarian systems as in apartheid South Africa and Malaysia, to impose censorship and a multitude of other restrictions. Moreover, given the high start-up costs of the film industry and aspiring directors/producers' dependency upon state subsidies, the industry more readily becomes subject to ideological manipulation.

The music industry is in a somewhat better position. For small countries, accessing the world music market - dominated as it is by the Big Six (WEA Records, Sony, EMI, Polygram and BMG) - remains a daunting endeavour²⁶. However, with lower start-up costs than film production and finance available through the multinational record companies, music cross linguistic barriers much easier than films do. Hence South African music has always been a far more effective carrier of the South African image largely because of a sizeable musical diaspora, which infused South African music onto the world circuit via the United States (see chapter 9). Malaysian music in contrast, has had far greater difficulty, not only because its style and rhythms are less Western, but also because English does not occupy the same level of primacy as it does in South Africa. However, whilst musical exports to the West may be more limited, Malaysia's Islamic orientation also suggests the potential of projecting the country to an Islamic market (see chapter 8).

For small states, high profile international sports events provide the most gains (in terms of visibility) in relation to cost. Although costs prevent most developing countries from hosting first order sports events like the Olympic Games, a multitude of other regional and continental - if not international sports events - provide "niche opportunities" to expand marketing power. Moreover as Burkina Faso's hosting of the 21st African Cup of Nations in February 1998 suggests, even some of the world's poorest countries attempt to steal some international limelight through sports as a once-off event. However, as both chapters 8 and 9 illustrate, the use of sports events to enhance the state's marketing power remains a politically contested matter between various stakeholders. Furthermore to optimize the marketing power potential of sport, the kind of hallmark event embarked upon should be proportionate to the state's ability to host it. Malaysia's success in gaining considerable exposure from a second order event such as the Commonwealth Games, stands in stark contrast to South Africa's unrealistic bid for the 2004 Olympics. Accordingly, chapters 8 and 9 only provide cursory reflections on the film and music industries in Malaysia and South Africa, in order to focus in more detail on the politics of sport as a form of marketing power through case studies of the 16th Commonwealth Games in

²⁵ Guback (1969) details how the United States came to dominate the international film industry.

²⁶ On the difficulties of exporting music from developing countries, see Wallis & Malm (1984).

Kuala Lumpur and Cape Town's bid for the 2004 Olympic Games.

Transcending the Internal/External Divide

Globalization draws attention to the need to refine and craft both new tools and modes of understanding change. It challenges the established research traditions which continue to privilege a bifurcation of domestic and international politics (Clark, 1998; Cerny 1996). Yet Clark (1998:490) perceptively argues that the potential of globalization analyses to overcome the Great Divide between International Relations and Comparative Politics is diminished by a tendency to become subject to the same kind of structuralism of which neorealism often stands accused:

States are constrained to behave in similar ways for structural reasons, but the pertinent structure in this case shifts from the anarchy/power features singled out by Waltz to the competition/neoliberalism of the post-embedded-liberal economy.

By giving too much weight to structures and taking too little account of the political impact of globalization upon states, the ability to see states as both the vehicles of globalization *and* as being reconstituted by it, fades from view (Clark, 1998:491). Cerny's analysis has also been criticized for falling prey to similar degrees of structuralist determinism. In addition, equating the short eclipse between two different types of state - from welfare to competition state - as some kind of historical transcendence of the state itself is deeply problematic as both Armstrong (1998:466) and Clark (1998:491) suggest.

Admittedly, Cerny (1990:229-30) contends that the competition state is constrained "to act more and more like a market player", but also emphasises that the state is both a vehicle and victim of globalization. Indeed, my analysis of the Malaysian case (especially chapter 5) illustrates that it was primarily due to political considerations that the Malaysian state preferred not to closely engage domestic (i.e. Chinese) capital in its industrialisation efforts. However, by turning its back against local capital in favour of foreign capital, the Malaysian state ultimately became heavily indebted to Japan. When the value of the yen appreciated following the Plaza agreement, and coincided with the economic recession of the 1980s, these conditions severely aggravated Malaysia's problems and added to the pressures for liberalisation of the Malaysian economy. Similarly, in the South African case for example, the run on the rand in mid 1996 proved to be a major contributor in the decision to abandon the RDP. This particular response to the currency traders, was partly self-created, as some local businesspeople saw a devaluation coming, and preempted that move by short-selling rands (see chapter 6).

Regarding historical depth, the relatively recent historical focus of this study ensures that the welfare/developmental state to competition state nexus remains relevant. By "looking from the inside out" and focussing more firmly on state-societal linkages, I reflect in broad and comparative terms how the saliency of patron-client connections in Malaysia and corporatism in South Africa have evolved to mediate pressures for liberalization at the international level and domestic demands for redistribution at the domestic level.

These intermediation processes are crucial in order to account for the difficulties which state elites face when undertaking a strategy of ethnic redistribution with growth (ERWG) during globalization. The limited policy scope of the post-apartheid state to sponsor an African middle class through the same means by which Malays and Afrikaners became a part of the bourgeoisie, forces the South African competition state to engage in novel forms of corporatism in order to consolidate its political hegemony (see chapter 7). As both Malay (see chapter 3) and Afrikaner (chapter 4) nationalisms suggest, when the strategy of ethnic redistribution with growth becomes disjunctured due to fundamental shifts in the international political economy, so that growth declines and with it the spoils for redistribution, the temptation to resort to authoritarian means to reassert control is a very real one.

Conclusion

It needs to be emphasised that the features of the competition state noted above, represent an ideal type and are unlikely to be matched in the profiles of individual states. The closest analogy however, is American state governments, representing in an economic sense “the essence of the ‘competition state’” (Cerny, 1997:272). Although the expanding weight and legal prerogatives of the federal government have constrained their taxing and regulating power, their capacity to build infrastructure, to run education and training schemes, to enforce law and order and attract immobile factors of production remain significant. While they foster a sense of identity and belonging which can be quite strong, these state governments can only lay claim to a partial sense of loyalty (Cerny, 1997: 272).

There is no simple, direct relationship between increased levels of globalization and the ‘withering’ away of the state as most globalists contend. Equally foolish is being blind to the degree to which the integration of the world economy has caused profound and dramatic power shifts across a variety of societal, economic, political and cultural dimensions. Rather than seeing globalisation as an “iron cage”, transformationalist accounts highlight its differential consequences by analysing how intermediation processes, state strategies and the state’s location within the international political economy mediate its social and political impact. Accordingly, the evolution of the post-war national welfare state towards a competition state model, although represented in various forms, amplifies the extent to which states remain resilient and adaptive creatures.

The next part of this thesis therefore compares the relative success with which Malay and Afrikaner Nationalists pursued the strategy of ERWG at a time when the international political economy was characterised by the dominance both of Fordist modes of production and Keynesian economic models.

I

CONVERGENCE:

THE BEST OF TIMES: MALAYS & AFRIKANERS IN THE KEYNESIAN/ FORDIST ERA

The objective of this study is to illustrate how deeply divided societies attempting to pursue a strategy of ERWG mediate the contradictory pressures emanating from both domestic constituencies and the IPE as they are transformed into competition states. Part I highlights the considerable convergence between Malay and Afrikaner nationalism's ERWG programmes coinciding with the global dominance of Keynesian economic philosophy and Fordist modes of production until the mid-1970s.

Chapter 3 illustrates why Malaysia in the immediate post-independence period continued to pursue the laissez-fairism of the colonial era, why it failed to address Malays' deep-seated sense of economic insecurity and thus prompted a relocation of the developmental pendulum firmly in favour of redistribution in order to address these grievances.

Chapter 4 briefly highlights the similarities between Afrikaner Nationalists and their Malay counterparts and the considerable success achieved in pursuing a strategy of ERWG. However, it also illustrates some differences and why corporatism became such a dominant feature of South Africa's political culture.

3

The Advance of Malay Capital: From Growth to Redistribution

The 1970 generation of Malaysians of all races is vastly different from the old 1957 generation. They constitute a majority. Their wants, their hopes, are also different; and the world they live in at home and abroad is no longer the same. No generation has the right to dictate to the future generation as yet unborn or not ready to vote what precisely their political destiny must be

- Goh Hock Guan, *Malaysia Parliamentary Debates*, 1972, p.84
(cf. Bowie, 1991:87).

Referring to the Malaysian example in March 1996, Thabo Mbeki, Mandela's successor admonished white business, arguing that South Africa would 'explode' if the government failed to intervene in order to create a 'non-racial' and 'non-sexist' society (*SAIRR Survey*, 1996-97:35).

On May 13, 1969 Kuala Lumpur rather than South Africa, did indeed 'explode' following a general election which the Alliance coalition won - but by a bare majority. Riots and fighting, mostly between Malays and Chinese, left 196 dead and 439 injured. Besides declaring a state of emergency, Parliament and other hallmarks of democratic rule were suspended until 1971 leaving government to rule by virtual decree (Bowie, 1991:82). It proved to be a watershed in Malaysian history. The eventual policy response was a complete departure from the laissez-faire economic model which had guided development since independence and the implementation of the New Economic Policy (NEP), one of the most ambitious efforts at ethnic redistribution with growth.

I contend that the need to protect British interests, Malaysia's geostrategic significance during the Cold War as well as its location within the IPE of the 1950s and 1960s, impacted profoundly on the laissez-faire developmental programme adopted by the first post-colonial government. With the emphasis upon growth rather than redistribution, this approach failed to adequately and rapidly address Malay economic insecurity, exacerbating the ethnic tensions which gave rise to the instability of 1969. Prompting a relocation of the developmental pendulum firmly in favour of redistribution, the NEP led to extensive state intervention. However, by marginalizing Chinese capital and in the absence of a Malay state/Chinese capital alliance, Malaysia became more dependent on FDI and joint ventures with foreign firms to realise its ambitious industrialisation programme. Moreover, the growing concentration of power within the enlarged state, heightened the potential for a patron-client based political culture.

**Sustaining the Laissez-Faire Colonial State:
Growth *Uberalles***

Protecting British Interests

Upon independence, Malaysia was governed by a multiracial Alliance consisting of Malaysia's three dominant political parties, namely the United Malays' National Organization (UMNO); the Malaysian Chinese Association (MCA) and the Malaysians Indian Congress (MIC). This coalition reflected Britain's conviction that a multiracial alliance of leaders would prevent or at least subdue the emergence of a class-based politics and which might threaten Britain's extensive economic interests in the country¹.

However, the multicultural coalition did not only suit Britain. Leading Chinese business people also had vast interests to protect and to counter the influence of the Chinese dominated, Malayan/ Malaysian Communist Party (MCP) - which was finally banned in 1948 - it became imperative that a Chinese party, "conservative, yet pliant to British interests" emerge (Gomez & Jomo, 1997:11). Hence, Britain encouraged the formation of the MCA, established in February 1949.

UMNO, whose members at the time comprised mostly peasants and teachers, was in turn, heavily dependent on the wealthy MCA for financial support. The ability of the MCA to garner greater support from amongst the larger Chinese middle and working class was constrained by its image as a bourgeois association. Thus the MCA needed UMNO to secure victory for its candidates during elections. Although Malays comprised only 49 percent of the population in 1955, they made up more than 80 percent of the electorate (Gomez & Jomo, 1997:12). Finally the MIC, originally not conceived as a communal based party, was forced to become so once it became apparent that multiracial parties received little support. And given that its political survival would always be under threat, since its Indian base represented only about 8 percent of the population, meant that it could better serve their interests as part of the ruling Alliance. As in South Africa, Indians came to Malaya as plantation workers; whilst many Chinese came to work in the tin mines. Similarly, in South Africa, Chinese arrived as indentured labour on the gold mines to compensate for the lack of unskilled black migrant labour².

¹ One colonial official for example, observed in 1928 "[T]he Government revenues of British Malaya...were roughly 20,000 [sterling] last year. The overseas imports of British Malaya as a whole for the year 1926 were valued at 117,000,000 [sterling] and the overseas exports at 147,000,000 [sterling]...These remarkable totals exceed trade of the whole of the rest of the Colonial dependencies put together. The value of exports per head of the population of British Malaya for the last two years has exceeded that of any other country in the world, and is higher even than the figure for New Zealand, which leads the self-governing Dominions in this respect" (Bowie, 1991:42).

² Although this policy of labour importation somewhat revived the industry, it contributed to the fall of the Conservative government in Britain and the early granting of responsible government to the Transvaal in 1907. An Afrikaner coalition of landowners and farmers which had taken power in the Transvaal, repatriated the Chinese (Yudelma, 1983:20-21).

Not unlike South Africa's Government of National Unity (GNU) formed in 1994, it was through this coalition that "the three parties were able to retain their communal identities and bases while achieving elitist, multi-ethnic cooperation" (Gomez & Jomo, 1997:10, 12).

Despite Malaya's economic significance to the British Empire, what differentiated South Africa and Malaya's relationship with Britain was that the latter did not become a country for mass British settlement. If London related to Kuala Lumpur more on colonial terms, South Africa was related to as a dominion, not unlike Canada, New Zealand or Australia. In fact, for at least the first half of this century, reconciliation between Afrikaners and Anglophones remained the dominant theme of South African politics (much like Anglophone-Francophone relations continue to dominate Canadian politics today).

However, not unlike Malaya, the *laissez-faire* South African economy was dominated by British business interests. Yet, the British stake in South Africa went beyond mere geostrategic or economic interests. A major British incentive to ensure South Africa's relatively peaceful transition from apartheid, for example, was the need to simply avoid having nearly 20 percent of South African whites with British passports, arrive at Heathrow *en masse* !

The agreement on which the Alliance was based - the so-called, "Great Bargain" - granted special privileges to Malays as the indigenous inhabitants of the country, whilst extending citizenship rights to the Chinese and Indians. Whereas Malay political hegemony was thereby secured, the general non-Malay expectation was that their economic preeminence would continue and the existing capitalist "rules of the game" would be observed. The result was a consociational "package deal" which

satisfied the major claims of each community: in effect, the price to be paid by non-Malays for full participation in the activities of the Federation and for continued economic dominance was their acceptance of Malay cultural and political hegemony (Bowie, 1991:74).

At its independence in 1957, Malaysia thus inherited a colonial economy centred upon minimal taxation, strict avoidance of deficits and a largely unprotected market (Jesudason, 1989:48). Malays held sway politically through the elite Malay dominance of UMNO and Alliance coalition as well as in selected government positions even before independence. Nevertheless, through a British policy of coopting members of the sultanate into colonial structures of administration, the powers of the Malay aristocracy was restricted to nominal issues only.

However, it was after independence that the economically subordinate position of Malays became increasingly problematic for a ruling elite which had, after all, come to power in order to overcome the Malays' "profound economic, political and psychological anxieties about their place in society" (Jesudason 1989:45).

Not unlike white Afrikaners and to a far greater degree, their African counterparts, the colonial economy kept Malays tied to traditional agricultural activities such as rice cultivation, fishing, coconut growing, small cottage industries and limited commercial cultivation of rubber

plantations³. Malay access to capital was also restricted by legislation which prevented Malay reserve land from being sold to non-Malays. Since only a limited number of agencies could hold Malay reserve land, it also meant that prices would always be below market value. Not unlike black South Africans whose access to land was also restricted and who were forced to live in "homelands" (see chapter 7), considerable odds were stacked against an aspiring Malay commercial class⁴.

Geostrategic Significance within the IPE

Much as the post-Cold War world moderated post-apartheid economic policy in the 1990s (see chapter 6), the Cold War world which an independent Malaysia now entered, forced a more cautious, less nationalist economic response. The Malaysia of the 1960s was heavily dependent on Britain for its military defence. According to prime minister Tunku Abdul Rahman, Malaysian vulnerability was demonstrated during the twelve year guerrilla war against the Chinese backed MCA and this led him to make a unique bargain with the British. Similarly, the white South African government persistently made much of the geostrategic significance of the Cape Route throughout the Cold War. Indeed, at the height of the international campaign to isolate Pretoria in the 1980s, prime minister P.W. Botha's "Total Onslaught" doctrine bought the apartheid regime considerable time both with Reagan and Thatcher.

Independent Malaysia would remain in the sterling area, thereby making substantial contributions to the common pool of monetary reserves with its dollar-earning exports of rubber and tin in return for British military aid and protection. This also coincided with considerable monetary stability before Nixon's 1971 departure from the gold standard.

Accordingly, a cautious and conservative style of monetary management followed as well as a liberal attitude to British business in the country (Strange, 1994:109). In addition, given that Britain was spending 200 million pounds annually to maintain its forces in the region and was not particularly enthusiastic about this costly role, Malaysia was in no position to attack local British

³ As Jesudason (1989:36) has noted:

...there was probably no Malay ownership in tin-mining and manufacturing. Malays also had an insignificant share of exporting and only a bit more of importing - in items like dyes for batik cloth...They certainly did not have any role in banking and, at most, a minute level of ownership in medium-sized plantations".

⁴ If entrepreneurial Malays did attempt to start their own business they would encounter an economy in which even

Chinese business activities were generally overshadowed by those of the much larger European companies which had the advantage of access to large-scale sources of capital, political influence, and advanced technology. These European companies dominated the main sectors of the economy (the import-export trade, banking, shipping, plantations, and mining), while Chinese companies were typically engaged in retail trading and commodity dealing, some wholesaling activities, small-scale transportation, and a few minor industries such as food processing, saw milling, rice milling, tanneries, and ice factories (and of course, tin mining, using labour-intensive methods) (Bowie, 1991:39)

interests through programmes of nationalisation (Jesudason, 1989:53). Moreover, possessing only rudimentary industrial capacity, Malaysia was attempting to diversify its economic base away from an over-reliance on primary commodities and welcomed any kind of foreign investment. The high priority placed on the need for foreign investment also prompted the assumption that old investments had to be protected in order to sustain Malaysia's image as a responsible host of foreign investment.

On the domestic front, the laissez-faireism was sustained by the MCA as a major coalition partner enjoying considerable access to policy makers. Generous campaign funding by Chinese businessmen gave it a disproportionately loud voice within the coalition: MCA appointees headed the most important economic ministries, including trade & finance as well as commerce and industry. Finally, reflecting his upper-class aristocratic status growing up in the royal household of Kedah, Tunku Abdul Rahman - in contrast to the more populist and non-aristocratic Razaleigh or Mahathir - himself failed to comprehend the disillusionment which rank-and-file Malays harboured towards his continuation of essentially colonial laissez-faire policy. Given the prevalence of external economic constraints in combination with the high degree of autonomy which Rahman enjoyed within UMNO, he saw his role as "the ultimate guarantor of the laissez-faire approach and the consociational political scheme" which underpinned it (Jesudason, 1989:52-5).

Not unlike post-apartheid South Africa, economic policy was therefore heavily influenced by the pro-growth faction within government which pursued a conservative fiscal and monetary policy. "Deficit financing" was unheard of whilst development expenditure was financed from savings in the Employee's Provident Fund (EPF) and other sources. In fact, Malaysia was so concerned about balance of payments surpluses that accumulated foreign exchange reserves were far in excess of what IMF articles required. Malaysia backed its currency with sterling deposits in London by between 100 percent to 115 percent for every dollar in circulation. Under the new Bank Negara this degree of currency backing was tightened even further, even prompting the IMF to question such a position, considering the need for such foreign exchange to be deposited inside the country for investment purposes (Faaland *et al.*, 1990:28-9).

In contrast to the Malaysia of the late 1990s, any substantial policy change was preceded by regular and extensive consultations with the World Bank, IMF and Bank of England; whilst a domestic balance of power ensured that a considerable degree of influence was exercised by the non-Malay business community. For most of the time, the ruling Alliance government reserved the post of Minister of Finance to the pro-business MCA⁵. As the Prime Minister was also always from UMNO and the Minister of Finance from the MCA, whilst the latter also appointed the Governor of Bank Negara, a system of checks and balances existed. Although the pro-growth school allowed Malaysia to achieve growth, it only dealt with the problem of poverty very indirectly (Faaland *et al.*, 1990:30).

⁵ In fact, the MCA president, Tun Tan Siew Sin who was for many years Minister of Finance, was considered a "monetary disciplinarian". No policy, especially if it required a budgetary allocation, could be adopted without his approval. Only the Prime Minister could override his objections, and then only "sparingly and with great circumspection" (Faaland *et al.*, 1990:29-30).

Earlier, the simultaneous impact of both the Korean War as well as the campaign against the Malayan Communist Party and the larger ideological significance of the Vietnam War, dictated the need to sustain a more accommodating approach towards both London and Washington. The fear that the fighting in Korea might extend to the rest of Southeast Asia and the need for both sides in the Cold War to build up stockpiles, increased the market price for a number of strategic commodities - particularly the price of natural rubber and tin - of which Malaysia was the world's largest producer. Singapore was also the premier trading port for both commodities (Stubbs, 1994:368). Indeed, was it not for the effects of the Korean war and the communist insurgency, whereby the state was able to frame Malaysia's development policies relatively insulated from domestic pressures, Malaysia would not have been able to shift from ISI to export-oriented industrialization since the 1970s (Stubbs, 1999).

The consequent boom in the economies of these ex-British colonies meant rising corporate profits and greater state revenue. Hence the road and railway systems could be refurbished, which allowed the police and army to penetrate more remote parts of the peninsula. Furthermore, to make rural Chinese less susceptible to Communist mobilization, more than half a million were resettled in so-called "New Villages", furnished with schools, medical facilities, clean water and the like. Also during the Vietnam War, Singapore's trade with South Vietnam - most in refined products - increased rapidly from US \$21,5 million in 1964 to US\$ 146 million in 1969 (Stubbs, 1994:368).

Attracting and Retaining Foreign Direct Investment: The Allure of ISI

Unlike many newly independent developing countries, Malaysia did not put controls on the right of foreign firms to transmit profits or capital abroad. Nor were punitive taxes imposed, though the gains from both were substantial. Such accommodating terms, as well as the reassuring presence of British troops, forestalled the exodus of foreign capital after independence (Strange, 1994:109). Malaysia's structural position in the IPE therefore favoured continuation of foreign, especially British dominance of the economy⁶. Moreover, throughout the 1960s, FDI was also relatively scarce in Asia.

Not unlike the Malaysian competition state of the late 1980s (see chapter 5), the early post-colonial Malaysian state continued to court and attract foreign investment, partly also to address Malay insecurity about rising Chinese economic power. The Pioneer Industries Ordinance (PIO) for example, raised tariffs on goods previously imported, encouraging import-substituting industrialisation (ISI) by granting tax concessions - up to 40 percent for between two and five years - to firms in so-called pioneer industries. Weak as the labour movement was - no more than 13 percent of the total work force in 1960 was unionised - government instituted a system of compulsory arbitration to a wide range of "essential services" (like the pineapple industry!) to ensure that labour would remain enfeebled (Jesudason, 1989:57). The Pioneer Programme attracted

⁶ In 1955, rubber and tin accounted for 48 per cent of Malaysia's GDP. European firms owned 83 per cent of the land (including rubber, oil palm and coconut estates). Three British companies alone accounted for 45 percent of total tin output in 1954 (Bowie, 1991:67).

considerable foreign investment, with manufacturing's share of the GDP increasing from 8,5 percent in 1960 to 13,5 percent in 1970 (Jesudason, 1989:58).

Government largely played a regulatory role as a provider of utilities with limited intervention, focussing on urban infrastructure and some rural development with the expectation of "the dynamic urban sector eventually inducing rural development via a trickle-down process whereby urban growth would gradually generate demand for rural products" (Jesudason, 1989:50). As the then Minister of Commerce and Industry, Khir Johari noted, the state's role was simply "to create a favourable investment climate and to leave the projects to be undertaken entirely by private enterprises". Another senior government minister, Abdul Rahman argued that "modern capitalism" as practised in the United States, "was the best system to advance living standards and the national economy" (Bowie, 1991:69-70).

A number of political motivations explain why industrial policy was largely left to the dictates of the market. Firstly, in terms of the 'package deal', Malay leaders recognized that Indian and Chinese acceptance of UMNO's political hegemony was conditional on the state not interfering in private industry. Secondly, even if the state intervened to support industrial strategy, it could appear as if it favoured the predominantly urban, non-Malays. Strong political disincentives thus motivated Kuala Lumpur's hands-off approach to industrialisation. Instead, economic programmes to uplift Malays concentrated upon rural development, since rural Malays were the backbone of UMNO support. For the Malays to catch up economically and at the same time relieve extreme poverty, rural development therefore tended to be seen as the most significant, if not sole means to do so. Again, Cold War considerations also played a role since strengthened support in rural areas would also fulfil a security interest, making Malays less inclined to support Communist insurgent operations.

In the third instance, the "package deal" through which the Alliance came to be established, also reflected the composition of the cabinet. Hence, even if the position of Prime Minister and Deputy Prime Minister was always occupied by Malays, the important portfolios of finance and commerce & industry were assigned to members of the MCA. They wielded considerable influence within the Alliance, due to the control they exercised over the inflow of UMNO campaign funds - not only from the wealthy Chinese business people - but also from the larger Chinese community. This technocratic shift was also mirrored in post-1994 South Africa, with the politically "independent" Finance Minister being the former chief executive of a major mining conglomerate and the Governor of the Reserve Bank, appointed by the previous government, who retained his position for a further five year period until 1997 .

It was the bargaining power dispensed by the non-Malays which restrained the state from imposing an excessively restrictive economic policy which would be ethnically biased in favour of the Malays. Chinese influence also coincided with population growth figures in the 1950s which reflected a greater degree of balance between the Chinese and Malays, with the latter making up

⁷ O'Meara (guest lecture, Dalhousie University, 25 March 1999) contends that the National Party negotiated with the ANC to secure three key objectives: the protection of private property; a five-year employment guarantee for the incumbent civil service and an independent Reserve Bank.

nearly 50 percent of the population, Chinese 37 percent and Indians the rest (Bowie, 1991:68). In subsequent decades, as the Malay population expanded and Chinese numbers contracted following Singapore's departure from the Federation, the latter increasingly felt frustrated with their inability to influence policy as much as they could immediately post-Merdeka (or Independence) (Bowie, 1991:68). *The inter-ethnic settlement therefore restrained the state from implementing policies which might harm non-Malay commercial and industrial interests*⁸.

Singapore's withdrawal from the Federation in 1965 (after joining in 1963) also meant the loss of a considerable proportion of the Federation's industrial capacity. In addition, the World Bank cautioned that much more substantial measures had to be taken to encourage industry (Bowie, 1991:78). These developments prompted the state to reevaluate its lackadaisical industrial policy.

Despite considerable pressure from foreign firms, who initially feared rising import costs, Malaysia embarked on a policy of ISI. Contrary to the neo-liberal orthodoxy of the international financial institutions since the 1980s, relatively high wages and a lack of expertise were considered to be key obstacles to export-led growth (Jesudason, 1989:48).

However, because many new industries set up under ISI simply replaced imports of finished goods with imports of semi-finished goods usually more suited to foreign conditions, the technology required had to be imported from the parent company abroad, generating very little employment (Jomo, 1990:12). Moreover, since the tax exemptions used to attract foreign investment were linked to capital expenditure, these firms were capital and not labour intensive (Shari, 1995:13; Jomo & Edwards, 1993:24). With an average rate of protection from 25 percent in 1962 to over 65 percent towards the end of the 1960s, *ISI also lay the seed for what would quickly become a severely detrimental legacy of the Malaysian political economy: rent-seeking*⁹. Given the kinds of profits which could be made with such levels of protection, companies eagerly lobbied Malaysian politicians and offered them directorships on the boards of subsidiary companies (Jomo & Edwards, 1993:22). This tendency would contribute to a political culture of patronage and rentierism.

In combination with erratic world commodity prices, the GDP growth rate declined from 6,3 per cent per annum in 1960-65 to 5,5 per cent in 1966-70, whilst unemployment increased from 6 percent in 1962 to 8 per cent in 1970.

Between 1957 and 1970 income inequality also increased within ethnic groups. The income

⁸ To appreciate the degree to which this "package deal" impacted on economic policy, the following example is instructive. In the early 1960's, Abdul Aziz bin Ishak, then Minister of Agriculture and Cooperatives and a leading UMNO member, sought to transfer the ownership of rice mills from private Chinese entrepreneurs to Malay-dominated, government funded, rural cooperatives in the state of Perak. Due to the vehement protests of Chinese rice millers and a subsequent threat by the MCA to pull out of the Alliance, Malay leaders acquiesced to MCA demands and in late 1962 dismissed Aziz from Cabinet for "unconstitutional practices". More specifically, it was argued that he violated article 152 of the Constitution which protected the "legitimate interests" of non-Malays (Bowie, 1991:75).

⁹ Additional problems were that the high level of protection put very little pressure on firms to export. Secondly, manufacturers tended to focus upon final consumer goods whilst the majority of import-substituting industries were set up by *foreign firms* (Jomo & Edwards, 1993:22).

shares of the bottom 40 per cent of Malay, Chinese and Indian populations declined from 19,5, 18,0 and 19,7 per cent respectively in 1957/8 to 12,7, 13,9 and 14,3 percent in 1970. At the same time, the income shares of the top 20 percent increased from 42,5; 45,8 and 43,7 per cent to 52,5, 52,6 and 54,2 percent respectively within the same period (Osman-Rani 1990:10). Even though the economy recorded an average annual growth rate of over 5 percent in the 1960s, with private sector growth increasing at an annual 7,3 percent and manufacturing growth averaging 10,2 percent, the *laissez-faire* policy had the effect of perpetuating a "separate but unequal" syndrome. For, whereas only 33 percent of Chinese households in 1970 earned an average monthly income of less than M\$ 200, 74 percent of Malay households did (Bowie, 1991:81).

With falling rubber prices and low GNP growth from 1966 to 1968, unemployment in both rural and urban areas increased amongst both Malays and non-Malays. These deteriorating economic conditions weakened the consociational framework, established through the "Great Bargain". Whilst Malays were dissatisfied by the extent to which their economic subordination was being addressed, non-Malays, specifically the Chinese, began to see themselves as second-class citizens. Chinese resentment was confirmed by the high quotas allocated to the Malays in the administrative service, their preponderance in the army and police and their inability to either get Chinese recognised as an official language or obtain greater assistance for Chinese education (Osman-Rani 1990:11; Jesudason 1989:68, Shamsul 1998:144). The Malays, in turn, perceived Chinese assertion as an attempt to challenge Malay political supremacy, eroding not only their marginal position in the economy but attempting to do the same in the political sphere. Lee Kuan Yew's advocacy of a "Malaysian Malaysia" in which all ethnic groups would be treated equally, and Singapore's withdrawal from the Federation also did not help relieve ethnic tensions. Though for more meritocratic than racist motivations, Singapore's succession is reminiscent of post-apartheid attempts amongst ultra-right wing Afrikaners to create an ethnic *volkstaat* !

When the Alliance lost its psychologically important two-thirds majority during the 1969 elections, though remaining the ruling party, these conditions sparked off the most violent rioting the country had ever seen on 13 May 1969. Similarly, deteriorating terms of trade during the early 1960s heightened racial tensions in South Africa, triggering massive capital outflows and sustaining, if not exacerbating, authoritarian control (see chapter 4).

From the Worst to the Best of Times: The New Economic Policy

The events of 1969 nullified the "Great Bargain". Not unlike the South African case in the early 1990s, it was assumed that (i) an elite ethnic balance of power and (ii) a high rate of growth would be able to deliver on two policy goals at the same time. On the one hand, it would maintain the equilibrium between Malay aspirations for progress towards parity with other communities as well as non-Malay desires to protect and enhance their existing living standards. On the other, the first being achieved, it would secure continued Malay and non-Malay endorsement of the "Great Bargain" and thereby lay the political foundation upon which both state and market could interact with stability (Osman-Rani, 1995:3-4).

Yet, by 1970, Malays remained poorly represented in most of the modern sectors of the economy - from executive to supervisory positions as well as skilled production workers. Only in the lower rungs of professional and technical jobs - nursing and teaching in government hospitals and schools - and a few high-level administrative positions, were they well represented (Embong, 1996:538). Although unemployment and poverty cut across ethnic groups, it affected Malays proportionately the worst, constituting the majority of all poor households in Peninsular Malaysia at 74 percent.

These discrepancies were also reflected in regional and rural/urban contexts. The Malay population was concentrated in the poorest four Northern states of Terengganu, Kelantan, Perlis and Kedah, where agriculture and fishing dominated, as well as in the Eastern Malaysian states of Sabah and Sarawak. The four Western states of Negri Sembilan, Selangor, Perak and Penang where non-Malays were in the majority, had the highest GDP per capita boasting most of the country's modern commerce and industry. Finally the four southern states - Pahang, Johor and Melaka - had median incomes (Faaland *et al.*, 1990:39).

Following the riots of 1969, the pro-growth faction led by the Economic Planning Unit (EPU) and strongly backed by the Treasury, Bank Negara (Central Bank) and other state bodies (the industrial development authority and Statistics Department) gradually lost its policy influence to the ascendant pro-redistribution faction.

Led by the Prime Minister's Department and the Department of National Unity (DNU), pro-redistributionists regarded national unity as the foremost priority; that is, "the correction of the racial economic imbalances in Malaysian society and the eradication of the identification of race with economic functions" (Faaland *et al.*, 1990:31). Reducing the income imbalance between the major ethnic groups was to be supplemented by employment creation for Malays, through labour intensive methods and the pursuit of economic growth through rapid export led industrialisation. The redistribution school therefore saw the main objective of development policies to provide for the entry of Malays into the modern sector on the basis of non-discrimination and equal opportunity. At the same time, it was also acknowledged that the promotion of growth without any programme to attend to redistribution, would only work to the advantage of the non-Malays, given that the competition was just "hopelessly" stacked against Malays (Faaland *et al.* 1990:35).

Clearly, growth and redistribution were incompatible policy goals. Whilst a strategy of maximum growth would compromise balance between ethnic groups, the strategy of balanced participation would compromise growth. With the promulgation of the New Economic Policy (NEP), which sought to ensure that Malays and other Bumiputera (indigenous peoples) became "full partners in all aspects of the economic life of the nation", the NEP had two main goals:

The first prong is to reduce and eventually *eradicate poverty*, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race.

The second prong aims at accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually *eliminate the identification of race with economic function* (Mid-Term Review -1973 - of the Second Malaysia Plan, 1971-75).

Although the NEP bore the imprint of the more conservative, monetarist EPU school with strong doses of export-led industrialisation and an open economy it puts the emphasis squarely on *redistribution over growth* and was openly interventionist (Faaland *et al.*, 1990:159).

Nonetheless, the adoption of the NEP coincided with a shift in developmental orthodoxy within the World Bank in the immediate post-Vietnam era emphasising the value of distributional policies. It was after all, at the 1972 and 1973 meetings of the World Bank that Robert McNamara, its president made his famous speeches in Washington and Nairobi which effectively buried the growth oriented strategy, stressing equity and distribution instead. So closely did Malaysian economic planners echo the guiding principles of the world's leading financial institutions, notes Snodgrass (1980:286) that

Whatever happens, Malaysia and its New Economic Policy can certainly be seen as an example of the 'new meaning of development' - stressing greater national self-reliance and cultural awareness as well as redistribution of income, wealth and power - which is now beginning to gain international recognition¹⁰.

In quantifiable terms, the NEP projected that the incidence of poverty would be reduced from 49,3 per cent in 1970 to 16,7 per cent in 1990. In contrast, poverty alleviation is a much more muted concern in post-1995 South African economic policy (see chapter 6). Employment in every sector of the economy would be reflective of the population as a whole with the proportion of Malays in the primary sector expected to decline from 67,6 per cent to 61,4 percent, whilst in the secondary sector it would be expanded from 30,8 to 51,9 percent and in the tertiary sector from 37,9 to 48,4 percent. Consequently, Chinese participation was expected to decline from 59,5 to 38,1 percent in the secondary sector while the position of Indians would remain the same, approximately 10 to 12 percent in all other sectors. Finally, ownership of share capital would change from the ratio of 2,4 (bumiputera): 34,3 (non-bumiputera): 63,3 (foreign) in 1970 to 30 (bumiputera): 40 (non-bumiputera):30 (foreign) by 1990 (Osman-Rani, 1990:13-5).

Given the impetus placed on the eradication of rural poverty and industrialisation, the NEP - in contrast to the agricultural focus of the 1960s - was overwhelmingly directed towards the development of the commercial and industrial sector (Bowie, 1991:93). Not unlike the Afrikaners' Volkskongres of 1939, it reflected the call by delegates to the Bumiputera Economic Congresses of 1965 and 1968 for a plan of action to reorganize the economy along the lines of the early Japanese industrial Meiji state with extensive state participation, actively accumulating capital on behalf of a weak indigenous bourgeoisie and thereafter redistributing it to them (Lim Mah Hui, 1998:22).

¹⁰ Indeed, Faaland *et al.* (1990:203-206) review several World Bank studies conducted even up to the early 1980s strongly supportive of the statist NEP. These include, Jacob Meerman, *Public Expenditure in Malaysia - Who Benefits and Why*, a World Bank Research Publication, Oxford University Press, 1979; Kevin Young, Willem C.F. Bussink and Parvez Hassan (eds.) *Malaysia - Growth and Equity in a Multiracial Society* A World Bank Country Report, Johns Hopkins University Press, 1980; Depak Mazumdar, *The Urban Labour Market and Income Distribution - A Study of Malaysia*, a World Bank Research Publication, Oxford University Press, 1981; Sudhir Anand, *Inequality and Poverty in Malaysia - Measurement and Decomposition*, a World Bank Research Publication, Oxford University Press, 1983.

Expanding the Malay Middle Class

Once political hegemony was achieved then, Malay nationalists - like Afrikaner and African nationalists in South Africa (see chapter 4) - sought to enhance social mobility through extensive state intervention. These policy measures are characteristic of Esman's (1987) ethnic redistribution with growth strategy (ERWG) and included the following: the expansion of higher education; a discriminatory language policy; and state employment, not only directly within the civil service and parastatal government enterprises, but also indirectly by enhancing conditions favourable for the creation of a business or entrepreneurial class (see chapter 1).

Rapid expansion of educational opportunities are critical for upward mobility of a previously subordinated group. Between 1962-8, the number of students in Malay secondary schools rose from 13,000 to 136,000, whilst the number of students in Chinese schools declined from 34,000 to 20,000 but doubled in English language schools from 152,000 to 334,000 (Lim Mah Hui, 1998:23). Opening the doors to occupational and social mobility, the state not only vastly expanded the university sector and lowered educational requirements¹¹, but also provided scholarships and grants to "nearly every Malay, rich or poor"(Jesudason, 1989:113). From a single university in 1969 - the University of Malaya - six universities were created after 1970 and by 1995 the country boasted nine. Whereas Malay students in the late 1960s comprised only 25,4 percent of the student population at the University of Malaya in 1969, Chinese and Indian students made up 58,9 and 13,9 percent respectively. By the mid-1980s university enrolment was more reflective of the national population - with 49,4 percent Malay students, 40,7 percent Chinese and 9,2 percent Indian students (Embong 1995:46; 1996: 540). In fact, due to the dramatic decline in Chinese intakes, by 1985 there were more Chinese students in overseas institutions than in Malaysia. And although the wealthier sections of the Malays obtained most positions and scholarships, students from poorer families also managed to attend university in "greater numbers than ever before" (Jesudason, 1989:113). By comparison, the Afrikaner state created four distinctly Afrikaans universities up to the late 1960s, the lack of fiscal space for the ANC state to do the same has meant that issues relating to management of existing universities - i.e. "transformation" and faculty "representativity" - have been critical political concerns (Hugo, 1998) .

In tandem with the expansion of educational opportunity, a state sanctioned language preference policy also eases entry into the modern economy. The National Language Act of 1967 designated Malay to be the sole official language with English medium schools converting to the Malay medium three years later, starting with grade one. The upward mobility which English afforded to many non-Malays who sent their children to English medium schools was thus severely

¹¹ Far more discriminatory than the post-apartheid state, a quota system was implemented in Malaysia with the cut-off score for bumiputera acceptance in arts set at 36 percent whilst non-bumiputeras required 44 percent. In the natural sciences, non-bumiputeras required 54 percent whilst "all bumiputera applicants with a minimal pass were accepted" (Crouch, 1996:163).

restricted (Lim Mah Hui, 1998:23). These drastic measures were aimed at offsetting Malays' disadvantaged educational position, particularly those from the rural sector. For example, in 1957 only 16,000 Malay children attended secondary school, in contrast to 57,000 Chinese. Of these Malays, most attended Malay primary schools, yet in most secondary schools, English was the medium of instruction, thereby favouring *urban* Malay children who received an English education. Once Malays moved to university, these problems were compounded as the medium of instruction was also English, thus causing considerable problems for those "bridging the gap between secondary and tertiary education" (Crouch, 1996:187).

Reasserting the dominance of the Malay language also impacted upon employment in the public sector where the requirement of Malay proficiency both eased and 'legitimised' Malay preferential employment. Likewise, the new Afrikaner state of the 1950s and 1960s made Afrikaans the language of choice, despite the fact that English enjoyed bilingual status. In contrast, although the 'new' South Africa boasts 11 official languages theoretically supposed to enjoy equal status, English rather than any particular African language is the basis for upward mobility. However, whereas English retained its primacy in post-apartheid South Africa and hence enhanced South Africans' access to the global *lingua franca* and its overall competitiveness (see chapter 9), the linguistic hegemony of Bahasa Malay has restricted Malaysia's access to the world economy.

In accordance with the Malay Special Rights programme, the employment ratio of Malays to non-Malays in the public sector was 4:1 (Lim Mah Hui, 1988:22). Whereas 11,9 percent of the work force worked for the state in 1970, public sector employment grew rapidly under the NEP by an average of 5,5 percent during 1970-75 and 6,0 percent in 1975-80. In terms of total employment percentages employment in the public sector increased from 12,0 percent in the 1970s to a peak of 15,0 percent in 1981 (Embong, 1995:47). As one observer noted, outside the centrally planned economies, the level of Malaysian state intervention was unrivalled¹².

With a buoyant and sustained rate of growth averaging 7,8 percent annually, in combination with a good banking system, effective tax collection and an excellent international credit rating, the Malaysian government followed a three pronged strategy to raise funds and acquire assets for Malays (Esman, 1987:404): firstly, expansion of the state enterprise sector; secondly, government acquisition of major enterprises from private, mostly foreign owners; and finally more aggressive attempts to secure Malaysian equity and employment followed in the form of the Industrial Coordination Act (ICA).

Public enterprises were essentially of three kinds: departmental enterprises, providing public services like water, telecommunications, civil aviation or refuse collection; statutory bodies - both at state and federal levels - such as Petroleum Nasional Bhd (Petronas) and a variety of state economic development corporations (SEDC's); and finally, government-owned private or public companies whose equity holdings are either held fully or partially by the government, such as the Heavy Industries Corporation of Malaysia (HICOM) and others which followed in the early 1980s (Gomez & Jomo, 1997:29-30). By the mid-1970s the growth of these state-owned enterprises

¹² Interview conducted with sociologist, Universiti Kebangsaan Malaysia, 23 June 1998.

(SOE's) was so rapid that the *SOE sector expanded at a rate of over 100 enterprises per year, contributing up to 25 percent of the GDP in 1990* (Embong, 1996:540).

The expectation was that the companies spawned by these institutions - 321 by 1981 - could act as competitive "umbrellas" for small Malay entrepreneurs and so enhance conditions for the emergence of a Malay bourgeoisie (Bowie, 1991:95). Thus the Ministry of Works and Public Utilities - a major contractor for construction projects - reserved 30 percent of its contracts for Malay firms (those with at least 51 per cent Bumiputera ownership). Similarly, the Telecommunications Department awarded more than the stipulated 30 percent of contracts to Malays (Jesudason, 1989:102). Likewise, the state tendering system was overhauled by both the Afrikaner Nationalist and post-apartheid state to favour either Afrikaner or African entrepreneurs (see chapters 4 and 7 respectively).

Executive appointees in most of these enterprises were recruited from amongst the uppermost rungs of the Malay bureaucracy, *so enforcing close linkages between the state and the corporate sector*. Indeed, opportunities for the extension of patron-client linkages, rather than commercial success, ensured continued governmental support despite a significant loss of profits¹³ (Jesudason, 1989:99).

The effects of this exponential state intervention already became apparent in 1975: 32 percent of Malays were now engaged in manufacturing jobs, their share increasing from 25 percent in 1970; 17 percent of managers were Malay, up from 11 percent merely four years ago; and the Malay share of institutional credit now stood at 30 percent, from 14 in 1971. Whereas Malays owned 2,4 percent of capital in 1970, by the mid-1970s, ownership stood at 8 percent (Bowie, 1991:97). Yet, Malay advancement - particularly the development of Malay managerial expertise - was not progressing as well as expected.

Accelerating Malay Share Ownership and Non-Malay Responses

A central goal of the NEP was to accelerate Malay share ownership from 2,4 percent in 1970 to 30 percent by 1990. Accordingly, restrictions were placed on all new public share offerings, requiring that a 30 percent proportion be designated for Malays exclusively. However, very few Malays were wealthy enough to participate. Hence between 1971 and August 1974 only about M\$ 200 million of M\$ 500 million shares reserved for Malays were taken up. Consequently, huge public enterprises like PERNAS, Permodolan Nasional Bhd or National Equity Corporation (PNB) and its wholly owned subsidiaries, Amanah Saham Nasional or National Unit Trust (ASN) and the Bumiputera Unit Trust Scheme (ASB) as well as the SEDC's were compelled to step in and buy up these shares for later distribution to individual Malays (Bowie, 1991:96). Theoretically, the NEP directed the state to act on behalf of the bumiputeras, even though it owned or controlled these enterprises. But such control was also deemed to be "temporary", until specific objectives were accomplished within a given time frame (Osman-Rani, 1990:18). In many ways, these ownership

¹³ For example, of the more than thirty subsidiaries established by the Perak SEDC, only one transport company was able to remain in the black.

schemes mirror similar black empowerment deals in post-1990 South Africa (see chapter 7).

Established in November of 1969 shortly after the riots, Pernas was to establish wholly owned and joint venture companies and had by 1971 spawned six main subsidiaries with a stake in most sectors of the economy: Pernas Construction, Pernas Engineering, Pernas Properties, Pernas Securities, Pernas Trading and Malaysia National Insurance. In order to reduce foreign asset holding, control over plantations and tin-mining were the most attractive targets: These foreign companies did not have as much leverage over national actors; were not providing technological capacity nor new foreign markets for industrial diversification. Moreover, since these plantation companies did not control the marketing network for these primary commodities, the take over of these firms by the Malaysian state made it a reasonable risk to undertake.

In 1975 Pernas acquired London Tin, renamed the Malaysian Mining Corporation, and became the largest tin-mining company in the world. A year later, Pernas became the main shareholder in Sime Darby Bhd, a plantation based conglomerate, by replacing four of the eight British expatriates with three of its own nominees, thus outnumbering British executives with seven locals on the board (Jesudason, 1989:89-90). Within one decade, Pernas had additional controlling interests in major companies like Goodyear (M) Bhd, Island & Peninsular Bhd, Highlands & Lowlands Bhd and Kontena Nasional Bhd (Gomez & Jomo, 1997:32). Its insurance wing, Malaysia National Insurance, became a major general insurance firm in an industry heavily dominated by foreign interests, getting most of its business from civil servant applications for mortgage cover and insuring big state companies like Malaysia Airlines, Malaysia International Shipping Corporation, Petronas and the National Electricity Board (Jesudason, 1989:93).

Similarly, not unlike the Afrikaner Nationalist state, Pernas Trading became a major supplier of computer systems to government after being appointed sole distributor by some foreign firms, whilst various government departments imported industrial chemicals, fertilizers, and the like through Pernas Trading to be used for public works projects. Finally, given the critical importance of loan financing to Malay entrepreneurs, greater control and ownership of commercial banks was required to affect lending patterns and to ensure compliance with targets set by Bank Negara (Central Bank). In addition to two banks owned by government, Pernas became sole owner of United Malayan Banking Corporation after mismanagement and diversion of funds prompted Bank Negara to intervene. Also in this sector, state dominance meant that "the percentage of outstanding commercial bank loans to Malay interests has not just met the Central Bank's target of 20 percent but has also been considerably over-achieved" (Jesudason, 1989:92-3).

Despite such indigenization moves, Malay individual and state corporate ownership continued to fall short of targets - 7,8 percent in 1975 instead of 9 percent; whilst a serious shortfall of 16 percent looked probable by the end of the 1970s. To speed up acquisition of corporate stock on behalf of Malays, PNB was established in 1978. In contrast to Pernas, which was generally more risk-taking, PNB concentrated upon shares of established companies with good track records, including state companies. Pernas was compelled to transfer thirteen of its most lucrative holdings (their assets amounting to over \$1 billion) to PNB at cost in 1981 (Gomez & Jomo 1997:33). PNB

joined Pernas in establishing Malaysian control of the foreign dominated primary sector, thereby inducing major institutional investors with Guthrie Corporation to sell early one morning just as the London Stock Exchange opened for trading at a cost of \$ 932,8 million for the take-over.

Other plantation companies, Harrison & Crossfield, Dunlop Holdings and Barlow Holdings, thereafter soon sold off the majority of their assets to Malaysian state corporations. Indeed, by 1982, “the process of Malaysianization of the primary sector was nearly complete” with Malays ‘controlling’ nearly 60 percent of corporate shares in the mining and plantation sectors through state enterprises, “far beyond the original target of 30 percent set for both sectors in 1973” (Jesudason, 1989: 91).

The individual bumiputera share of total bumiputera equity, however, dropped from 60 percent in 1970 to 34 percent in 1980. Fearing that such divestments would be slipping to the Chinese, PNB transferred stakes in numerous listed companies - Malaysia Mining Corporation, KFC Holdings Bhd, Cement Manufacturers Sarawak Bhd, Malaysian Tobacco Company Bhd and Rothmans of Pall Mall Bhd - to the ASN (‘ownership-in-trust’) unit trust scheme. Representing 44 percent of an estimated 5,4 million eligible investors, ASN developed an investment portfolio of 67 listed companies and, by 1993 had *grown to become not only the largest unit trust scheme in the country, but probably the world* (Gomez & Jomo, 1997:36). Strategically, the scheme kept state managers in control of the companies, spread profits to the wider Malay community, and kept these shares in Malay hands, as an investor could only buy and sell through ASN (Jesudason, 1989:115).

Whereas the Malay state, bought out foreign assets - through publicly owned enterprises, what effectively amounted to a kind of *de facto* nationalisation - *foreign interests* were hardest hit. Afrikaner Nationalists, in contrast, resorted to the authoritarianism of apartheid to subjugate similar African aspirations, consolidating the state-capital alliance and thereby keeping labour costs internationally “competitive” while ensuring the ascendancy of the Afrikaner bourgeoisie (see chapter 4).

Sowing the Seeds for Patronage and “Money Politics”

Although the state had set up an extensive programme to eradicate the inequalities which soured racial relations especially between the Chinese and Malays, at the same time however, it also increased the likelihood for a political culture of patronage and rentierism to take hold.

Firstly, as a result of British indirect rule, the Malay aristocrats became colonial civil servants who later formed the leadership of UMNO and also provided the first three prime ministers (Lubeck, 1992:188). With the emergence of the NEP state, these ‘administrators’ also straddled the public and private spheres as company directors, trust managers and public corporations as part of the ruling bureaucracy/business/politician network (see the next chapter).

Secondly, the ascendancy and growing power of this group could not be effectively counter-balanced by a rival social force. Labour had a spurious political role to play, historically emasculated since the Malayan Emergency of 1948-1960 and the consequent crush of independent workers organizations and left wing groups the government feared may be a cover for Communist

activities. In commerce and industry, the NEP state shunned domestic (i.e. Chinese) capital at all costs. Politically, the MCA could no longer command the kind of influence within the ruling coalition that it could in the 1950s and 1960s. In addition, if the established foreign owned firms could counter the growing hegemony of the state, that capacity was significantly eroded by the gradual take-over of these companies.

Thirdly, when state expenditure represents more than half of GDP amidst these conditions, it is hardly surprising that the propensity for patronage and rentier capitalism expands accordingly. This is not to suggest that one of the features of the developmental state, namely extensive state intervention necessarily reverts to rentierism. Indeed, until the 1960s, Malaysia shared one of the most significant features with other NIC's, namely a "strong state" able to frame development policy without having to take undue account of domestic pressures. The Korean and Vietnamese wars as well as the confrontation with Indonesia, dislodged considerable social opposition to the development of export-oriented policies. And the effects of war meant that both the coercive and civil capacities of the state were expanded (Stubbs, 1999).

What set Malaysia apart from the other homogeneous NIC's however, was its historic ethnic division of labour. The need to address the Malay sense of insecurity following the 1969 riots also ultimately meant that the kind of "embedded autonomy"¹⁴ characteristic of South Korea or Taiwan did not arise (Evans, 1997). Nor would an alliance between the state and capital which had been crucial in the creation of the East Asian NIC's emerge, given the political imperative of the Malay state to "by-pass" Chinese capital.

As the next chapter will detail, the overwhelming concentration of power within the state and the absence of a counter-force to check or deter the practice of money politics, was a major obstacle in Malaysia's ascendance towards "NIC-dom". The Industrial Coordination Act was one of the first signs that the growing power of the "administrocrats" rapidly gave way to ill-conceived economic policies.

"Fast-Forwarding" Redistribution: The Industrial Coordination Act

The expansion of the state sector was not only enhanced by a windfall from commodities, but the balance of payments registered a surplus of \$452 m - the seventh consecutive year of surplus. GNP grew by 12,1 percent and 7,5 percent in 1973 and 1974 respectively whilst the discovery of oil promised to augment governmental income significantly. Indeed, apart from extracting highly

¹⁴ According to Peter Evans, "embedded autonomy" - 'where bureaucrats have close ties to business yet are still able to formulate and act on preferences autonomously - is the key to the developmental state's effectiveness and the factor that best explains divergent patterns of industrial transformation. Embedded autonomy depends on 'an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure' (cf. Schneider & Maxfield, 1997:6). Evans (1997:66) also argues that, "[W]hen the state lacks the capacity to monitor and discipline individual incumbents, every relationship between a state official and a businessperson is another opportunity to generate rents for the individuals involved at the expense [of] society at large".

favourable concessions from the oil companies, the volume of petroleum extraction was also adjusted to meet the state's spending needs. By 1980 the initial plan to conserve oil deposits by limiting production to a maximum of 250,000 barrels a day was abandoned with ever larger government expenditure increasing on the expectation that the relatively high oil prices would be sustained (Jesudason, 1989:82). In addition, due to various investment incentives, between 1973 and 1974, the Malaysian industry was flooded with so many foreign investment applications - largely from textiles and electronic firms as well as state corporations - that state planners were "in the unusual position of being able to pick and choose the investment projects they wanted" (Jesudason, 1989:135).

Citing the 'failure' of achieving the 9 percent ownership target set by the Second Malaysia Plan, numerous influential Malay nationalists blamed the slow progress on non-Malay recalcitrance. Rather than simply advocating numerical quotas for employment and ownership specified in the NEP, the state now proceeded to *enforce* these requirements on the private sector (Bowie, 1991:99). For the first time, the state was given the necessary 'teeth' to enforce the NEP through the proclamation of the Industrial Coordination Act (ICA) of 1975. It gave sweeping powers to the Minister of Trade and Industry to revoke and issue licences as well as the power to control detailed aspects of any firm's operations.

Firms could not vary the type of products and production volumes specified in their licences: if the capacity for a product line or the substitution thereof was required, it was subject to Ministerial approval. To simply terminate manufacturing a given product needed prior approval, "effectively giving the Minister the power to make a firm go on producing even when it was unprofitable to do so" (Jesudason, 1989:137). In short, Malaysian firms had to put aside 30 percent of their equity for Malay interests. Foreign firms producing for the domestic market, or using depleting resources had to provide 70 percent ownership for Malaysians, out of which a minimum of 30 percent was to go to Malay interests. For the export-oriented firms, foreigners could hold anywhere from 100 percent to minority equity positions, depending on how much they exported and how much they depended on local materials. Although the ICA consisted of numerous other regulations, the overall object was to force firms to employ more Malay labour, especially in management and distribution (Jesudason, 1989:137). Although after 1990, South African labour legislation has echoed similar objectives - especially the controversial Equal Employment Act (see chapter 7) - South Africa's transformation into a competition state has precluded the imposition of measures restricting FDI.

The timing of this dramatic policy shift towards a highly interventionist approach to industrialization to enhance conditions for the emergence of a Malay business class, had much to do with internal UMNO power struggles at the run-up to the party congress in 1975 and the contest for the three important vice-presidential positions within UMNO (Bowie, 1991:99-100). Historically, strong pro-NEP candidates "were invariably rewarded with a fast-track to top UMNO positions" (Jesudason, 1989:135). Hence, one contender, Tengku Razaleigh, as chairman of state-owned oil conglomerate Petronas for example, scored a number of political kudos in his unyielding

position towards foreign oil firms. Datuk Hamzah, a rival candidate, therefore had a powerful motive for one-upmanship in confirming his commitment to the NEP. Accordingly, the ICA became a prominent measure with which to “fast-forward” the process of redistribution and score political points amongst the Malay dominated UMNO party delegates.

Foreign and non-Malay interests reacted differently to the implementation of the ICA. The foreign sector, making its profits not from high equity stakes but the exercise of managerial control, transfer pricing, management fees and interest on inter-company debts, was able to resign itself to the restrictions imposed by the new Act for the sake of advancing the NEP.

The biggest objection of multinational corporations however was that the Minister had the power to change the rules and conditions of the ICA in mid-stream after considerable investments have been made. For multinationals, joint ownership was hardly problematic. But quite the opposite prevailed for Chinese Malaysians. With many of these firms being family businesses, they were more than simply corporate bureaucracies. Rather, as Jesudason (1989:139) has noted, they embody the very Chinese identity or way of life:

The ‘old man’ as the owner is often called, saw the organization as providing security for his family as a way of linking the generations together, and ensuring independence by being one’s own boss.

Being discriminated against - not only in governmental employment initially but also access to higher education - and now even in the private sector, the Chinese sought to create a counter-movement in collaboration with the foreign sector in thwarting implementation of the ICA. Despite sharing the Chinese’ objections, the foreign owned firms considered joint ownership, through the apportionment of 30 percent of share capital to Malay interests, a justifiable cost¹⁵.

Unable to rely on the foreign sector to prevent increasing state intervention, non-Malay capital reacted in two ways. Not unlike a number of South African firms in the 1990s, Chinese corporate capital and influential business people like Alex Lee, Khoo Kay Peng and Loy Hean Heong began recruiting Malay politicians and other ‘well-connected Malays’ as company directors; others even began funding UMNO directly or certain Malay leaders. At the same time, influential Chinese businessmen & women by-passed the state by diversifying their operations overseas¹⁶, working with other non-Malays, preferably other ‘Overseas Chinese’ especially in Singapore, Hong Kong and Australia (Gomez & Jomo, 1997:48; Jesudason, 1989:154). These moves by Chinese business to directly engage Malay political heavyweights reflected the decreasing ability of the MCA to influence policy within the ruling Barisan Nasional alliance.

¹⁵ As the British Executive Director of the Malaysian International Chamber of Commerce and Industry (MICCI) remarked in 1985:

“We try very hard to live with the socioeconomic realities of a country. In Malaysia, we accept that there cannot be free enterprise. We show how government’s policies affect investment and if the broad objectives of the government are consistent with implementation of policy...The Chinese were adopting an explicitly political position by going against the government. We don’t see our role that way” (cf. Jesudason, 1989:140).

¹⁶ For a detailed analysis of the operations of the “Overseas Chinese”, see Seagrave (1995); Suryadinata (1997)

South African capital also courted the politically 'well-connected' to directorships: Afrikaners during the first half of the century and Africans during the latter. More recently, South African blue chip corporations such as Anglo-American, South African Breweries and Old Mutual have also diversified their operations overseas mostly as new listings on the FTSE 100 in London (see chapter 6).

In addition, the largely white South African diaspora, like the mostly Chinese Malaysian diaspora, has tended to emigrate to the United States and the Anglo-Saxon Commonwealth: Canada, Australia, New Zealand and the United Kingdom.

In order to retain the allegiance of small and medium scale Chinese business people - who were most directly affected by the NEP, but could not afford the kind of lucrative patronage payoffs available to big corporations - the MCA embarked on a so-called 'corporatisation movement'. Championed by Chinese businessmen like Tan Koon Swan & Kee Yong Wee, Chinese capital would be reorganised in accordance with the new Malaysian political economy: it had to become less individualistic and more communal by pooling financial resources. As small Chinese businesses began to detect how their economic interests and business prospects were being eroded by the NEP and legislation like the Industrial Coordination Act, they increasingly became more receptive to the call of pooling resources in order to consolidate their declining economic power (Gomez & Jomo, 1997:44). In some ways these corporate holding enterprises mirror the South African union investment firms which emerged in the mid-1990s (see chapter 7).

In 1975, the MCA incorporated Multi-Purpose Holdings Bhd - the investment arm of the MCA party- and supported by the MCA backed cooperative, Koperatif Serbaguna (M) Bhd (KSM). MPHB was only one of approximately 50 investment holding company's incorporated during the 'corporatisation movement' (Gomez & Jomo, 1997:45). Lee Loy Seng, Malaysia's 'rubber king', was made Chairman and Tan Koon Swan a shrewd corporate take-over specialist, its Managing Director. In the 1970s and 1980s, Chinese supported the MPHB enthusiastically: with its maiden share issue of \$ 30 million in 1977 oversubscribed, raising cash was no problem and at one stage, the company had more than 200,000 shareholders. MPBH's initial portfolio consisted of Bandar Raya Developments, a property company, and Plantation Holdings, a UK based firm, which in turn, had a considerable stake in Magnum Corporation, a profitable lottery business. Within seven years, MPHB had become the second largest company on the Kuala Lumpur Stock Exchange (KLSE), its interests covering manufacturing, wholesaling, gambling, shipping, property development and finance. Moreover, its paid-up capital grew from \$ 87,2 million in 1980 to \$450 million in 1982.

As the Chinese answer to Pernas and PNB, MPBH encountered considerable pressure from within UMNO and especially its Youth wing as MPBH set out to gain a controlling share in the United Malayan Banking Corporation (UMBC) and Dunlop Holdings in 1981.

Politically, the MPBH was a huge asset to the MCA. Whereas the latter only won seventeen of the twenty seven parliamentary seats it contested in 1978; after MPBH was established, it won twenty-four of the twenty-eight seats contested in 1982. The increased popularity of the MCA was

not solely based on better economic benefits. Dividends had not been paid out since 1977 and employment opportunities were limited because of its focus on company take-overs. Rather, it reinforced Chinese ethnic identity and gave it a concrete economic expression (Jesudason, 1989:155-7). Hence, much like the presence of the South African 'buppies' (black upwardly mobile urban professionals), such initiatives at economic empowerment acted as powerful affirmations of "group worth" and hence ethnic/political stability, as Horowitz (1985) has argued (see chapter 7).

However, due to the coincidence of a prolonged recession in commodities trading and general trading, a series of profit-losing investment decisions and unscrupulous directors - who used company funds for personal stock market speculation - MPBH had become a political embarrassment by the mid-1980s. In the name of party patronage within the MCA, the MPBH preferred "frantic expansion...over caution in the build-up of assets, and economic soundness was sacrificed for high corporate visibility" (Jesudason, 1989:159). Moreover, rather than enhancing Chinese bargaining power with the Malays, the MPBH clashed with the Malay financial elite in its drive to buy out similar acquisitions. In contrast, Afrikaner and English capital evinced a considerable degree of *toenadering* (rapprochement) since the 1960s, benefiting from the ample supply of cheap labour tightly controlled by the apartheid state (chapter 4).

In the early 1980s, in an attempt to emulate the Chinese, the largely Indian MIC launched Maika Holdings as a vehicle for the expansion of Indian corporate wealth. Particularly those from the lower middle and working classes poured their savings into Maika as an unlisted public company which allowed Maika in turn to acquire stakes in banking, media, insurance, manufacturing and the electronic media. And, with the advent of privatisation, Maika was able to extend its interests to government controlled enterprises like Malaysia Airlines Bhd (MAS), Malaysian International Shipping Corporation Bhd, Edaran Otomobil Nasional Bhd (EON) and Syarikat Telekom (M) Bhd (STM). Unlike the MCA, however, Maika had some limited access to government patronage but it did not ultimately emerge as a particularly profit-generating concern (Gomez & Jomo, 1997:46).

Despite the growth of these ethnic investment holdings, the detrimental effect of the ICA and Petrol Act in reducing foreign investment should not be discounted. The ICA had the effect of inducing non-Malay, domestic investors to significantly scale down their investment plans precisely at the time the Third Malaysia Plan called for increasing reliance on private investment:

Private investment is projected to provide the major source of capital formation during the 1976-80 period in contrast to the experience of the Second Malaysia Plan when the main role was played by public investment. With public sector investment planned to increase by only 6.2 percent per annum or much slower than in the Second Malaysia Plan, *the capacity required by the economy for its future depends significantly on high levels of private investment* (cited in Bowie, 1991:105).

The ICA not only caused a significant drop in domestic investment but also encouraged capital flight (as in South Africa during the same period, chapter 4). According to one estimate, total capital flight between 1976 and 1985 amounted to US \$ 12 billion (Gomez & Jomo, 1997:44). In

addition, applications for manufacturing projects declined by 157 percent between 1974 and 1975 and by another 16 percent in 1976 (Jesudason, 1989:141). Overall, foreign investment in 1976 had grown at a mere 3 percent, far below the 10 percent projected by government planners in order to realise the objectives of the NEP (Bowie, 1991:106). A similar pattern would emerge in the 1980s and 1990s, as domestic policy increasingly became subject to volatilities in the world market (see chapter 5).

Running on Empty: The Consequences of Rapid Redistribution

With falling levels of non-Malaysian investment, two profound consequences emerged. Firstly, as a result of the drastic shortfall in planned private sector investment, the government was forced into “pumping in an enormous amount of its own resources, almost double what it planned, in the Fourth Malaysia Plan” (Jesudason, 1989:146). Still, it failed to achieve its targets for manufacturing. Manufacturing’s share of GNP stood at 19,1 percent in 1985 and was projected to reach a mere 20,5 percent in 1990 - far short of the 35,2 percent projected by the NEP in 1973. And despite phenomenal growth between 1970 and 1984, much of this growth was largely due to public spending and high levels of public debt, making the economy highly vulnerable to volatilities in the global economy as both the crises of the 1980s and especially the crash of the 1990s would confirm. Similarly, the apartheid state of the 1970s and 1980s wishfully expected incremental improvements to African living standards in the form of housing and education, to undercut the violent linkages between unemployment, political upheaval and reduced foreign investment (see chapter 4).

Secondly, the dependence of the state on foreign investment exacerbated the Malaysian political economy’s exposure to the world economy. *This dependence was heightened by the absence of a Malay state/Chinese capitalist alliance*, a collaboration widely considered critical for industrialisation and graduation into “NIC-dom” and worsened by Singapore’s departure in 1965. The absence of state-Chinese co-operation compromised both the development of technological capacity and a strong manufacturing sector (Jesudason, 1989:161). Ironically, in contrast, due to diminishing levels of foreign investment and access to foreign capital since the 1960s, English and Afrikaner capital became ever more *integrated* (see chapter 4).

In reaction to falling levels of foreign investment, minor modifications were made to the ICA in 1977 and 1979, but without completely abandoning it. In addition, the state also stepped-up its encouragement of export-oriented industries, especially those producing electrical goods and electronic components.

During the early 1980s, manufacturing had reached a plateau, growing only at 3,25 percent during 1980-2. Progress towards Malay ownership goals of 30 percent by 1990 seemed way out of reach. Malay holdings of corporate wealth stood at 12,4 percent in 1980 (compared to 4,3 percent in 1970). In the absence of large-scale, capital-intensive industry, it was increasingly doubtful whether manufacturing could reach the 24 percent of GNP target set by the Fourth Malaysia Plan (1981-85)

by 1985 (Bowie, 1991:119-20).

Prompting further state intervention was the ill-conceived assumption that “without state intervention to marginalise the non-Malay private sector, it appeared that Malays would never themselves be able to challenge non-Malay economic dominance” (Bowie, 1991:125). In an attempt to overcome Malaysia’s dependence on primary commodities, Mahathir Mohamad, in attempting to transform Malaysia into a NIC, announced in the mid-1980s a major new strategy for the development of Malaysian heavy industry, “to create new engines of growth and to provide strong forward and backward linkages” (Crouch 1996:227). Supported by the expansion of the oil industry and the rising price of oil, the Heavy Industries Corporation of Malaysia (HICOM) was to create a ‘nucleus’ of critical industries in automobiles, iron and steel, cement, sponge-iron plants, internal combustion engines, a methanol plant, an ammonia-urea plant and a pulp and paper complex in joint ventures with foreign capital (Bowie, 1991:111; Crouch 1996:227).

Given the reluctance of Chinese capital to invest in large-scale general manufacturing, as well as the risk and the huge expense involved in the establishment of these industries, large government subsidies and substantial tariff protection were deemed essential (Crouch, 1996:227). Accordingly, total public sector investment in heavy industries ranged from six to eight billion Malaysian ringgit between 1981 and 1986, “*an amount comparable to the entire government development budget for all social programs, including education, health, welfare and housing*” (Bowie, 1991:111).

This massive expansion of the state sector in the early 1980s was motivated by both economic and political considerations. In an attempt to emulate the NIC model, and that of Korea specifically, government leaders were convinced that first stage ISI had run its course. Transformation of the economy required a state-led push into industrialization. Politically, Mahathir perceived the state to be honour bound in this role as ‘intransigent’ non-Malay businesses were not creating opportunities for Malay economic advancement fast enough in accordance with NEP principles (Bowie, 1991:150). By the late 1990s, Mandela’s successor, Thabo Mbeki would express similar frustrations (see chapter 7). Rather than lifting restrictions against domestic (i.e. Chinese) capital, state intervention increased.

Critics, even fellow Cabinet members, cautioned against the heavy industrialization drive. The domestic market was too small and the products - especially automobiles and steel - had low export potential given existing gluts on world markets. In the absence of an economy of scale, these products would require considerable levels of subsidy and protectionism, which would burden local consumers, whilst the massive capital investments and foreign borrowings over long periods of time would divert funds from other, more pressing needs and make for highly unprofitable margins. Finally, the projects would remain dependent on foreign technology and comparatively low levels of local participation in terms of content, expertise and management (Khoo, 1995:120).

Following the marked reduction of foreign investor interest in the immediate post-ICA period, in conjunction with lower than expected manufacturing performance, as well as the need to reduce Malaysia’s overwhelming dependence on primary commodities, one of the few means

through which Malaysia could re-attract considerable levels of foreign investment was through its relatively well-educated and inexpensive labour force. Besides pursuing heavy industrialisation, Mahathir therefore also sought to attract foreign direct investment through the "Look East" policy initiatives of the 1980s.

Ascending Toward 'NICdom': 'Looking East'

Without closer public/private collaboration to generate an indigenous industrial capacity, Malaysia would not be able to enter the ranks of the NIC's and risked continual dependence on transnational corporations (Jomo, 1994:89-90). The underlying motive for Malaysia's emulation of "Japan Inc." with its unprecedented degree of industrial coordination between public and private sectors, therefore represented an urgent attempt to overcome the debilitating legacy of shunning domestic Chinese capital during most of the preceding NEP period.

The implicit consequence of closer *rapprochement* between Chinese capital and the Malay state however was a reversal of previously growing Malay political hegemony. In order to lessen Malay resistance, "Look East" emphasised the need for Malays to jolt themselves into emulating the "competitive" traits of the Japanese and Koreans¹⁷. Of course, Mahathir need have looked no further than across the Causeway to Singapore - the quintessential "Inc." - for a model closer to home. However, since Japan and South Korea were the only non-Chinese countries in the region, they were politically "appropriate" models (Saravanamuttu, 1991:70).

"Look East" also fulfilled another objective towards Malaysia's transformation into a competition state, namely the restriction of trade union demands. "Look East" highlighted the significance of "in-house" unions; increased work productivity and quality through propaganda campaigns; company welfarism; harder work and loyalty to the company; wage flexibility and quality control circles and zero defect groups. These measures therefore enhanced prospects for more controlled and depoliticized trade union activism to increase company productivity at very little cost to the firm itself (Jomo & Todd, 1994:150). The bitter and protracted industrial action by employees of the Malaysian Airlines System (MAS) during 1978-9 was widely acknowledged to precipitate a new wave of labour repression in the 1980s (Jomo & Todd, 1994:129). Consequently, the right to take industrial action was further inhibited by new amendments to the labour laws:

union recognition disputes were no longer considered legitimate trade disputes; the definition of strikes was expanded to include unauthorized reductions in work (such as go-slows); unions in essential services were required to give three - instead of two - weeks' notice of their intention to strike, while the list of essential services was extended to include banking. With the amendments, many unions subsequently faced difficulties in raising their subscription fees, eventually causing the authorities to rescind the 1980 rules in 1991 (Jomo & Todd, 1994:147).

¹⁷ In other words "a strong work ethic, worthy Eastern values, a capacity for learning, courage to compete, self-reliance, and national pride" (Khoo, 1995:68).

“Look East” was also an explicit acknowledgement of significant and expanding Japanese economic interests in most of Southeast Asia since the 1970s. Japan now accounted for as much as 20-25 percent of Malaysia’s external trade, whilst Malaysia reaped \$500 million in soft loans shortly after implementing the policy (Saravanamuttu, 1991:69-71). Moreover, it signified that the NIC’s of Asia-Pacific were now Malaysia’s models of emulation, rather than Europe or the United Kingdom, adding impetus to the notion of an “Asian Renaissance” (chapter 5). Post-apartheid South African foreign policy - especially the notion of an Indian Ocean Rim axis (Mills, 1998) - reflected similar efforts to “Look East”.

Finally, considering the ascendance of neo-liberalism in the 1980s and the subsequent celebration of export-led growth strategies pursued by the Northeast Asian NIC’s, Malaysian efforts to imitate them won it considerable political kudos in Washington, despite Mahathir’s rhetorical anti-Westernism. That Mahathir was much more aware of the ideological influence of the New Right than he publicly would admit (and even underplayed) is suggested by “the secret bilateral military treaty he signed - as Prime Minister and also as Defence Minister - with the Reagan Administration in the mid-Eighties. Interestingly, the market conservative ideology of the New Right also accorded with views he had expressed in the mid-seventies - against the tide of prevailing Malay public opinion then” (Jomo, 1995:6).

By the mid-1980s, however, “Look East” had become a political liability. Critics questioned the appropriateness of Japan as a model, frowning particularly upon its political culture of subordinating women and its strictly hierarchical system of labour-management relations being incompatible with both Islam and the egalitarian principles of the NEP¹⁸. To add fuel to the fire, Malays did not take kindly to Mahathir’s comparison between “indolent” Malays and “hardworking” Japanese, whilst to the Chinese it conjured images of anti-Chinese atrocities committed in Malaya during Japanese occupation in World War Two. British-educated Malaysians saw “Look East” as essentially Anglophobic, whilst others considered it a smokescreen for preferential awarding of lucrative contracts to Japanese companies (Bowie, 1991:118; Saravanamuttu, 1991: 74). Following implicit accusations that “Look East” had become a means for Tokyo to legitimise Malaysia’s US \$ 2,7 billion current account deficit, the

¹⁸ Chandra Muzaffar, a leading social critic articulated numerous concerns:

Even if it were possible, should we emulate Japan? Japan is in essence a huge economic machine obsessed with growth, with the conquest of markets. Its astounding success as a producer and distributor...has blinded us...The economy, for all its dynamism, is dominated by powerful companies and their elites. Social disparities are significant...How can we choose as a model ...a nation whose economic imperialism is an established truth? In trade, investments, technology transfers and aid, Japan’s exploitative tendencies are quite apparent. For it legitimizes - even unwittingly - Japan’s overwhelming economic power vis-a-vis Malaysia. It lends credence to its economic imperialism (cf. Bowie, 1991:118)

policy was gradually abandoned¹⁹.

Nevertheless, "Look East" represented a particular Mahathirist attempt to adapt Malaysia to the growing salience of post-Fordism and the New International Division of Labour (NIDL), by forging a closer connection between the Malay state and Chinese capital, an alliance long disdained, but ever more essential as the pressures to become "competitive" increased.

Not unlike post-apartheid South Africa then, the Malaysia Incorporated concept introduced with "Look East" does suggest the prospect of corporatism evolving as a strategy to 'embed' domestic expectations of redistribution with international demands for liberalisation. However, as Jomo (1994:87) suggests, given the enfeebled labour movement and the fact that Malaysia Inc. is only limited to complying enterprises, it cannot be regarded as a truly nationalist corporatist project. Nonetheless, the significance of the "Look East" policy lay in the fact that it became *one of the first policy measures by which the state was beginning to adapt itself to the pressures emanating from a competitive global economy.*

Caught between the political obligation to sustain the state's active promotion of a Malay middle class and international economic demands, Look East marks the beginning of an incremental process by which the Malaysian state was being forced to respond to these pressures. As chapter 5 indicates, as the 1980s wore on, the state increasingly relied on various policy measures in an attempt to mediate demands from an ethnically driven domestic constituency and an ever more volatile world economy.

Conclusion

By the early 1980s, state intervention reached its apogee. From its relatively hands-off approach in the 1950s and 1960s, the state, by the 1970s, even told producers how to produce. The ICA determined who they were to employ and how ownership structures should look. Moreover, by the 1980s, the state launched an ambitious industrialization programme (Bowie, 1991:112).

This rapid expansion of state ownership was facilitated by a number of highly favourable conditions within the international political economy. The laissez-faire approach adopted by Malaysia in the 1950s and 1960s was characterised by a rejection of anti-FDI regulation in order to demonstrate the country's commitment to the protection of foreign interests, especially those of Britain upon whom Malaysia depended not only for monetary stability but also military support. The subsequent alleviation of most of its military responsibilities therefore enabled the government to focus resources upon economic development (Stafford, 1997:561). Its cautious economic mode was also motivated by the fact that FDI was generally scarce in Asia in the 1960s. It represented a mere 14 percent of total flows to the developing world, approximately one-third of which went to Latin America. Furthermore, in the aftermath of both the Emergency (1948-1960) and the ¹⁹ Japan's insistence upon protective trade barriers against Malaysian manufactures, the slow rate of technology transfer and the practice of transfer pricing by Japanese multinationals in order to avert taxation added to the tension. Finally, Japan's blocking of Malaysian Airlines System's bid to operate a flight to the United States with Northwest Orient Airlines via Tokyo led to a gradual jettisoning of this policy initiative as the full impact of the mid-1980s recession became apparent (Saravanamuttu, 1996:2-3).

Confrontation with Indonesia (1963), Malaysia was seen as a 'risky' site of investment (Bowie, 1991:71). *All these conditions made for a much more conservative and cautious economic orientation.*

Whereas industrialisation had been a relatively low priority concern, Singapore's departure from the Federation in 1965 left a considerable gap in Malaysia's industrial capacity (Bowie, 1991:79). Secondly, an influential World Bank report suggested that growth would be insufficient unless government implemented a concerted programme to develop Malaysian industry. These two factors had a decisive effect in underscoring the need for industrialization. Politically, the apparent success of the Pioneer Industries Act (a pre-NEP measure) in illustrating that Malays could be relatively greater beneficiaries of FDI related projects than non-Malays, also prompted a reassessment of the importance of an effective industrialisation strategy. Expansion of the industrial sector through FDI therefore became a key NEP objective (Stafford, 1997:561).

By the late 1970s, Malaysia was benefiting from high and stable prices for its primary commodities with prices for crude petroleum, palm oil, rubber and tin skyrocketing. A reliance on primary commodities at this time, rather than manufacturing (which would follow ten years later) allowed the country to fully reap the benefits of this favourable conjuncture (Stafford, 1997:565). In these "best of times" the state increased its stake in the economy, reaching a peak with the implementation of the ICA in the mid-1970s.

However, given the lack of a closer state-non Malay capitalist alliance and the general reluctance of Chinese investors to commit to manufacturing, Malaysia became much more dependent on FDI and joint ventures with foreign firms to realise its ambitious industrialisation programme. Moreover, the growing concentration of power within the 'administrators' who straddled both the public and private spheres, exacerbated the likelihood for patronage to take hold. Yet the dramatic decline of foreign investment in the aftermath of the ICA gradually forced the government to relax its stringent provisions. In fact, as higher interest rates loomed worldwide following the initiatives of US Treasury Secretary Paul Volcker, and the 1970s drew to a close, the Malaysian government soon discovered how profoundly the changed nature of the international political economy of the 1980s would affect its ability to maintain the degree of unbridled state intervention pursued thus far. For as Jesudason (1989:197) has noted, Malay elites

operated on the illusion that there was little they could do that would seriously jeopardise the economy. This unbridled optimism was based on the fact that Malaysia had not suffered from severe economic crises or recessions in the past. There was hence no memory of an economy that could go awry. The discovery of oil further buoyed spirits, and gave a false sense of an economy with unlimited possibilities.

Consequently, due to the high international demand for commodity exports, Malaysia was not only willing to pursue NEP policies which might have hurt overall competitiveness, but also *able* to pursue such policies with relative impunity (Stafford, 1997:565). As we shall see in chapter 5, the recession of the 1980s and the Asian crisis of the 1990s, would reveal how wrong those assumptions were. However, before doing so, the next chapter illustrates that the Malaysian pursuit of ERWG was not unique. In fact, like Malay Nationalists, Afrikaner Nationalists benefited

immensely from the conjunction of a Keynesian/Fordist IPE fuelled by the primary commodities of its mining-energy complex whereby Afrikaners were catapulted into middle class occupations.

4

From the *Reddingsdaad* Movement to “Yuppiehood”: The Nationalist-Corporatist Project of Afrikaner Nationalism

The very success of the Afrikaner economic advance began to undermine the collective sense of a common Afrikaner identity. By the early 1960s, Albert Hertzog and other leaders of Afrikaner workers were arguing that the *geldmag* (finance power) of the new Afrikaner capitalists had betrayed the volk. By 1980, these Afrikaner entrepreneurs had largely turned their backs on Afrikaner *volkseenheid* (unity of the volk) in the name of profit. De Klerk and the Afrikaner establishment could jettison their entire political past with relative ease after 1990 precisely because the creation of Afrikaner business and a wealthy Afrikaner middle class had forever separated their interests and their futures from those of their less privileged *volksgenote* (members of the volk).

-O'Meara (1999)

Apart from the fact that they were white, very little differentiated poor and downtrodden Afrikaner workers at the turn of the century from the the black labourers with whom they had to compete²⁰. Yet the case of Afrikaner advancement during the early to mid-twentieth century is profound. In fact, one historian has remarked that “it is perhaps not an overstatement to say that...perhaps not in history has there been a case in which an entire under-developed people became so affluent so quickly” (Herman Giliomee, cf. Price, 1991:25).

Like Malays, Afrikaners at the turn of the century, constituted a demographic majority in relation to the smaller but more prosperous English. In this British dominated laissez-faire economy Afrikaners were also, like the Malays, not only poor but also destitute and culturally unequipped for success in a modern economy. And, as Malay Nationalists, Afrikaner Nationalists also pursued a strategy of ERWG. The Afrikaner state also intervened extensively in the economy, gradually shifting the developmental pendulum from growth to redistribution.

In this chapter I argue that apart from these similarities a number of conditions also *differentiate* the pursuit of ERWG by Afrikaner Nationalists from their Malay counterparts. Firstly, whereas the Malay response to the inadequacies of the post-colonial pro-growth approach evolved rapidly in the form of the NEP, Afrikaner resistance to British subjugation well preceded its capture of the state apparatus in 1948. In fact, as the political power of the Afrikaner working class threatened to overshadow mining capital, illustrated by the 1922 Rand Revolt, it prompted the state to incorporate white labour in order to forestall economic

²⁰ As de Kiewiet noted,

At the base of white society had gathered like a sediment, a race of men so abject in their poverty, so wanting in resourcefulness, that they stood dangerously close to the natives themselves (cf. Giliomee, 1979:146).

disruption. However, the vast and growing African working class paid the price for this process of incorporation. Not only were they subjugated, but the structural repression of the apartheid network ensured that African labour remained cheap and the South African economy highly 'competitive'. In contrast, the Malays could not pass these costs onto another subjugated ethnic group. Instead, the NEP state being less corporatist, emphasized an elaborate system of affirmative action and rejected a closer Chinese-capital/Malay-state alliance, preferring to sponsor an indigenous Malay business class (see chapter 3). Moreover, unlike Malaysia, the kind of social engineering with which Afrikaner Nationalists' justified apartheid meant that the pursuit of ERWG acquired an integrally racialist character.

In this respect, the South African case is also different. For apartheid precisely provided the necessary basis for an English-capital/Afrikaner-state "alliance", thus entrenching a corporatist political culture which continues to endure. In both cases the issue of property ownership is of critical importance. That crucial element of capitalism meant that Afrikaners - controlling nearly 80 percent of agricultural land - had the collateral to finance the growth of their enterprises. Possessing a base for capitalist accumulation, Afrikaners were in a far stronger position to bargain with English capital than Malays were and most certainly Africans were in relation to the apartheid state. Accordingly, this chapter briefly illustrates how Afrikaner Nationalists' pursuit of the strategy of ERWG converged with that pursued by their Malay counterparts and highlights the extent to which the nature of the IPE - until the 1970s, as in the Malaysian instance - complemented such initiatives.

The Afrikaner Identity and the Salience of the *Laager*

Descendants from Dutch and French settlers during the mid and late seventeenth century, Afrikaners were originally largely a rural community, subsisting from raising cattle and farming. Instead of shedding their sense of a separate identity - as their cultural association with Europe waned through the development of a new language, sense of history, and lifestyle - it grew ever stronger. As slavery was abolished in the Cape Colony (1833) and the legal lines of distinction between whites, slaves and indigenous peoples diminished, the fear mounted amongst some Afrikaners that the new policy of *gelykstelling* (equalization) would inevitably lead to *gelykheid* (equality) and the disintegration of the established and unequal social order (Giliomee, 1979:95). Both the increasing anglicization of the Cape following two periods of British control, and the liberalization of racial distinction prompted the *Groot Trek* (Great Trek, 1835-1838) which culminated in the establishment of two sovereign Afrikaner republics in the Transvaal and Orange Free State.

Humiliated by their defeat at the hands of the British following the Anglo-Boer War (1899-1902), the erstwhile Afrikaner Republics and British controlled colonies of Natal and Cape were amalgamated into the Union of South Africa (1910). The Union was

a compromise between “the determination of the English-speaking whites to maintain the ‘British connection’ and the deep desire of the vanquished republican Afrikaners for independence” (Giliomee, 1979:104). During this period, the need to forge a sense of national unity between Afrikaners and English remained the all consuming goal, overshadowing the question of black/white race relations.

Afrikaner nationalists, however, distrusted the peace. Since its founding in 1914, the National Party accused the government of thwarting the campaign for equal rights for the Afrikaans language. To Afrikaner Nationalists, prime minister Hertzog’s so-called ‘one stream policy’ advocating equality between English and Afrikaans, would inevitably lead to the nascent Afrikaans language being overtaken by the all-powerful English world language (Giliomee, 1979:107). These perceptions were reinforced by Afrikaners’ genuinely disadvantaged socioeconomic position. Not only were they humiliated by the Anglo-Boer War, but it exacerbated rural dislocation and decline, forcing many to move to the towns. At the beginning of the century, 10 percent of Afrikaners lived in towns; in 1911 the figure stood at 29 per cent and in 1926 had risen to 41 percent. By 1960, it would grow to 75 percent (Welsh, 1974:250; Giliomee, 1979:104). Lacking an industrial vocation or education, like Malays, many of the newly urbanised Afrikaners were pushed into the ranks of unskilled labourers²¹.

For Afrikaners in the 1930’s and 1940’s the dislocation of rapid urbanization at a comparatively late stage instilled in them a deep sense of insecurity. In a society in which urban and capitalist values predominated, the Afrikaners not only were from a rural origin and the poorest white group but also were perceived as culturally backward and lacking in sophistication. It was middle-class Afrikaners, particularly educators and the clergy [as in Malaysia] who were most attracted to a strategy of ethnic mobilization to overcome the deep feelings of insecurity and social inferiority which plagued Afrikaners. It was they who disseminated the ethnic gospel that self-realization and human worth could only come through group identification and assertion. It was because the 1930’s was such a traumatic period for these Afrikaners that they would be so attracted to the radical “solution” of apartheid (Giliomee, 1979:11).

For Afrikaners, the objection was more against the fact that Africans were prepared to offer their labour at a cheaper rate than whites could afford, than having to work alongside them. In the cities, blacks for example, were prepared to do unskilled manual labour for two shillings a day during the period 1900 to 1940, whilst whites were unwilling to accept a daily wage of less than three shillings and six pence or even five shillings. Hence, the Nationalist Malan complained that

the white man is really discriminated against in the labour market when he comes into competition with the non-white. The white man, because he is white, is expected - whatever his chances in the labour market - to maintain a white standard of living...you can understand that in the circumstances the competition

²¹ For example, a survey conducted in 1934 noted that only 18,6 per cent of Afrikaner youths chose to become artisans compared with 33,1 per cent of non-Afrikaner whites (Welsh, 1974:251).

for the white man is killing (Giliomee, 1979:108).

Masking Class Difference: The Nationalist-Corporatist Project

Given similar levels of social stratification, blacks and Afrikaners could have formed a rather formidable trans-ethnic, class coalition against the hegemony of English mining capital. However, the persisting effects of eighteenth and nineteenth century conceptions about race ensured that such an alliance would not materialise. Indeed, the possibility that continued urbanization could ameliorate nationalist feelings as Afrikaners came to see themselves in inclusive terms as part of a class rather than a more exclusive ethnic group, constituted the greatest obstacle to the growth of Afrikaner nationalism. As Welsh (1974:255) writes

It meant the loss of Afrikaner identity and the severing of bonds with Afrikaner nationalism. The trade union 'denationalized' because it put class or economic interests above national or ethnic ones. Workers were urged to declare their allegiance to a class that transcended linguistic and even colour lines. Class solidarity on this basis was necessarily at the expense of the narrower nationalist loyalty.

Though Afrikaners were initially averse to trade union participation, considering them *volksvreemde* (alien) institutions, by 1913 they constituted a majority of the white mine workers, after gaining a toehold during the miner's strike of 1907 (Welsh, 1974:254).

When the mining industry wanted to cut costs by shedding what was considered an overpaid white labour force, the 1922 Rand Revolt saw both English and Afrikaner workers standing side-by-side in defence of the colour-bar in industry. Given the overwhelming dominance of the economy by the mining industry, especially gold, and its numerous backward linkages providing jobs in the railways and service industries, the state was obliged to enhance conditions to optimize mining profitability. However, to prevent the alienation of large sections of the electorate, the impression had to be avoided that it had sold out to big business (Giliomee, 1979: 148). Not unlike the post-apartheid state of the late 1990s, the state then also

needed to create a structure that would put the state in the ostensible role of neutral arbiter while leaving it with sufficient control both to ensure the continued viability of the industry and to abort any attempt by labour to achieve its ends by prolonged strikes or insurrectionary violence (Yudelman, 1983:115).

International mining capital did not win the "battle" of 1922 only to lose the "war" of 1924 when a new government ostensibly representing the interests of white labor and Afrikaners was elected, as many historians contended. In fact, average wages remained below those which prevailed before the 1922 strike. Moreover, the total number of whites employed in the mines throughout this period was below the numbers employed in the immediate post-World War 1 era. However, the state also expected capital to pay a

price. Hence, the gold mining industry had to subsidize the 'civilized' labour practices of the Pact government - essentially an elaborate affirmative action program - subsidize farmers and programs to diversify and promote local industry (Yudelman, 1983:9; Giliomee, 1979:149). A definite victory for both the interventionist state and capital, the events of 1922-24 "merely continued and extended the long-standing state-capital alliance and the process by which the state was subjugating and coopting organized labour" (Yudelman, 1983:9).

At the First Afrikaner People's Economic Congress in 1939, Albert Hertzog, a labour activist, remarked that of the 118 unions he had investigated, 100 had secretaries who were 'foreigners' hostile to Afrikanerdom. Three years earlier, he and his associates sought to 'rescue' Afrikaner workers from the influence of the Mineworkers Union through a protracted Union takeover by Afrikaner nationalists in 1948²². At the same time, the *Blankewerkersbeskermingsbond* (White Workers Protection Society) was formed in 1944 to isolate Afrikaner workers from the rest of the working class and bind them more closely into the nationalist ideal. The *Federasie van Afrikaanse Kultuurverenigings* (Federation of Afrikaner Cultural Associations), an offshoot of the Broederbond (a secretive, exclusively male think tank and policy network) shaped the cultural agenda²³.

The significance of the Nationalists ploy to sway Afrikaners from a class consciousness to an ethnic awareness through the creation of Afrikaner-based trade unions became apparent after their 1948 election victory²⁴. The National Party won 5 crucial seats very narrowly, through the support of labour and especially the mine-workers, constituting a decisive turn in South African history (Welsh, 1974:261). Naturally, the apartheid framework through which farming and workers interests were addressed ensured great appeal for National Party policy. But that was not all. Just as alluring was the demand for South African national independence, the promotion of Afrikaner business interests as well as the advance of Afrikaner culture. In short, to many Afrikaners, 1948 marked a turning point in their history; like Malays (first at independence in 1957) and after the 1969 riots and the NEP state, it meant 'getting our country back' or 'feeling at home once again in our country' (Giliomee, 1979:115).

²² Ironically, the Mineworkers Union, later the NUM would subsequently become one of the most influential black trade unions within COSATU, one of the most powerful constituencies within the ANC-led alliance.

²³ According to some media reports the existence of the so-called "Network", amongst the new black elite in business, government, the media and the like, supposedly parallels to some degree the Afrikaner Broederbond.

²⁴ Illustrating how much of an "imagined community" the notion of Afrikaner Nationalism really was, O'Meara (1999:17) has argued that "had the United Party Minister of Agriculture not refused to increase the price of maize just weeks before the 1948 election, it is probable that the UP would not have lost all 15 of its Transvaal rural seats, so giving the NP the five seat majority in Parliament".

Mobilizing Ethnic Economic Power

Contrary to the Malaysian (chapter 3) and post-apartheid (chapter 7) South African cases, some Afrikaner economic advance well-preceded control of the state. Most significant however, was the idea prompted at the 1939 Economic Congress to perform an act of rescue (*reddingsdaad*) to eradicate the poverty with which many (approximately 300 000) Afrikaners had to contend. Although a “Black Empowerment Congress”, which both Afrikaners and Malays had called, has yet to appear, some parallel could be drawn here with the RDP’s attention to “basic needs” as part and parcel of a developmental state, but which ultimately had to be abandoned (see chapter 6).

It was estimated that in 1937 the average annual per capita income of Afrikaans speakers was 86 pounds sterling, compared to 142 for the rest of the white population (Welsh, 1974:258). Rather than investing capital in mortgage bonds or for the purchase of more land, which inflated prices anyway, farmers were called upon to help uplift their fellow Afrikaners. Following the creation of the *Helpmekaar* Fund (‘Help one another’) to raise money for those convicted during the 1914 Rebellion, 190 000 pounds had been collected in two months²⁵. To many Afrikaners it demonstrated what could be achieved if they pooled their resources together. However, with some shades of the Malay emphasis on restructuring rather than poverty alleviation, only 10 percent of this fund was allocated to poverty relief. The rest was devoted to investments in Afrikaner businesses, and Federale Volksbeleggings in particular. Much like 1990s black economic empowerment, a detailed programme for mass eradication of poverty remains curiously absent. Yet, writes Giliomee (1979:157)

There seems to have been a sincerely held conviction among this group that only through a combination of ethnic mobilization and *volkskapitalisme* (people’s capitalism) could the position of the poor be fundamentally improved. *Volkskapitalisme* rejected the laissez-faire notion that those who were not able to adjust to the economic struggle should drop to poor-whiteism. But to give the poor alms in a philanthropic manner was to belittle them and separate them from the more affluent members of the volk. The aim should rather be, as L.J. du Plessis phrased it at the congress of 1939, “to mobilise the volk to conquer the capitalist system and to transform it so that it fits our ethnic nature”. *Volkskapitalisme* would entail Afrikaners owning the means of production, investing in and patronizing Afrikaans enterprises, and employing and caring for Afrikaner workers”

One of the first enterprises to flow from this fund with the support of the National Party was the publishing firm, Nasionale Pers. The Afrikaner insurance companies, Santam and Sanlam were founded in 1919, but like Nasionale Pers, their establishment was mired in difficulties: Afrikaners were initially reluctant to support these investment vehicles for the *volk* and they were shunned by the English corporate world, if not thwarted

²⁵ This fund would provide legal and other forms of assistance to Afrikaners who had with the outbreak of the the First World War, chosen not to fight in support of what they described as “Britain’s War” and subsequently been arrested on charges of treason.

by English competitors and stigmatized as a purely political concern (Welsh, 1974:253). Indeed, echoing the 1990s sentiments of an African Renaissance (chapter 9), the years following World War 1 were referred to as 'the first Afrikaner economic renaissance' with enterprises like KWV (*Ko-opertatiewe Wijnbouwers Vereeniging*, or Co-Op Winery) and AVBOB (*Afrikaanse Begrafnis Onderneming Beperk*, Afrikaans Burial Society Limited) also making their debut. The flagship of Afrikaner investment capital, *Federale Volksbeleggings* (FVB), the South African answer to Pernas and PNB, also faced tremendous difficulties when it was established in 1940²⁶, but by November 1942, had direct interests in twelve companies. It helped to create, amongst others, *Voorbrand Tabak*, later evolving into one of the largest tobacco and cigarette multinationals, the Rupert family's Rembrandt corporation (O'Meara, 1983:192).

Apartheid as Ethnic Keynesianism

Having successfully mobilised the Afrikaners on an ethnic ticket, whilst fostering a nascent, if small entrepreneurial class, Afrikaner-Nationalists by 1948 now controlled the state as well. As Fine & Rustonjee (1996:148) suggest, "apart from a purge of government jobs to make way for Afrikaners, Afrikaner farmers, financial capitalists, small traders, and workers all received massive direct and indirect handouts from the government in the decade after 1948".

Despite the fact that Afrikaners had advanced considerably in terms of social stratification, the annual per capita income of Afrikaners in Johannesburg and nine other towns in the Witwatersrand in 1948 for example, was 162 pounds, whilst for English whites it stood at 349 pounds (Giliomee, 1979:160). Before the Second World War, Afrikaners constituted 86 per cent of the white unskilled work force in towns, yet not unlike Malays, less than 20 percent of them were managers, professionals, directors or manufacturers. By 1948, however, they dominated the skilled working class occupations whilst the English moved up to higher categories of employment. And although the state bureaucracy had slowly become more Afrikanerized, top positions were still occupied by the English, much like many senior civil service positions continued to be staffed by whites in the immediate post-apartheid years (Giliomee, 1979:160)²⁷.

Systematically, the incipient apartheid state boosted white and particularly Afrikaner standards of living by tightening and extending restrictions which had already

²⁶O'Meara (1983: 191) writes, "So serious was the lack of support for FVB that it very nearly did not meet the statutory minimum of 10 percent paid-up ordinary shares by the prescribed date for registration under the Companies Act. Only 910 of the required 20,000 minimum shares were paid up. The project was saved by a last minute appeal to a Cape doctor who borrowed 20,000 pounds from Volkskas and invested it all in FVB".

²⁷As Giliomee (1979:161) notes, "In 1952 some 80 per cent of the South African Railways and Harbour personnel were Afrikaans speaking, but 67 percent of those in the income group of 1000 pounds and higher were English speaking. While 68 per cent of all white Post Office officials were Afrikaners, they occupied only 40 percent of the senior positions".

been imposed upon black labour earlier. Preferential treatment of white labour however, also well preceded the apartheid state. In fact, much of the restrictive legislation had been enacted since 1911, with the Mines and Works Act laying the basis for the statutory colour bar in the workplace (Terreblanche & Natrass, 1990:8). By the 1950's, however, the Nationalist government introduced a plethora of additional measures which not only tightened existing discriminatory legislation but extended it to cover Asians and Coloureds as well. During the 1920's and 1930's, Hertzog's "civilized" labour policy had already ensured that large numbers of Afrikaners were absorbed in the public sector – especially on the railways where the proportion of unskilled white workers rose from 9,5 to 39,3 per cent while that of blacks fell from 75 to 48,9 percent (an absolute decrease of 15,556). By the late 1950's, the railways constituted *the single largest employer of white labour in the country* at over 110,000 unskilled and semi-skilled workers (Giliomee, 1979:151).

The process of preferential employment was reinforced through further legislation in 1957 to reserve jobs, especially amongst semi-skilled whites, in the garment, leather and engineering industries - some of the first industries to *lose* protection in the 1990s - as well as in municipal employment. Preferential employment was based upon two cardinal principles: whites must not be replaced by blacks in the same job, whilst blacks may not be appointed in a supervisory capacity over whites (Giliomee, 1979:163). In the state bureaucracy, the rigorous enforcement of bilingualism of Afrikaans and English benefited the Afrikaners -as linguistic regulation benefited Malays (chapter 3) - since they tended to be more bilingual than their English compatriots. Thus, by 1968, Giliomee (1979:165) notes, "there were twice as many Afrikaners in government jobs than before the election of 1948". *By 1976, approximately 60 percent of the white labor force in the public and semi-public sector were Afrikaners, mostly male.*²⁸

As in Malaysia, the state also intervened heavily in the agricultural sector. The NP government tightened the system of influx control and established labour bureaus (thereby creating even more government jobs) as well as stabilising the labour force and keeping wages low. Farmers benefited from the favourable prices set by marketing boards for their produce, and through government subsidies and generous funding of agricultural research. In the case of maize for example, government increased the average price from 21s. 3d. to 30s. between 1936 and 1939 and again between 1949 and 1952. In 1956 to 1959, the total output of crops increased by 93 percent and that of livestock by 61 percent (Giliomee, 1979:162). And, given that more was being produced by a decreasing number of farmers, *opportunity for both rural and urban capital accumulation was significant.*

²⁸ Unmarried female teachers and nurses for example immediately forfeited various social insurance benefits when they got married, were no longer considered to be in permanent employment and were considered to be contractual employees only. In short, according to official policy, it was inconceivable that married women could be the main or even sole breadwinner in the family.

Not unlike state sponsorship of Malay social mobility, Afrikaner advance was also stimulated by state created corporations. Some, like ISCOR (Iron & Steel Corporation) and the Industrial Development Corporation (IDC) were established prior to 1948, but under the NP, state corporations multiplied exponentially. Apart from the various agricultural control boards, no fewer than *twenty-two* public corporations were established, like ESCOM (now the largest electricity supplier in southern Africa); ARMSCOR which has not only made South Africa largely self-sufficient in numerous armaments but has even become a formidable international arms exporter; NUFKOR (uranium enrichment); SOEKOR (oil exploration); and SASOL (the production of petrol from coal and a petrochemical industry). These institutions were not solely created to advance Afrikaner interests (although they certainly did benefit them) but were largely consistent with state created infrastructural corporations in many parts of the world where such massive enterprises, especially after the war, could only be financed by the Keynesian state either as welfarist organizations in the advanced industrialized world or developmentalist institutions in the South.

In South Africa, these enterprises also contributed towards the expansion of secondary industry, making the country less reliant on the gold-mining sector, and prompting private investment in a number of new industries. But without government backing, investment by the private sector in projects of strategic or military importance could never have been financed (Giliomee, 1979:164). Again, as in Malaysia under the NEP, the overall share of the public sector in the economy nearly doubled under successive NP governments. Giliomee (1979:164-5) provides the figures:

Public sector investment in the period 1946 to 1973 rose ten times from R102 million to R 1, 120 million (at constant 1963 prices) and investment by public corporations alone jumped from R 14 million to R 286 million. Compared to an average of 6,2 percent in 1946-50, the corporations' ratio of fixed investment in the whole South African economy nearly doubled to 11,5 percent in 1971-73. In the period 1946 to 1973 the share of the private sector declined from 63,5 percent to 53 percent. The South African economy has in recent years increasingly become a state-controlled and owned economy. This is perhaps most dramatically illustrated by the fact that annual expenditure of the public sector, as a percentage of gross domestic fixed investment, has increased from 36,5 percent in 1946 to 47 percent in 1973 to 53 percent in 1976 .

Not unlike the Malaysian pursuit of ERWG until the mid-1970s boosted by both the Korean and Vietnamese wars (see chapter 3), this level of state intervention coincided with the high-point of Keynesian - demand induced - macroeconomic philosophy, as well as the decades of the worldwide boom from the 1950's to the early 1970s. This allowed both Afrikaners and Malays to benefit from generally high commodity prices - particularly agricultural- and thus extend their interests to the commercial, financial and industrial sectors of the economy, all coinciding with the proclamation of the Republic in 1961. At the same time, apartheid's coffers were boosted considerably, allowing the state to

maintain its restrictive racial practices and keep wages down – thereby making South Africa amongst the most profitable countries in the world for multinational corporate investors. Dominated as it was by the mineral-energy complex, the South African economy provided the raw materials which Fordist industry could not go without. And, as the Malaysian economy was boosted by the Korean War, the Second World War (ironically, given Afrikaner ambivalence) contributed significantly to the maturation of South African industry.

Afrikaner private corporations also surged ahead under NP control. The share of total funds controlled by Afrikaner institutions in the financial sector did not rise markedly – from 5 percent in 1939 to 6,16 percent by 1950. However, these funds were heavily concentrated in the hands of a few institutional players. Manufacturing was closely tied to agricultural processing through co-operatives, with 80 percent of firms located in the rural areas. These were small, of which 85 percent were single-person enterprises. (Fine & Rustomjee, 1996:150).

In terms of mining activity, there was nearly no Afrikaner presence, whilst some small scale commercial businesses were established. Apart from finance, Afrikaners in these sectors could not compete with similar English establishments. However, they could not be ignored politically. According to O'Meara (1983:250, emphasis added)

The original accumulation of the *reddingsdaad* movement rested on the centralisation and segregation of agricultural capital, enabling finance companies to invest in commerce and industry. The consolidation of financial capital in this manner had been satisfactorily achieved by 1950. The most significant feature of the development of Afrikaner undertakings during the rest of the decade was the fact that some of the larger companies, but particularly the Cape-based Sanlam and Rembrandt groups, had so extended their base of accumulation in industry (and to a lesser extent, mining) *that they were now in effect independent of agricultural capital.*

Subsequently, the *volkskapitalisme* of a few years ago increasingly made way for well-established, large scale Afrikaner commercial undertakings in order to position Afrikaner capital more firmly in the face of large scale English interests. However, given the limited number of Afrikaans big businesses, this process tended to exacerbate the centralisation of capital. As O'Meara (1983:18–19) has noted, "Large-scale Afrikaner commercial undertakings could now only be established on the initiative of, and under the supervision and control of, the investment companies dominated by Sanlam". By the 1950's Sanlam was able to extend its interests. Through its investment arm, Federale Volksbeleggings, it had interests in fishing and canning (Laiplek Visserye and Marine Production Corporation), agricultural implements (SA Farm Implements Manufacturers), chemicals and pharmaceuticals (Agricultural Laboratory and Klipfontein Organic Products), coal mining (Klipfontein and Klippoortjie mines) as well as publishing through Nasionale Pers (Fine & Rustomjee, 1996:152). As a mutual society, Sanlam was legally restricted in the extent to which it could deploy the revenue derived from life

assurance in production (it demutualised in early 1999 as South African capital was able to become more “internationalise” and “unbundle”, see chapter 7). In order to overcome these constraints, the bonuses accruing to policy holders were separated and Sanlam used its newly created Bonuskor (1946) as an additional investment arm. By 1950 Bonuskor had invested most of its funds in manufacturing (57 percent), mining (4 percent), commerce (21 percent) and finance (18 percent). In 1953, Federale Volksbeleggings and Bonuskor merged their mining interests into Federale Mynbou, the forerunner of today's Gencor. By 1957, 23 percent of Bonuskor's investments were in mining (Fine & Rustomjee, 1996:152).

Banking until the 1960's, was dominated by the largely English, Barclays and Standard Banks. The emergence of the National Finance Corporation (NFC) and private merchant banks, the commercial banks Volkskas, Nedbank, Trustbank as well as building societies and life assurers, rapidly eroded their dominance. Volkskas, much like Bank Bumiputera for example, was founded in 1934 as a 'people's savings bank'. It grew considerably in relation to other banks with deposits increasing from 2,8 percent in 1947 to 18,6 percent by 1967. Most of these deposits came in the wake of the NP election of 1948 which resulted in the transfer of banking accounts of central government departments to Volkskas as well as state corporations and municipalities like SA Railways, ISCOR, ESCOM, SA Post Office and Sasol (Fine & Rustomjee, 1996:152). Parallel to the Malay experience, *not* all Afrikaners enjoyed these benefits *equally*. Though some Afrikaner entrepreneurs became quite wealthy, the vast bulk of farmers and workers whose savings contributed so much to the success of *volkskapitalisme*, did not share equally in the success of the upward economic movement (O'Meara, 1999:12).

Consolidating the Afrikaner State/English Capitalist Alliance

The South African economy, which had, by the 1960's recorded some of the most impressive rates of growth globally largely because of such cheap labour, faced the first of what Robert Price (1991) has identified as a series of interrelated, profound political crises in the 1960s, 1970s and 1980s. The Sharpeville massacre on March 28, 1960 ensured that

International capital, which had played a considerable part in South Africa's economic development since the discovery of diamonds in 1867, took flight. The years 1960 to 1964 witnessed a huge capital outflow [\$576 million], creating a balance-of-payments crisis more severe than any experienced since the depths of the Great Depression in 1932 (Price, 1991:21).

In the wake of such capital flight, Sharpeville largely eroded the historic disjuncture between English and Afrikaner capital. Indeed, despite the relative backwardness of both the South African state and its industry in relation to the advanced industrial world, South Africa exhibited a degree of symbiosis between the state and big business much earlier than in many other industrial states.

In contrast, although the Malaysian tendency to not engage Chinese capital, began to be gradually reversed since the late-1980s, it is very likely that the consequences of the 1997-98 Asian crisis may well consolidate this shift to make it irreversible.

Three factors account for this early maturation of the state-capital relationship in post-war South Africa. Firstly, capital was extraordinarily concentrated around the mining industry and the gold industry in particular. Secondly, political power was unusually concentrated in the hands of the Afrikaner minority which was at least initially relatively impermeable to direct infiltration by capital. And finally, the working class was highly divided: not only in terms of race, but also urban-rural divides and levels of skill (Yudelman, 1983:7). In short, “unlike the early situations of the advanced industrial states, *neither the state nor capital could effectively dominate the other in South Africa. It also meant that neither peasants nor proletarians presented a serious threat to the state and capital, provided the latter two elements collaborated*” (Yudelman, 1983:7). Whereas the Malay state bought out foreign interests in the late 1970s and early 1980s, the departure of foreign capital after Sharpeville (and again during the crises of the 1970s and 1980s) brought the state and South African capital closer together. However, as Fine & Rustomjee (1996:161) suggest, the alliance has been insufficient to activate significant industrial diversification beyond what they call, the Mineral–Energy–Complex (MEC), which continued to dominate the pattern of industrial development²⁹.

Nonetheless, the share of Afrikaner ownership of the mining sector, increased significantly during the 1960's. Not unlike affirmative state tenders in Malaysia (chapter 3) and South Africa today (chapter 7), much of this was spurred by the coal contracts coming from the state electricity giant, Escom. Of the five electricity stations commissioned in the 1960's, four coal contracts were allocated to Sanlam's Federale Mynbou, and by 1962 the latter was the second largest coal company in the country after AAC (Anglo American Corporation). Especially for AAC, the retreat and sanctioning of foreign capital, allowed it to buy into existing concerns and, flush with funds and cash from the Orange Free State goldfields, it launched a continuing pattern of national and international acquisitions. In 1958 for example, it took control of Central Mining, placing it under control of the London–based subsidiary, Charter Consolidated. And in 1962, Charter in turn took control of the Hudson Bay Mining and Smelting Company in Canada.

In the meantime, Anglo American blocked the bid by Federale Mynbou for control of JCI, taking over JCI itself (Fine & Rustomjee, 1996:161). Penetration by Afrikaner interests in this sphere of AAC influence could not be allowed. JCI had substantial holdings in De Beers and the Diamond Producers Association and secondly,

²⁹ In terms of this argument, the South African economy is, contrary to popular belief, not becoming less, but more dependent on the Minerals-Energy Complex which includes the mining and energy sectors and a number of associated sub-sectors of manufacturing (Fine & Rustomjee, 1996:71).

JCI controlled Rustenburg, the world's largest platinum mine with substantial copper mining interests (Fine & Rustomjee, 1996:161). When Federale Mynbou wished to acquire Genmin with assets in gold and uranium mining, Anglo American consciously accommodated and assisted Afrikaner capital, just as the latter would similarly assist African capital in the 1990s (chapter 7). As O'Meara (1996:120) indicated, "...Harry Oppenheimer decided that the time had come to open the doors of the business establishment to Afrikaner undertakings still largely confined to working in an ethnic and linguistic ghetto. Oppenheimer also clearly hoped that this would help shore up a moderating tendency in Afrikaner nationalism". The move was seen as a breakthrough in closer business cooperation between Afrikaner and English capital. In 1976, Genmin acquired control of Union Mining, at that time the third largest mining financial house with assets worth R750 m (at 1979 prices). Giliomee (1979:172) reported that, according to a Broederbond report, with Federale Mynbou's takeover of Union Corporation, 30 percent of gold mines were under Afrikaner control³⁰.

Yet Afrikaners' emergence as the *nouveau riche* was not accepted within Afrikanerdom without dissent, just as the political motives of 'buppies' in the 1990s would also be questioned³¹. As O'Meara (1983:251) argues

During the 1950's, and particularly the 1960's, the Nationalist party and all other Afrikaner nationalist organisations experienced growing struggles between the various class forces in the nationalist alliance. Initially this took the form of regionalism. Attacks on the *geldmag* (financial power) of the Cape – on Sanlam and Rembrandt – gathered force in the 1950's. By the time of Sharpeville, these divisions were explicit. Throughout the early 1960's, under the Premiership of Verwoerd, the Cape party, its organ *Die Burger*, and the Sanlam interests were virtually an official opposition within the NP. With the assassination of Verwoerd in September 1966, this conflict burst into open struggles between the so-called *verligtes* (the enlightened) and the *verkrampes* (the reactionaries). In 1969, the leading *verkrampes* were expelled from the NP, and later, the Bond. Led by Albert Hertzog, they formed the Herstigte (reconstituted) Nationalist Party, based on the 'pure Afrikaner principles' of the old *gesuiwerde* [purified] party.

Not unlike the 1987 split within Malaysia's UMNO (see the next chapter), the real issue driving the *verkrampete/verligte* split was a struggle between those who wanted to preserve the alliance of 1948 as it was, dominated by farmer and petty bourgeois interests, and those who wanted to adapt Afrikaner nationalism to the changing

³⁰ Giliomee (1979:172) adds, "This study estimates that Afrikaner controlled companies now crush 24 percent of the country's gold bearing ore. In addition, more than 30 percent of the uranium, 40 percent of the platinum, 35 percent of the coal, 50 percent of the asbestos and 40 percent of the chrome interests in South Africa are now under Afrikaner control. If Iscor, S.A. Manganese, Armscor, and Sasol are considered as Afrikaner concerns, the overwhelming share of all manganese and iron mines fall under Afrikaner control".

³¹ The term 'buppies' emerged in the late 1990s to denote the growth of the "black and upwardly mobile professionals".

socio-economic conditions of the *volk* (O'Meara 1983:251). The *verligtes* represented, the self-confident Afrikaner capitalists whose concerns now increasingly stretched beyond the confines of ethnic interests. As amongst Malay nationalists by the 1980s, the demographic profile of the rank-and-file party faithful was no longer dominated by the state supported farmers and teachers. For by the 1970's, with Afrikaner and English capital more integrated, the NP began increasingly to adopt an outward orientation and to invest off-shore. This also coincided with the establishment of the South Africa Foundation, the arm of private diplomacy founded by South African business on the initiative of Rupert and English business as a form of damage control in the wake of Sharpeville and the increasingly bad overseas publicity South African would attract. As O'Meara (1983:254) has written,

[B]y the 1970's, the wheel had turned full circle. The 'anti-capitalists' of the 1940's *reddingsdaad* movement had become the Afrikaner 'Hoggenheimers' of today.

As in Malaysia, through government employment, the creation of state economic enterprises, preferential employment, the expansion of higher education and language policy and the promotion of ethnic capitalists, Afrikaner Nationalists successfully pursued, consistent with Esman's requirements, ethnic redistribution with growth. Indeed, "few other modern states have attempted such elaborate or systematic interventions as those undertaken in South Africa" (Lipton & Simpkins, 1993:4).

As in the late 1990s, corporatism became instrumental in consolidating a state-capital understanding or alliance. But whereas the early globalization of the South African economy was facilitated by 'embedding' white workers into a kind of ethnic Keynesian state, the costs of doing so were passed to the majority of disenfranchised and subjugated African workers and given institutional expression through the intricate apparatus of the apartheid state.

Crises and Contradictions of the Apartheid State

Ethnic Redistribution with Growth, regardless of whether it is pursued by Afrikaner or Malay nationalists, is only sustainable as long as national economic growth continues. Domestic economic decline and political instability, compounded by changes in the nature of the IPE, increases the degree of disjuncture between the national and international economy. As these tensions exacerbate divisions amongst the ruling elite, a frequent response is to reassert political control by authoritarian means (a pattern which has been repeated in Malaysia both in the late 1980s and late 1990s, see the next chapter).

In South Africa, the huge capital outflow following Sharpeville between 1960 and 1964 created a balance-of-payments crisis which was more severe than any experienced since the Great Depression of the 1930s. Not since the discovery of diamonds in 1867, had such outflows of international capital occurred (Price, 1991:21). However, with the

'golden age of apartheid' from 1964 to 1972, the economy grew by an average of six to eight percent per annum (the equivalent of the Malaysian boom until the Asian crisis in 1997). And, just as this economic upturn was precipitated by a more authoritarian assertion of political control in Malaysia in the late 1980s, in South Africa, draconian measures after Sharpeville (including the banning of the ANC, the Pan-Africanist Congress as well as the Communist Party), also meant that labour docility and political stability returned. Between 1964 and 1969 fewer than 2000 African workers were involved in labour stoppages in any single year (O'Meara, 1996:173). With investor fears contained by the crackdown, foreign capital poured back into the country, namely R3 559 million between 1965 and 1974. Indeed,

By 1970, total foreign investment was estimated at R 5 818 million, rising to R6 694 million in 1974. The average rate of return on capital invested in apartheid South Africa after 1964 was amongst the highest, if not the highest, anywhere. As late as 1974, 'the average American corporation received an 18 percent return on its South African investment, as compared with a return of only 8 percent in Britain' (O'Meara, 1996:174).

Although this period saw the first large-scale collaboration between English and Afrikaner conglomerates as well as the dissolution of political antagonism between local and foreign capital, the boom also caused more capital-intensive production to become dominant. However, with the introduction of ever more sophisticated technologies, unemployment increased, especially amongst the unskilled African workers: from 582 000 in 1962 to 750 000 in 1966 and reaching the one million mark at the height of the boom in 1970 (O'Meara, 1996:174-5). Over time and with the advent of post-Fordist modes of production, it would become apparent that the debilitating consequences of apartheid, would effectively prevent the South African economy from continuing to grow at the same rate as during the 1960s.

In 1975 and 1976 the sluggishness of the economy had been transformed into a recession following the worldwide economic downturn of the first OPEC crisis. Since 1974, the annual growth rate had averaged less than 2 percent per annum, whilst real per capita income declined by 15 per cent. Between 1976 and 1985 formal job opportunities grew by less than 600 000 in contrast to a growth rate of nearly three million in the labour force (Terreblanche & Nattrass, 1990:16).

Whilst the recession heightened the rate of unemployment especially amongst the unskilled, the South African economy was hit by unusually high rates of inflation. During most of the 1960's, the consumer price index increased by less than 4 percent per annum. In contrast, the rate of inflation increased from 1969 to 1976 to average 9,1 percent. Between 1971 and 1973, these trends raised the cost of essential commodities for black urban families by 40 percent (Price, 1991: 54). Foreign direct investment, which amounted to over \$6 billion between 1974 and 1976, slowed to a trickle. In addition, in the aftermath of the Soweto riots, long term capital flows from international lending were

rapidly drying up. By 1977, South Africa was only able to raise \$33,2 million on the international bond and Eurocurrency markets, an amount equal to 3 percent of the 1976 total and with a deminished credit rating, at a much higher price (Price, 1991:65).

Feeding into one another, these crises rapidly pushed the South African economy into a spiral of decline: as investments and capital were withdrawn, unemployment and subsequent political instability increased, whilst growing international isolation meant that access to capital and technology was blocked. These problems, and joblessness in particular, generated new pressures for democratic participation, fuelling political unrest such as the Soweto uprisings of 1976, which Price (1991) has identified as South Africa's second crisis.

As these unfavourable conditions continued, they fed into an interconnected vicious circle in which conditions continuously deteriorated, culminating in the third and most severe of Price's (1991) trilogy of crises. South Africa was to be made 'ungovernable' in an all out insurrection from 1984 to 1986 and again during 1987 to 1989. Following the Soweto upheaval, the state pinned its hopes on a strategy of reform and repression in the expectation that collaboration and acquiescence would follow. Black living conditions were ameliorated by improving facilities, housing and education, whilst cracking down on radical activists at the same time. Pretoria's reformist intentions raised expectations, but its ability to deliver on these was heavily constrained by the kind of political and strategic contradictions apartheid increasingly imposed (Price, 1991:186).

Quite the opposite of post-apartheid South Africa's economic problems, rising oil and falling gold prices exacerbated recessionary conditions, whilst economic stagnation became more pronounced and prolonged due to Pretoria's difficulty in gaining access to foreign markets for capital goods, technology and the export of manufactured goods. The result was a fiscal crisis in which the state found itself without the necessary resources to pay for reform. Black alienation, coinciding with the steady growth of trade union activism, enhanced the conditions for popular mobilisation and the wide-scale formation of grass-roots movements (Price, 1991:186). The insurrection of 1984-86 also caused the global financial markets to devalue the rand's dollar value by over 50 percent – reflecting a severe loss of confidence. Between 1984-1987 the South African economy lost over \$4 billion in loan repayments without recourse to counterbalancing new lending. Capital loss from all sources over the same period amounted to R25,5 billion or about \$10 billion at 1989 exchange rates (Price, 1991:230). As Price (1991:231-2) notes

From 1982-1987 average annual growth in GDP was only 1 percent, considerably below the population growth rate of about 2,5 percent per annum. In three of these six years the economy actually shrunk, declining by more than 2 percent in 1985 alone. Given the rate of population increase, the impact of stagnant aggregate GDP on personal incomes was dramatic. Per capita income slid downward after 1981, declining by 8,3 percent in real terms by the end of 1987.

These crises would ultimately lead the NP towards a fundamental reevaluation of apartheid policy and enhance the attraction of a negotiated settlement out of the political quagmire. For all the NP's huge and ambitious attempts at continued social engineering during the 1980's - i.e. the tricameral constitutional dispensation of 1983; the proliferation of institutions of government with their attendant bureaucracies; an ever expanding security and military machinery, extending way beyond South Africa's borders; as well as ambitious and expensive programmes of socioeconomic development efforts - the state still lacked political legitimacy.

How the crises of the 1960s, 1970s and 1980s drained resources is clearly evident considering South Africa's escalating public debt. In 1982 this stood at 28,8 per cent of Gross Domestic Product. By 1989 it had soared to 32,6 per cent (Lipton & Simpkins, 1993:11). However, although the capacity of the state to control outcomes declined, it coincided with the ascendancy of neo-liberal orthodoxy in the 1980s. Accordingly, much like Malaysia's pragmatic selection of liberalisations

There was continued retreat from the socioeconomic aspects of apartheid, but political apartheid and authoritarianism continued. Thus, the state began to withdraw from some of its 'racial ordering' activities, for example, by reducing controls over the mobility of labour and capital. The NP presented this process as part of a shift towards a 'free market' economy, requiring the 'rolling back of the state sector'. *This fitted with the free market ideology that was being championed by Western conservatives such as Reagan and Thatcher.* It helped to fill the ideological gap left by the erosion of apartheid - increasingly discredited amongst the NP's own constituency - and was viewed by some of the NP intelligentsia as a possible alternative basis for political legitimacy. *This shift towards a 'free market' ideology was connected with growing class cleavages within the white oligarchy and with the breakaway from the NP by the ultra-right Conservative Party in 1982* (Lipton & Simpkins, 1993:9-10, emphasis added).

Gradually, as the NP became more reformist and the bankruptcy of apartheid was confirmed, neo-liberalism increasingly came to be seen as the final means through which the NP could curtail the policy freedom of the new incumbents. Consequently, the NP became a vehement proponent of policy measures characteristic of Cerny's competition state: The need to impose constraints on the state; the privatisation of state sector industries; and lower levels of state expenditure. Hence, as I discuss in chapter 6, the ANC inherited an economy which had not only become crippled by apartheid, but was also part of a global economy which was increasingly driven by post-Fordist and not the Fordist modes of production which characterised the early periods of Malay and Afrikaner Nationalism.

Conclusion

The transformation of (white) Afrikaners as a predominantly rural society, ill-equipped for the challenges of a modern economy, into a predominantly bourgeois class, remains one of the most successful attempts at ERWG. Not unlike Malay Nationalists, it coincided with the

interface between Keynesianism and Fordism, affording state elites with the necessary means, as identified by Esman, to shape developmental policy through rapid and massive state intervention. In the case of the apartheid state however, an integral part of the pursuit of ERWG was its explicitly racist characteristics.

Also in contrast to the Malay and African experience (see chapter 7), Afrikaners' access to agricultural land, provided the necessary base for capitalist accumulation from which the populist *reddingsdaad* movement owed much for its success. Although Afrikaner-Nationalist control of the state meant massive direct and indirect favouritism especially after 1948, a number of initiatives to advance Afrikaner capital well preceded political hegemony. Moreover, when white workers threatened to upstage the long standing alliance between the state and capital, the Pact government, elected in 1924 after the crushing defeat of the 1922 Rand Revolt, effectively incorporated white labour into a kind of ethnic Keynesian state. African workers in particular, bore the costs of this process of incorporation, a process sustained by the labyrinth of apartheid's social, political and economic restrictions.

Although Afrikaner-Nationalists, much like their Malay counterparts, sought to mask intra-ethnic class divergence as their economies became more internationally integrated, differences within the ruling clique amongst those in favour of greater 'internationalisation' and those against, could not be avoided as both the *verlig/verkramp* divide amongst the Afrikaner elite and the 1987 UMNO split suggest (see the next chapter). Nonetheless, in South Africa local capital increasingly filled the void left by the gradual departure of foreign capital, thus further consolidating the "alliance" between the Afrikaner state and English capital. This alliance would become so formidable that the NP of the 1980s - for all its origins as the political bulwark especially against English capital - mirrored the same laissez-faire, pro-competition state interests it initially sought to oppose! For both states attempting to pursue ERWG however, the 1980s therefore found them gradually abandoning this objective and, as the next chapter illustrates, Malaysia also increasingly shifted back to growth, rather than redistribution.

II

DIVERGENCE

CHALLENGING TIMES: “BUPPIES” & BUMIPUTERAS IN THE POST-FORDIST/COMPETITIVE ERA

Part 2 emphasizes the extent to which the pursuit of ERWG was no longer compatible with a fundamentally changing IPE in which post-Fordism coincided with the demise of the national-welfare state and the transformation of Malaysia and South Africa towards competition states. Corporatism and patronage have become the necessary intermediation processes to manage these transitions.

Chapter 5 suggests that rentierist patron-client linkages have been critical in the Malaysian case. Patron-client linkages proved to be quite capable of sustaining regime stability as long as high rates of growth were maintained. However, when disjunctures between the Malaysian and global economy set-in, tensions between competing patron-client factions increased and coincided with a tendency to reassert political control through populist-authoritarian means as the 1980s and 1990s crises reveal.

Chapter 6 illustrates how South Africa has had to adapt to the demands of the competition state model far more rapidly and how local capital, the international financial institutions as well as the lack of progressive policy-making capacity within the ANC alliance, prompted the emergence of a “self-policed competitiveness”. Chapter 7 demonstrates how the ‘new’ South African state attempts to advance an African middle class through the private sector, by extending both micro and macro corporatism as an intermediation process in the form of black economic empowerment.

5

Back to Growth: Patronage and Paradox of the Malaysian Competition State

The success of the developmental state in modernizing the economy led, in most cases, to the emergence of a civil society reasserting itself against the authoritarian state. When social change and democracy fought their way through the political institutions, the margin of manoeuvre for the developmental state was reduced, so that it became increasingly unable to ensure, at the same time, the management of global competition and the rulers' personal prosperity. No one seemed to understand better the connection between preserving this dual autonomy and the survival of the developmental state than Malaysia's national leader, Mahathir Mohamad

- Castells (1998:326)

When the massive degree of state intervention sanctioned by the NEP was no longer compatible with the neo-liberal orthodoxy of the 1980s and 1990s, how did state elites negotiate Malaysia's gradual transformation towards the competition state? In this chapter, I contend that unlike societal corporatism in South Africa, patron-client rentierism became the critical intermediation process facilitating Malaysia's transformation towards a competition state. However, given that state legitimacy remains extraordinarily dependent upon sustained rates of growth, the use of patron-client rentierism as an intermediation process is limited, for as the spoils of patrimony decline, an immediate legitimacy crisis is instigated. This is not only reflected within society as a whole, but particularly amongst the ruling clique, prompting the state to reassert control through authoritarian means.

To illustrate how this pattern recurred in the Malaysian political economy in both the 1980s and 1990s, this chapter is structured as follows. After highlighting the effects of the mid-1980s recession, the significance of privatization as a form of patronage to overcome the twin pressures for liberalisation externally, and redistribution internally, is demonstrated. The demise of the bureaucratic class accelerated the privatization programme, whilst the reassertion of authoritarian control ensured that any additional resistance was thwarted. Having consolidated his power, Mahathir was able to embark on further liberalisations of the economy, which ensured that Malaysia enjoyed impressive rates of growth well into the 1990s.

The following section suggests that although the NEP significantly reduced relative poverty, it also exacerbated inequality. When the NEP target period came to an end in 1990, the state had to control expectations and debate about about post-NEP policy and established the National Economic Consultative Council (NECC) which served little else than corporatist pretensions. Instead, the rather unilateral announcement of the National Developmental Policy (NDP) and Vision 2020, became Malaysia's competition state

blueprints.

Finally the remainder of the chapter analyses the effects of the 1997 Asian crisis (including the Anwar debacle) and indicates the remarkable degree to which Mahathir sought to manage the crisis much like he did in the late 1980s.

Post-Plaza Recession and Economic Decline

With world trade stagnating following the tightening of liquidity by US Treasurer Paul Volcker in 1979, the Malaysian government initially adopted counter cyclical policies. On the expectation that revenues from petroleum would continue to increase¹, government increased borrowings and expanded public investment, nearly doubling its share of GNP from 14,3 percent in 1976-80 to more than 27 percent in 1981 and again in 1982 (Crouch, 1997: 228). However, most borrowings were foreign loans and with declining oil prices, Malaysia's foreign debt doubled from US \$ 11 billion to more than \$ 25 billion (Gomez 1996:142). With oil revenues being the equivalent of South Africa's dependence on gold and diamonds, Malaysia, like South Africa (see chapter 4), also found itself heavily indebted in the early 1980s. Declining revenues and increasing expenditures (up to 58 percent of GNP in 1982) caused the federal deficit to grow to over five times its 1975 level reaching 19 percent of GNP, "one of the highest such percentages in the world at the time" (Bowie, 1991:135). With falling oil prices between 1982 and 1986, the collapse of the tin market in 1985, as well as declining prices for Malaysia's other major exports, rubber, cocoa and palm oil (after 1984), the Malaysian economy registered a minus one percent growth rate in 1985. Apart from growing protectionism in the West, Malaysia continued to experience declining terms of trade - as much as 17 percent - between 1981 and 1982, putting the current account deficit under serious pressure. Not unlike South Africa during the mid-1980s, private investment continued to decline since the mid-1970s, capital flight increased, and unemployment steadily rose (Gomez & Jomo, 1997:77).

By April 1982 government rapidly abandoned its counter-cyclical efforts and embarked on a major austerity drive. For the first time since independence, growth had halted and the economy contracted. In an attempt to diversify the country's industrial sector and compensate for the lack of private investment, Mahathir persisted with the launch of his pet heavy industry projects. Such import-substituting heavy industrialisation inevitably required an enormous degree of state intervention, not only because of the reluctance of private capitalists to undertake the massive risks involved, but also due to the NEP-inspired tradition of ethnically 'by-passing' Chinese Malaysians in such projects in favour of

¹ As Jesudason (1989:120-1) has noted, "[T]he enormous increase in export earnings from 1975 to 1980 led planners to forecast in 1981 that export earnings would be \$63,1 billion in 1985; the actual figure was merely \$37,6 billion, and has not increased much since. That enormous optimism probably gave ministers and bureaucrats the confidence to carry out one of the largest deficit-spending binges in the world (averaging 16,3 percent of GNP between 1981 and 1985) in pursuit of their economic projects and dismissing the early signs of recession as only temporary".

foreign investors (Gomez & Jomo, 1997:78). HICOM was set-up to pursue the industrialization drive in collaboration with foreign, mostly Japanese companies and was financed with Japanese loans underwritten by government guarantees (Jomo 1995:4). Due to state involvement in these heavy industries, average annual government investment in commerce and industry leapt from RM 0,3 billion in 1978-80 to RM 0,9 billion in 1982 and RM 1,5 billion in 1984 (Gomez & Jomo, 1997:78).

In 1984 and 1985 the economic climate seemed to be moderating and the first of the HICOM projects began to bear fruit. However, in 1986 Malaysia was hit by a second and even more debilitating commodities slump. All this coincided with a marked tendency to turn to foreign loans as a means to spend Malaysia out of its recession from 1980 onwards. As Gomez & Jomo (1997:78) note

Malaysia's accumulated public sector foreign debt grew from RM4,9 billion in 1980 to RM 28,5 billion in 1987. Including loans from domestic agencies, total public sector borrowings increased from 26,5 billion in 1980 to RM 100,6 billion in 1986. In 1983 a massive two-thirds of total government debt expenditure on public enterprises was attributed to only 27 of over 1000 public enterprises. By 1987 public enterprises accounted for more than a third of the public sector's outstanding debt and more than 30 percent of total debt servicing.

In addition, nearly all HICOM projects reported heavy operating losses². These and other big public enterprises were major contributors to Malaysia's huge foreign debt, accounting for one-third of the public sector's outstanding debt and for more than 30 percent of total debt servicing (Gomez 1996:142).

To seriously exacerbate these levels of foreign debt, the major industrial economies agreed in the Plaza Accord of September 1985 to a significant international currency realignment, with the yen appreciating rapidly against the US dollar. The Malaysian ringgit - which has since independence been increasingly tied to the US dollar, following the sterling devaluation of 1967 - was devalued. Malaysia's yen-denominated foreign borrowings virtually doubled as a result and pushed the country deeper into debt (Jomo, 1995:5).

Given the degree to which Malaysia had become increasingly integrated into the world economy, as it moved-up the production ladder of value added, and was therefore increasingly exposed to market volatility, Kuala Lumpur became highly vulnerable to increasing pressure to respond to the policy initiatives advocated by the Bretton Woods

² HICOM's 1987 financial report noted after-tax losses of US \$47,3 million, from its auto-making division (Proton) to the steel subsidiary (Perwaja Trengganu) and the cement operation (Kedah Cement) resulting in operating losses of over 70 percent (Bowie, 1991:136).

institutions³.

In reaction to these conditions, Mahathir moved swiftly to reinvigorate the economy through a process of liberalisation and privatisation in order to woo foreign investment. Because relatively high commodity prices on their own were insufficient to boost growth, as well as the fact that Chinese capital had not only been sidelined, but would need years to upgrade its capabilities due to its historic exclusion from any Malay state-Chinese capitalist alliance, the only alternative available to the Malaysian elite was to regenerate economic growth by luring international capital and multinational investment. Consistent with transformationalist accounts of globalization, the Malaysian state thus both became a vehicle of globalization and was reconstituted by it.

Failure to attract international capital entailed tremendous political consequences. For as the economy failed to develop and provide the means for a redistribution of resources, divisions within the ruling order - which is sustained by a vast patronage network - become all the more patent. With disparate socioeconomic groups no longer connected to this network, UMNO leaders faced increasing dissent as unmet expectations weakened the political centre and the prospects for ethnic polarisation heightened (Jesudason, 1989:189-190). The pattern of dissent within the ruling clique, following liberalisation initiatives, would unfold in Malaysia in the late 1990s much like it did in the late 1980s. In this sense, the Malaysian instance parallels the split within ruling Afrikanerdom in the late 1960s as well as in 1982 (see chapter 4).

In order to enhance Malaysia's investor appeal, in an interview in 1986, Mahathir made the provocative announcement, that the NEP would "be held in abeyance, more or less, except where there is growth". In order to minimize the impact of this statement, it was announced over Australian radio with coverage in Malaysia limited to the Chinese and English language press, rather than the Malay media (Stafford, 1997:567). The ICA's capacity controls on firms and its equity rules for foreign participation were also relaxed, the Investments Promotion Act of 1986 provided generous tax holidays and pioneer status for investors for periods of up to five years in manufacturing, agriculture and tourism. However, these reforms were directed at, and continued to favour foreign investors, for fear that too liberal a hand to the Chinese might be perceived as an abandonment of the NEP (Gomez & Jomo, 1997:79; Jesudason, 1989:187).

Privatisation, contended Mahathir, would promote competition, improve efficiency, stimulate private entrepreneurship and encourage investment and ultimately reduce the size

³ Political motivations explain the reluctance of the ruling elite to acknowledge the costs of such massive state expenditure. Only in late 1983 for example, did Datuk Musa Hitam, then Deputy Prime Minister, argue that government had become too burdened by the massive budget deficit and that it could not even hope to achieve the 30 per cent ownership target of the NEP by 1990. Tengku Razaleigh argued the contrary up to 1985 and only by 1986, did Mahathir finally disclose that "[T]he government will slow the redistribution of wealth whether we like it or not, now that there is no growth at all" (Jesudason, 1989:122).

and presence of the public sector in the economy⁴. Significantly, it was only after 1984 that the privatisation programme reached full force, partly due to the severity of the recession and partly due to the appointment of business tycoon, Daim Zanuddin as Finance Minister. An old friend of Mahathir, Daim's appointment to the powerful Finance Ministry is all the more notable considering that he had no political appointment from either the party or the *rikyat* (the people). In addition, he headed an extensive corporate profile and, as king of corporate Malaysia, was insulated from the kind of patron-client pressures which would hamper his ability to weed out costly, non-performing enterprises (Jomo, 1995:5).

Because privatization ran against the long-standing policy of redistribution to address ethnic imbalances, it was as controversial in Malaysia in the mid-1980s as it would be in South Africa during the early 1990s (see chapter 6). In order to prevent the old redistribution versus growth debate from reappearing, Mahathir's notion of "Malaysia Incorporated" acquired added significance. The aim was to

help 'the bureaucracy and the business community to change their attitudes toward each other'. The bureaucracy had to 'ensure that no undue hindrance is put in the way of the private sector; in turn, the private sector must understand national policies, objectives and procedures in order to facilitate their dealings with the Government'.

This was indeed the language of the competition state⁵, but essentially served political objectives reflecting the delicate shift of power within Malaysia's largely Malay bureaucratic/business/political complex (Leigh, 1992). Although the business elite had become ascendant under Mahathir, the bureaucratic elite retained considerable influence within that ruling order. The bureaucrats favoured the continuation of the NEP-state sanctioned preference for redistribution. In contrast, the business elite - who now also stood to gain most from privatization - had a vested interest in Malaysia becoming more of a player in the world economy - and therefore put a higher priority on the growth imperative.

⁴ The Malaysian definition of "privatization" requires some clarification. Generally privatization is known to "include only cases of the sale of 100 percent or at least a majority share of a public enterprise, or its assets, to private shareholders...the complete transfer of ownership and control of a government enterprise or asset to the private sector". In Malaysia however, privatization "is often understood to include cases where less than half of the assets or shares of public enterprises are sold to private shareholders, with the government retaining control through majority ownership" (Jomo, 1995:43). In terms of form, "privatization in Malaysia is so broad that it includes cases where private enterprises are awarded licences to participate in activities previously the exclusive preserve of the public sector" such as television broadcasting from 1984 (Jomo, 1994:45). In total, it therefore includes, "the sale or divestment of state concerns; the sale of a portion of the shares of a state-owned public company; the sale or lease of state-owned physical assets; the private financing of public works projects of various kinds of 'build-and operate' arrangements; the contracting out of selected public services to private firms; and the introduction of competition into areas of state monopoly" (Khoo, 1995:132).

⁵ Although the Prime Minister acknowledged that, '[A] sovereign state... cannot be a business company', it can be run like a corporation with the private sector form[ing] the commercial and economic arm of the national enterprise" (Khoo, 1995:132).

In an attempt to lay the issue to rest, Mahathir confirmed that, “NEP is based on growth...[O]bviously if there is no growth there will be nothing to distribute” (Khoo, 1995:140). This divide clearly parallels the famous *verlig/verkramp* (enlightened/reactionary) divide within Afrikaner capital during the 1970’s and attempts by the former to ‘internationalise’ Afrikaner capital (see the previous chapter).

Mediating the External/Internal Divide

Given the limited prospects for privatisation to stimulate growth as noted above, a more circumspect analysis is required to reveal the political motivations behind the overlapping privatisation, deregulation and liberalisation processes. By the mid-1980s, Malaysian leaders faced a double whammy: the NEP and the massive degree of state intervention it sanctioned, was clearly no longer commensurate with the nature of the world economy within which Malaysia found itself. Yet, failure to sustain the redistribution process through which vast patron-client relations are fed, risked internal political collapse. At the same time, however, the expansion of state intervention has spurred an unaffordable budget deficit, which failed to attract the necessary foreign capital upon which Malaysia’s political/bureaucratic/business clientelist complex depends. In the early 1980s, the apartheid leadership faced a similar dilemma, prompting its sudden embrace of neo-liberal principles in order to comply with prevailing economic orthodoxy *whilst* curtailing the policy freedom of the new incumbents by activating South Africa’s gradual transformation towards a competition state (see chapter 4). Caught between a rock and a hard place, Mahathir similarly succeeded masterfully in playing to two different constituencies (domestic and international) in order to make these seemingly incompatible goals viable.

In order to weather internal pressures against liberalisation, the Privatisation Master Plan of 1991 required most privatisations to reserve at least 30 percent Bumiputera participation, consistent with the NEP’s accentuation of interethnic wealth redistribution. Kuala Lumpur also argued that privatisation was crucial in order to enable it to spend more on poverty alleviation although Gomez & Jomo (1997:87) report that no such evidence was produced. However, the 30 percent requirement provided an ideal loophole for political leaders and politically-connected businessmen to gain access to corporate assets (Gomez, 1996: 146). To quote Gomez & Jomo (1997:91):

Extensive political nepotism and patronage have grown with privatisation in the absence of an independent, accountable monitoring body to ensure proper implementation of the policy. The possibilities for massive gains have therefore been high. For example, the policy’s commitment to achieving the NEP objectives as well as the ‘first-come, first serve’ policy provided opportunities for political leaders and politically connected businessmen to gain tremendous advantage. In fact, since privatisation in Malaysia most cases has not even involved the formality of an open tender or auction system, many beneficiaries have been chosen solely on the basis of their political and personal connections.

In reality, privatisation has only meant a reduced share of government ownership, leaving

the state with the 'golden share'⁶ that gives it veto powers over all major management decisions. Although more than 22 public enterprises were set to be privatised in 1984 and a further 37 in the early 1990s - including the restructuring of 56 others - government ownership of the economy remains extensive⁷(Gomez & Jomo 1997:90; Gomez, 1990:115).

In short, despite the ostensible 'rolled back' state of the mid-1980s, with the successful creation of a "Malay rentier-business cadre" in the 1970s, the programme of privatization did not encounter the kind of resistance which might have been expected (Jomo, 1993:25). Since this "cadre" was well positioned to take advantage of these reforms and derive disproportionately greater benefit, it allowed the state to sell off its assets to a select few, thereby retaining - if not regaining - new political clients, *whilst* conforming to neo-liberal expectations and the prospect of renewed access to international capital⁸. Though privatisation remains controversial in South Africa, opposition to it - especially from labour - has similarly been muted considerably, although rather by union investment corporations and other forms of what I describe as "micro corporatism" (see chapter 7). Given replenished capital, Malaysian foreign investment also expanded to such an extent in South Africa in particular, that Malaysia became the most important source of direct foreign investment after the United States in the mid-1990s (Padayachee & Valodia, 1997).

As far as external pressures are concerned, Malaysia's crisis-stricken embrace of privatisation was consistent with the ascendant neo-liberal acclaim for such measures, thereby alleviating demands from multilateral institutions such as the World Bank, the Asian Development Bank and the IMF not to 'crowd out' private capital. Malaysia also became one of the first countries in Asia, to voluntarily climb on the privatization bandwagon, despite the fact that unlike most other countries, it did not follow a period of failed public enterprise reform and was therefore adopted quite abruptly (Jomo, 1995:42; Jomo, 1993:23).

⁶ According to Gomez & Jomo (1997:89), "The golden share concept is a compromise mechanism between the political concerns of the government and the commercial goals of a private entity's management. The golden share ascribes certain rights and privileges to a single government-held share in privatised public enterprises. The share is held by the government, while other shares may be sold to the private sector".

⁷ In 1995, for example the government still owned 77 per cent of power-supplier Tenaga Nasional Bhd; 75 per cent of telephone service provider, Syarikat Telekom Bhd; and 75 percent of Petronas Dagangan

⁸ As Gomez & Jomo (1997:90-1) contend: "Many privatisation exercises in Malaysia do not even pretend to achieve other alleged advantages and benefits of the policy by invoking NEP restructuring considerations, which are supposedly to increase Bumiputera ownership of wealth and business opportunities. With increased Bumiputera competition, political influence and connections have become increasingly decisive. In fact, for top government decision-makers, who have the power to shape the privatisation process and select its beneficiaries, there are considerable prospects of long-term gains as well as the possibility of short-term pay-offs".

Although Mahathir would ultimately reign triumphant, his efforts to transform Malaysia into a competition state by mediating domestic and international pressures - starting with the "Look East" policy - did not mean his leadership would go unchallenged. Ironically, the shrewd use of patron-client relations to overcome the twin pressures of liberalisation internationally and state intervention domestically, would also be the lightning rod of those excluded from such patronage.

When state expenditure represents more than fifty percent of GDP, the propensity for patronage and rentier capitalism expands accordingly (Lubeck, 192:183). In combination with UMNO's overwhelming political dominance, these conditions heightened the need to build strong bases within the party in order to secure patronage. With close ties to influential politicians, connected business people are able to expand corporate holdings whilst they in turn are expected to support their patrons financially. Accordingly, the severe economic downturn of the 1980s - as in the 1990s - meant that the number of business opportunities to be distributed through these networks diminished whilst divisions within UMNO increased (Gomez & Jomo, 1997:122).

The Demise of the Bureaucratic Class

Much like the *verlig/verkramp* split amongst Afrikaner Nationalists, the party election of 24 April 1987 crystallised the emergence of two factions within UMNO. From Cabinet Ministers and Chief Ministers down to the greater Malay community⁹, supporters were either from 'Team A', lead by Mahathir as party president and Ghafar as vice-president, or 'Team B', lead by Razaleigh challenging Mahathir for the presidency and Musa Hitam opposing Ghafar as party vice-president¹⁰. Behind the divisions remained the long standing redistribution versus growth cleavage, with the bureaucracy supporting Team B in favour of redistribution as opposed to the big business and pro-growth faction lead by Mahathir (Khoo, 1995:264). Team B was ultimately defeated but only just. Mahathir scored 761 votes to the 718 of Razaleigh with a bare majority of 43 votes or 1,5 percent more¹¹.

⁹ Khoo (1995:305, n.15) notes that

"This time [the division] went down to the grass roots - to the *warung* (stall) and Malay-dominated trade union meetings in the urban areas and to the *kedai kopi* (coffee shop) and *surau* (small prayer house) in the rural areas. *Orang Musa* [Musa's man] and *orang Razaleigh* [Razaleigh's man] were not only labels but often became the "key phrases" which opened or terminated a business or any other discussion, guaranteed or denied an individual getting a contract or scholarship, and expedited or delayed an application for a job, a licence, or even the transfer of a school teacher from an *ulu* [remote] to an urban school and vice versa".

¹⁰ The UMNO Cabinet Ministers in Team A included, Abu Hassan, Anwar Ibrahim, Daim Zanuddin, Rafidah Aziz and Sanusi Junid. In Razaleigh's Team B were: Abdullah Badawi, Ajib Ahmad, Rais Yatim and Sharir Samad (Khoo, 1995:263).

¹¹ Ghafar also triumphed over Musa by 739 votes to 699, winning by 40 votes with 41 spoiled votes. Nonetheless, Razaleigh's 48,5 per cent support revealed the magnitude of dissatisfaction with Mahathir's leadership.

The 1987 split - arguably the most decisive political crisis in Malaysia's history after the 1969 riots - reflected the changing shift of power within the political/bureaucratic/business complex - and how the process of globalization was reverberating throughout the ruling establishment. The underlying disagreement was about which policy priority - growth or redistribution - constituted the most lucrative means to access opportunity for rent-seeking in economically troubling times¹².

By the late 1980s, Malaysia was no longer, as Khoo (1995:106) described the NEP state, "simultaneously an expansive provider, a determined regulator, and an aggressive entrepreneur". The erstwhile hegemony of the bureaucrats in the 1970s had receded considerably. Leigh (1992) cites various factors eroding the influence of the bureaucratic class. Firstly, the colonial tradition of military subservience to civilian control, meant that Malaysia did not have a history of military intervention in party politics. Secondly, in order to implement Tun Razak's NEP, many of the most capable civil servants were transferred from the civil service proper to the newly created statutory bodies, their positions in the state bureaucracy taken over by a group which ten years later would readily lend an ear to the newly established Malay business class which was neither beholden to their Chinese nor foreign associates.

Thirdly, many top-level bureaucrats were no longer content to remain within the civil service, but preferred to shift to the corporate world when suitable opportunities appeared. Indeed, this attitude is not only limited to high ranking bureaucrats. According to a 1995 opinion survey, an overwhelming majority of respondents no longer considered the state as the provider of the most important jobs, but rather the private sector. Working either as professionals in companies or setting-up their own enterprises was thought of as being far more prestigious. Similarly, some 60 percent of graduating university students indicated they would rather opt for a career in the private sector than the civil service. These responses constitute a significant departure from a clear trend in the 1960s to seek top-ranking jobs in the civil service (Embong, 1996:76).

Fourth, in many cases, the distinction between business and politics became increasingly blurred. Finally and most importantly, the very demographic nature of UMNO membership changed significantly from the 1960s. The political elites of the 1960s and 1970s were closely associated with the upper echelons of the civil service - the so-called 'administrocrats' - who through the NEP sought to extend Malays' political power to the economic realm. By the 1980s, UMNO's grass roots members were no longer

¹² It is not coincidental therefore that the leader of Team B, Tunku Razaleigh Hamzah, was once UMNO Treasurer and Finance Minister. He contended that Mahathir had formed a kitchen cabinet, centralising decision-making around a select group of supporters who controlled access to most government contracts and business opportunities and distributed these amongst those within the group. Not unlike Anwar's allegations that would follow in 1998, Razaleigh alleged that Daim Zanuddin as UMNO Treasurer, controlled Fleet Holdings, UMNO's corporate share-holding company, abused his position as party trustee and channelled most of UMNO's assets to holding firms controlled by his family (Gomez & Jomo, 1997:122).

overwhelmingly schoolteachers and village headmen, but business people and captains of Malaysian industry (Crouch 1996; Leigh 1992:118).

After Razaleigh's narrow defeat by Mahathir for the UMNO leadership, his faction succeeded in having UMNO declared an illegal organization, which prompted Mahathir to swiftly form UMNO Baru ('New UMNO') thereby denying membership of the new party to his rivals. Although UMNO lost control of its vast corporate assets - which were taken over by an official assignee as required by the Societies Act - it provided, at the same time, opportunities for party leaders to realign other corporate stakes. To ensure that the party dissidents of Team B had no claim to these assets, they were channelled to private business people¹³, enabling UMNO to claim by 1992 that it no longer had legal control over its assets (Gomez & Jomo, 1997:122). By successfully retaining control of the remaining corporate holdings under UMNO's wings, Razaleigh's Team B fought a losing battle in trying to retain support¹⁴. Excluded from patronage networks, erstwhile dissidents gradually flocked back to the Mahathir-led UMNO (Crouch, 1996:121).

Hegemony Contested and Authoritarian Response

With deteriorating economic conditions and the split in UMNO, however came an increasing degree of authoritarianism, as in South Africa during the mid-1980s. Much like the 1990s, the fracture within UMNO also coincided with an increasing popular challenge to governmental authority, as the 1980s split within the ruling ranks of Afrikanerdom coincided with growing popular dissent in favour of making South Africa "ungovernable".

Throughout 1987 ethnic tensions increased as Malay-Chinese confrontations, following numerous incidents over linguistic and cultural rights, accelerated. These clashes heightened with such rapidity that both Malays and Chinese, with their respective parties, organized massive public rallies and demonstrations of force in order to up-stage one another. However, before an expected 500,000 strong UMNO rally could take place - which would not only have pitted supporters of Team A and B against one another, but also Chinese against Malays - on November 1, 1987 in Kuala Lumpur's Stadium Negara - Mahathir launched "Operation Lalang" on 27 October 1987. On the first day, fifty-five arrests were made, all under the dreaded Internal Security Act (ISA), which allows for indefinite

¹³ Many of these assets are held by businesspeople who had previously held UMNO assets. Halim Saad, for example, is noted to have gained control of Renong Bhd., in which most of Fleet Holdings's main listed companies as well as UEM (United Engineers Bhd.) have been situated. Tanjudin Ramli and Samsudin Abu Hassan have obtained control of the publicly listed companies owned by Wasvavest Sdn Bhd., another UMNO controlled company; Tanjudin got control of TRI, whilst Samsudin gained management over Granite and Cold Storage (Jomo & Gomez, 1997:123).

¹⁴ In most cases, the degree of commitment to Team B was ultimately determined by the strength of a political leader's bank account. To quote Crouch (1996:121, n.17), "One dissident leader said in an interview (in December 1990), 'I was very fortunate that I did not have a large overdraft'. According to him, it only took a telephone call from the minister of finance, Daim Zainuddin, to have an outstanding bank loan called in. Others faced the threat of possible investigation for corruption".

detention without trial¹⁵. Not only opposition leaders, but Chinese educationalists, NGO activists, and intellectuals were arrested, including UMNO politicians from Team B, the political party Gerakan, the pro-Islamic PAS, even leaders from the MCA - one of the Barisan Nasional's key coalition partners. From October to December, the arrests spread geographically from Peninsular Malaysia westward as far as Sarawak. Even local environmentalists and anti-timber logging natives were detained (Khoo, 1995:285). Remarkably, virtually the exact same set of events would follow shortly before Anwar's arrest in September 1998 (see below).

His power now consolidated, Mahathir could as most *dirigiste* NIC's in the region, impose further liberalisation and deregulation measures to attract foreign investment. NEP restructuring requirements to companies worth less than M\$ 25 million and employing less than 75 full time workers were waived, if at least 50 percent of output was exported and the remainder did not compete with locally manufactured goods. Also, firms which exported 50 per cent or more of their products, or employed 350 full-time Malaysian workers could acquire whatever level of equity they applied for. The corporate tax rate was reduced by 5 percent to 35 percent in 1989 and a 5 percent development tax, previously imposed on all companies, was rescinded (Bowie, 1991:142). Finally, foreign investment committed between October 1986 and December 1990 would "not be required to restructure their equity at any time" (Khoo, 1995:140-141). Over the next ten years, Malaysian capital would rapidly become much more "internationalized".

The Good Times Return

The new measures delivered impressive returns. Within the first five months of 1989 foreign investment applications increased by 129 percent over the same period in 1988 and those for all of 1988 were 127 higher than 1987. Approved domestic investments increased from M\$ 1,874 billion in 1987 to M\$ 4,216 in 1988, with overall private sector investment rising 17,9 percent in real terms in 1988 (compared with 5,7 percent in 1987) (Bowie, 1991). From the protective NEP state of the 1970s, the 1990s Asian crises would clearly reveal the rapidity with which Malaysian capital had become much more internationalized than pre-1990 South African capital could aspire to be.

By 1988, higher international prices for all Malaysia's major commodities - rubber, palm oil, tin, timber, cocoa and petroleum - contributed to a revival of consumer spending, increasing from 2,6 percent in 1987 to 15,5 percent the following year. Indicative of the degree to which Malaysia was moving up the ladder of value added, the effect of these returns from commodities was less marked than it would have been ten years earlier. In 1978 commodity exports accounted for 61 percent of total export earnings (in contrast to 20 percent for manufacturing), but by 1988 they represented only 27 percent of the total, with 49 percent being manufactures (Bowie, 1991:143). However, the main catalyst for

¹⁵ Interestingly, when turmoil in South Africa reached its apex in the 1980s, the ISA was also used to detain thousands without trial.

Malaysia's remarkable recovery was a surge in exports from increased demand for Malaysian manufactures abroad. Exports of manufactured goods grew by 28,9 percent in 1988 and the manufacturing sector as a whole grew by 15,5 percent (Bowie, 1991:142).

Critical to this resurgence in demand - particularly in the electronic and electrical goods sectors - were large-scale structural changes in the political economy of the Pacific Rim. Ironically, the very Plaza Accord of September 1985 which appreciated the Japanese yen and dramatically exacerbated Malaysia's debt exposure was also crucial to the recovery of the Malaysian economy in 1987. As the rapid appreciation of the yen caused the price of goods exported from Japan to rise markedly, Japanese manufacturing companies started to move off-shore. South Korea and Taiwan were initially looked upon as the most attractive new sites for production plants. However, as the Korean and Taiwanese currencies also began appreciating, the ASEAN region became more attractive.

Southeast Asia, including Malaysia drew FDI for three principal reasons. Firstly, it was relatively close to Japan and Japanese companies were relatively familiar with the region. Secondly, the recession of the mid-1980s prompted all ASEAN governments - not only Malaysia - to open their economies and seek FDI in order to finance future growth. And finally, Japanese companies found Singapore, Malaysia and Thailand to be fairly well-endowed with the necessary economic infrastructure, relatively well-educated population and reasonably efficient bureaucracies and stable governments interested in pursuing export-led industrialisation (Stubbs, 1994:372). Though southern Africa vaguely resembles a similar regional division of labour with South Africa at its centre (starting with the apartheid created "homelands") and stimulated by FDI from NIC's in Northeast Asia, the pattern is nowhere near as vibrant nor sustained as in Southeast Asia.

During the four years from 1988 to 1991, Japanese companies invested more than US \$ 15 billion in ASEAN economies, with Singapore and Thailand being the first beneficiaries, but shifting thereafter to Malaysia and Indonesia as well as the special economic zones of China. However, Japan was not the only prominent foreign investor. As the currencies of Northeast Asian NIC's also appreciated, these NIC's no longer enjoyed preferential access to the US market through the Generalized System of Preferences (GSP), which allowed goods to enter the US market at lower tariffs. Hence, firms in Northeast Asia also began relocating to lower-cost economies (Stubbs, 1994:372). In 1990 and 1991, Taiwanese investors pumped more money into Malaysia than Japan¹⁶. And the emergence of a growth triangle linking Singapore, Malaysia and Indonesia, a distinctive form of regionalism led Singaporean firms to invest heavily in the southern Malaysian state of Johore (Yuan, 1997) .

Clearly, Mahathir succeeded in facing the twin pressures for liberalisation externally versus redistribution domestically. Firstly, by embarking on a programme of privatisation -

¹⁶ "Taiwan became the biggest single source of foreign investment in Malaysia. Taiwanese investments rose from RM 32 million in 1985 to RM 6,34 billion in 1990. Their total for 1986-90 was RM 9,58 billion." (Khoo, 1995:339, n.9, emphasis added).

which significantly reduced the number of state-owned enterprises and overall ownership of state assets, Malaysia ostensibly conceded to neo-liberal dictates. Secondly, the effects of a domestic political fallout were simultaneously mitigated by relying on established patron-client linkages, thus consolidating the hegemony of what Jomo (1986) has called the 'statist capitalist' class. *These reforms accelerated by the mid-1980s recession followed by the country's increasing integration into the world economy, constituted the most notable illustration of Malaysia's transformation towards a competition state. Facilitating this transformation were patron-client linkages which allowed the state to adapt to changes in the international political economy whilst limiting the domestic political costs of this dramatic policy shift.*

Patron-client rentier linkages therefore constitute the critical intermediating process by which state transformation was accelerated. Without such an intermediating process, the political upheaval following the recession would almost certainly have been far less containable. This was clearly suggested by the unprecedented split within UMNO in 1987 as Mahathir's leadership was challenged in the wake of the 1980s economic crisis.

By attracting surging levels of foreign investment in the early 1990s, Malaysia entered an unprecedented boom period, experiencing *eight successive years of annual growth of more than 8 percent* (Crouch, 1996:229), much like the "golden era of apartheid" (see chapter 4). In contrast, even post-apartheid South Africa has barely been able to reach a full two percent GNP growth rate.

The liberalisation following the 1980s crisis, long sought after by non-Bumiputeras, delivered impressive returns at the polls. However, during the 1990 general election, the opposition put up a stiffer challenge than ever before. With the creation of a broad based opposition coalition it was widely expected that UMNO's two-thirds Parliamentary majority would be thwarted¹⁷. These expectations were given further credence when the largely Christian Kadazan party in Sabah defected from UMNO to join the coalition headed by Semangat '46.

Nevertheless, the BN scored an overwhelming victory, winning 127 of the 180 seats - seven more than it needed for a two-thirds majority¹⁸. Ultimately, possibly the biggest

¹⁷ The coalition consisted of Semangat '46, the new name adopted by Team B, the Islamic opposition party PAS, as well as the more leftist DAP. The relationship between the latter has however been described as a somewhat "unholy alliance" since PAS and DAP represented the opposite extremes of Malaysian politics. Only skilful tactics kept them in the alliance. For example, the more leftist, aspiring non-communal DAP's leaders found it impossible to cooperate with PAS as long as the latter sought the creation of an Islamic state, while PAS declared that it "has never and will not work with DAP as long as it remains a secular party and opposes PAS' aspirations for the creation of an Islamic state". Ultimately these differences were papered over by a mutual agreement of "upholding Islam as a way of life based on truth, justice, freedom and good values" without using the term "Islamic state" (Crouch, 1996:123).

¹⁸ However, in percentage terms it only gained 53,4 percent of valid votes in contrast to the 57,3 percent it garnered in the 1986 election, including a devastating defeat in the pro-Islamic state elections in Kelantan and only a narrow victory in Penang (Crouch, 1996:126).

threat to UMNO's hegemony, Semangat '46, failed to live up to expectations because, excluded from the vast patronage network of which it was once a part,

...dissidents at all levels gradually moved back to UMNO. Businesspeople who were dependent on government licenses, credit or contracts; politicians with big personal loans from banks; school teachers who did not want to be transferred to an outlying district or another state; and villagers who were applying for land all felt that they had no choice but to return to UMNO (Crouch, 1996:127).

In 1995 Malaysia's GDP grew by 9,6 percent, making it not only amongst the most dynamic of ASEAN economies, but giving it one of the highest rates of growth in the world. Per capita income increased by 13 percent from RM 8,856 in 1994 to RM 10,068 (US\$ 3,918). Unemployment, at 2,8 percent, was near full, whilst inflation dropped to 3,4 percent from 3,7 percent in 1994. Moody's even moved the country's foreign currency rating from A2 to A1 during this period (Hassan, 1996:124). Indeed, employment had been so plentiful that migrant workers had to be imported especially from Indonesia. Historically, the South African economy also depended upon migratory workers from the region, but in contrast to the Malaysian case, in post-1990 South Africa, migrant workers have borne the brunt of xenophobic attacks from Africans in particular.

The newfound economic power translated directly into enlarged political power and stability as talk of differences between Mahathir and Anwar, the deputy prime minister and Mahathir's anointed successor, faded. In the 1995 election, the BN secured 84,3 per cent of the seats. In other words, from 1990 when the Barisan Nasional boasted 53,4 percent electoral support, this support increased by nearly 12 percentage points in the 1995 general election - its best ever performance. In total the BN won 162 of 190 parliamentary seats, easily surpassing the two-thirds required for amending the Constitution. In seven states, the BN made a clean sweep of the constituencies whilst the opposition won only 30 seats, down from 49 in 1990 (Chin, 1996:405). This unprecedented degree of support for the BN and UMNO specifically has been attributed to the significant Chinese support which the ruling regime was able to secure on the basis of its programme of liberalisation, deregulation and privatisation (Chin, 1996; Gomez & Jomo, 1997:181). Such an accomplishment is indicative of the degree to which Mahathir successfully managed Malaysia's transformation towards a competition state, even reaping political rewards beyond traditional constituencies in the process. Although globalization has impacted fundamentally upon Malaysia's conversion towards a competition state, domestic interest groups - specifically the patron-client linkages between the political elite and the business class - have proven to be equally decisive.

Did the NEP Succeed?

The NEP's twin emphasis upon poverty and restructuring sought to eliminate the identification of race with economic function (Jomo, 1994:1). Well before the 1990's impressive gains had been made in the reduction of poverty, which declined to 18 percent in

1984 and to 15 percent in 1989 for Peninsular Malaysia and 17 percent for Malaysia as a whole. In 1993, the official incidence of poverty was 13,5 percent throughout Malaysia, 10,5 percent in the peninsula, 33,2 percent in Sabah and 19,1 percent in Sarawak (Jomo, 1994:7).

Occupation reflected ethnic demographic shares apart from agriculture and government services which remained overwhelmingly occupied by Bumiputera, and wholesale and retail trade which was still dominated by the Chinese. The Bumiputera share for eight well-remunerated professional occupations rose from 6 percent in 1970 to 29 percent in 1990 and 32 percent in 1990. Despite some impressive gains in poverty reduction, the overwhelming emphasis of the NEP has been upon the 'restructuring' of society, especially enhanced education, employment and promotion opportunities.

Malays are now over-represented throughout the Peninsular Malaysian educational system, in part due to relatively higher fertility rates (as compared with Indians and especially Chinese) but also due to highly restrictive ethnic quotas that have been decisive in determining educational access. In contrast, the post-apartheid state has not imposed similar quotas, though Afrikaner Nationalists did so indirectly by creating separate "African" universities. Ethnic quotas have however given rise to greater numbers of Malaysians studying abroad and in private educational facilities¹⁹.

Bumiputera share equity in publicly listed corporations rose from 2,4 percent in 1970 to 18 percent in 1983, and 19 percent in 1990 but fell again to 18 percent in 1992. Most of this accumulation was due to public sector asset accumulation by Malays and other preferential share ownership measures (Jomo, 1994:2). Private share accumulation has increased exponentially, particularly under Mahathir's regime in the 1980s. From 39 percent in 1975 and 41 percent in 1983 to 68 percent in 1990 the *private* Bumiputera share stood at 87,6 percent in 1992, suggesting a considerable concentration of wealth. The accuracy of all these official indicators remains controversial, whilst many have argued that the actual size of Bumiputera share ownership remains underestimated²⁰.

Regardless of the gains made towards the reduction of poverty, the wide-spread public perception of the NEP is that it was mainly about the improved economic welfare of

¹⁹ This has adversely affected economic development in two ways. Firstly, it has led to a massive outflow of foreign exchange paid by government, parents or agencies for higher education credentials, a problem exacerbated the late 1990 depreciation of the ringgit. Secondly, it has encouraged emigration especially among non-Malays who have studied abroad. Meanwhile, due to the level of government sponsorship of tertiary education overseas and the sheer number of students involved, it has prompted a neglect of domestic higher education as reflected in declining student-staff ratios, university facilities and quality as well as public regard for these institutions (Jomo, 1994:12).

²⁰ For example, it is uncertain to what extent many of these shares held through nominee companies belong to Bumiputera or non-Bumiputera Malaysians (especially Chinese who may be investing from abroad). Nonetheless, even if the 9,5 percent of shares held through nominee companies are set aside, the Bumiputera share at par value exceeds 20 percent. Moreover, since Bumiputera's acquired these shares at specially discounted prices, the share capital is estimated to be worth more in the open market (Jomo, 1994:13).

the Malays (Jomo, 1994:16). The political ramifications are all the more stark considering that it was largely targeted at Malay peasants, the backbone of UMNO electoral support. Non-Malay Bumiputeras - e.g. the Orang Asli and others in Sabah and Sarawak, as well as the urban non-Malays generally consider themselves to have been excluded from the NEP's implementation programmes. Jomo (1994:17) even contends that amongst rural Malays, the prime beneficiaries of the NEP have been the relatively better-off, the educated, and big landowners rather than landless rural labourers. Indeed, Gomez & Jomo (1997:168) contend that on the goal of 'national unity' (i.e. restructuring) the achievement of the NEP is questionable, with inter-ethnic relations worse in 1990 than in 1970. Regional disparities have become more pronounced, not only in Sabah and Sarawak, but also on the East Coast of Peninsular Malaysia, especially Kelantan.

In short, although the NEP succeeded in alleviating relative poverty, in practice the goal of 'restructuring' came to be emphasised and wealth becoming much more concentrated amongst a select few. Hence, as 1990 - the last year of the Outline Perspective Plan (OPP) for the period 1971-90 under the NEP - drew to a close, the nature of future Malaysian economic policy - elicited considerable debate.

Corporatist Pretensions: The NECC

Although Mahathir had successfully consolidated his power by the late 1980s, in conjunction with the late 1980s boom, he had to soften his authoritarian image and thus sought to appear more 'consensual' (Khoo, 1995:325). The rationale behind the NEP (also amplified by the succession of scenario's appearing in South Africa during the early 1990s) was that it was possible to put the entire plan forward in positive-sum terms (i.e. what the have's already had would not be taken away from them, but what was accumulated from a growing economic cake would be redistributed). By the mid-1980's however, interest focussed "on the relative size of individual slices" since the economic cake was no longer growing (Leong, 1992:219). Thus in the absence of an immediate crisis, such as the 1969 riots, which precipitated the adoption of the NEP, the formulation of post-NEP policy required a more subtle approach.

With the ever-present possibility that the racial bargaining of the earlier years would be viewed in zero-sum terms due to the lack of a common interest, Malaysian policy-making operated in a much more complex international environment in the 1980s to early 1990s than in the 1970s. Mindful of these realities,

The governing elites realized that a legitimate policy could not emerge without consent. It was harder to gain and regain that consent in the polarized and defensive environment of recent years as such an environment rendered more explicitly political the bargaining system from which compromise policies would flow. Thus the integration of interest groups into the decision-making process was viewed as a necessary step to ease the tensions that had been developing in the past two decades (Leong, 1992:220).

Hence government instituted the National Economic Consultative Council (NECC) to devise Malaysia's post-NEP developmental programme. Even though the NECC "was an almost all-inclusive body", it remained blanketed in controversy with several organizations objecting to the nature of its procedures and the NECC's failure to reflect the diversity of positions presented to it²¹. Throughout the life of the Council nineteen members from various organizations ultimately withdrew (Leong, 1992:212-213). However, these withdrawals served as a welcome pretext for Mahathir to argue that as decisions reached within the NECC were not based on consensus, the government was under no obligation to adopt them²². Although many saw the NECC as nothing more than a public relations tool, the NECC Report, Economic Policy for National Development (DEPAN), made a number of innovative policy recommendations, the political consequences thereof providing a better indication why government would not be interested in paying much heed to its content²³. The DEPAN Report highlighted the need to weed out nepotism and called for a mechanism to monitor implementation, greater state transparency, accountability and access to official data (Jomo, 1994:39-49).

Had the NECC been taken seriously it could have initiated moves towards more corporatist decision-making, but given the asymmetric division of power between the state, capital and labour - especially the negligible influence of the labour movement - the process merely served Mahathir's tactical purposes. In this sense, there would be some (albeit limited) parallel with the RDP serving as an ideological tool to sustain support for the ANC amongst the larger coalition of which it was a part (see the next chapter). However, contrary to the salience of societal corporatism as the critical intermediation process between domestic demands and international expectations in post-1990 South Africa, patron-client linkages remained the most prominent means by which Malaysian state elites attempted to overcome the international/domestic divide until the late 1990s.

²¹ For example, the DAP withdrew from deliberations until three of its leaders were released from detention under the ISA since the 1987 crackdown. The United Chinese Schools Committee Association withdrew as their positions were not being recorded; as well as the Selangor Chinese Assembly (Leong, 1992:213).

²² This precluded the generation of a workable consensus across party and ethnic divisions, [T]hose who bargained on behalf of member groups [non-Bumiputera] were always most immediately concerned with the tangible output of their collaboration, while those who worked in government institutions for the collective interest were continually preoccupied with extending the policy scope and authority of the Council as a means of achieving the further extension of the NEP (Leong, 1992:213).

²³ Nonetheless, the Council's activities were shrouded in secrecy and participants were enjoined under stiff penalties from communicating to anyone about the progress of its deliberations. The basic idea "was to have a forum for in camera discussions and negotiations, rather than an exercise in public participation and the airing of public policy trial balloons" (Means, 1991:267). Had a more open process - such as a Royal Commission - been employed, the public would have been more directly involved, "*but it would have also very likely become mobilized to defend or promote alternative sets of policy proposals. It was the latter possibility that was viewed by Malaysia's leaders as a spectre to be avoided at all costs*" (Means, 1991:267 emphasis added).

The NDP and Vision 2020 : Competition State Blueprints?

It was not until 28 February 1991 that the Government finally announced its post-1990 economic program when Mahathir inaugurated his new National Business Council. That it was unveiled at an assembly of some of the country's foremost business leaders clearly suggests that this was the constituency which really mattered and not the NECC (Khoo, 1995:327). The Malaysian government announced its post-1990 economic framework with a trilogy of policy documents: the National Development Policy (NDP), succeeding the NEP in conjunction with a ten-year Second Outline Perspective Plan (OPP2) for 1991-2000 followed a few weeks later by the Sixth Malaysia Plan (6MP) for 1991-1995. Whilst the OPP2 and 6MP are supposed to provide medium term objectives, Mahathir's opening speech to the National Business Council, the so-called "Wawasan 2020" or "Vision 2020", sets the long term agenda²⁴. This speech proclaimed a vast programme to transform Malaysia into a fully developed country by 2020, by doubling GDP every ten years and increasing the rate of growth to 7 percent from Malaysia's average growth rate of 6,9 percent over the past twenty years (Mahathir, 1991:7).

Mahathir's vision was not profoundly new (Shamsul, 1992; Jomo, 1994). It reconfirmed and reinforced the process of structural adjustment which has been underway since the mid-1980s. In fact, Jomo (1994:55) sees Vision 2020 as "*a partial return of the pendulum to the relatively laissez-faire policies during the first dozen years after Independence*".

Sensitive to the perennial growth versus redistribution controversy, Mahathir (1991:7-8) cautioned against the "growth fixation, the danger of pushing for growth figures oblivious to the needed commitment to ensure stability, to keep inflation low, to guarantee sustainability". Yet, his speech reflected a decisive re-prioritisation of growth over redistribution and - not unlike South Africa's GEAR policy - an unequivocal emulation of the features of the competition state. Hence, it is envisaged that

...the Government will continue to downsize its role in the field of economic production and business. The State cannot of course retreat totally from the

²⁴ The key elements are 1. "...establishing a united Malaysian nation with a sense of common and shared identity; 2. ...creating a psychologically liberated, secure, and developed Malaysian Society with faith and confidence in itself...; 3. ...fostering and developing a mature democratic society, practising a form of mature consensual, community-oriented Malaysian democracy that can be a model for many developing countries; 4...establishing a fully moral and ethical society, whose citizens are strong in religious and spiritual values... 5. ...establishing a matured liberal and tolerant society... 6....a scientific and progressive society, a society that is innovative and forward-looking... 7....establishing a fully caring society and a caring culture...in which the welfare of the people will revolve not around the state or the individual but around a strong and resilient family system; 8. ...an economically just society...in which there is a fair and equitable distribution of the wealth of the nation, in which there is a full partnership in economic progress. Such a society cannot be in place so long as there is the identification of race with economic function, and the identification of economic backwardness with race; 9. ...establishing a prosperous society, with an economy that is fully competitive, dynamic, robust and resilient" (Mahathir, 1991:2-4).

economic life of Malaysia. It will not abdicate its responsibility for overseeing and *providing the legal and regulatory framework* for rapid economic and social development. The Government will be pro-active to ensure healthy fiscal and monetary management and the smooth functioning of the Malaysian economy. It will escalate the development of the necessary physical infrastructure and the most conducive business environment - consistent with its social priorities. And where *absolutely necessary* the Government will not be so completely bound by its commitment to withdrawal from its economic role, that it will not intervene” (emphasis added, Mahathir, 1991:10-11).

The significance of Vision 2020 is its timing - immediately after the end of the OPP period - its longer term perspective, and its clear shift in emphasis from distribution to growth and industrialization (Jomo, 1994:53). The 2020 state - at least as envisaged before the Asian crisis - would leave behind much of the interventionism of the NEP and oversee, guide, liberalise and deregulate except “where absolutely necessary”.

Mahathir (1991:8-9) pays considerable attention to “the establishment of a competitive economy”. Referring to the imperatives of adapting to post-Fordist modes of production, such an economy must be diversified and balanced: “quick on its feet, able to quickly adapt to changing patterns of supply, demand and competition”. It should also be, “technologically proficient, fully able to adapt, innovate and invent, that is increasingly technology-intensive, moving in the direction of higher and higher levels of technology”; have “strong and cohesive industrial linkages”, be entrepreneurial, self-reliant, outward-looking and enterprising; “driven by brain-power, skills and diligence” and “be subjected to the full discipline and rigour of market forces”.

Despite its rhetorical reiteration of the NEP objectives - namely the eradication of absolute poverty regardless of race and the identification of race with major economic function - post-1990 economic policy is much more clearly concerned with growth. Whereas the NEP sought to achieve national unity through improved inter-ethnic relations - by realising Chinese-Malay economic parity - Vision 2020’s ‘developed country’ goal advocates “an equally narrow, materialistic and economic emphasis on growth” (Gomez & Jomo 1997:170).

If the NEP advocated progressive state intervention and a redistributive welfare role for the state, Vision 2020 shifts primary responsibility for human welfare to the family and assumes considerable political stability not entirely borne out by events following the 1990s currency crises. Increased cuts in public expenditure have meant that the costs of social services like health and education have had to be borne by consumers through higher university fees, hospital charges and medical fees (Gomez & Jomo, 1997:170). Although Vision 2020 emphasises achieving inter-ethnic economic parity, the NDP documents, unlike the NEP, remain concerned about income inequality *both between and within ethnic groups*.

The NDP remains committed to the basic strands of the NEP but within those parameters makes four significant policy shifts. Firstly, the NDP has a more clear-cut focus on hard core poverty - that is, those earning less than half the poverty line income - and on

relative income (inequalities in income and wealth). Secondly, the NDP focusses on the rapid development of a Bumiputera Commercial and Industrial Community (BCIC). Not unlike the post-apartheid state's promotion of black empowerment, the Malaysian government also emphasizes private sector-led growth to achieve restructuring and underscores the significance of human resources development to achieve growth and redistributive objectives (Jomo, 1994:58). Similarly, whereas the RDP in South Africa focussed more on national welfare programmes and redistribution, GEAR represents a more rigorous pro-growth macro-economic policy programme (see chapter 6).

Although the 30 per cent equity restructuring target is reiterated, no specific time frame has been set for its achievement, thus softening resistance amongst the incumbent beneficiaries of NEP-led state largess. The eventual effect of such an omission therefore provides sufficient scope for the continuation of patron-client linkages²⁵. Not only does the NDP, contrary to the NEP emphasise growth, but as in the 'new' South Africa, *it is the private and not public sector which is to generate the required growth with which to pursue the strategy of ethnic redistribution with growth*. Corporatism, a prerequisite for the consolidation of closer collaboration between the public and private sector however, remains deeply problematic given both the salience of patron-client rentierism as well as an emasculated labour movement.

Apart from the differences with the NEP, the assumptions which underpin post-1990 economic policy are not entirely sound. For example, despite a targeted growth rate of 7 per cent, estimated to double GDP every ten years, the NEP discounts the significant impact of a 2,5 per cent population growth rate, which will lead to a per capita GDP only four times greater than in 1990. These ambitious projections also ignore the considerable contribution of natural resources, especially timber, petroleum and natural gas, which leave Malaysia dependent on primary commodity exports. Though the manufacturing and services sector have grown rapidly, the country remains reliant on petroleum and timber which contributed the highest percentage export of earnings throughout the 1980s. These are, after all, exhaustible resources (Jomo, 1994:54).

Manufacturing - though a growing and significant contributor to GNP - suffers from a narrow base, with weak forward linkages to the economy, the insignificant local

²⁵ In a concerted attempt to sustain his UMNO Baru's political hegemony, Mahathir contended that

..The position of the Malays has improved and made some people forget that they are no longer in a critical situation. This is because UMNO is still around to ensure that the Malays are protected. If UMNO is no longer around, and the party in power has only 40 Malay MP's and the rest are from other races, as visualised by the new splinter group, then the Malays will no longer get any protection. *When this happens, we will go back to the time when the British were in power, and in fact, worse than that* (Means, 1991:270). Afrikaner Nationalist attempts to cajole whites into voting for it resonates starkly here with similar threats of a 'communist threat', the '*swart gevaar*' (the black danger) and even at one stage, the "*Roomse Gevaar*" (the Roman Catholic Danger).

supply of intermediate products, too little value added and a shortage of skilled personnel, leaving the country highly dependent on foreign investments, technology, market access and ultimately the vagaries of the global economy (Jesudason, 1989; Gomez & Jomo, 1997:171). Finally, the key question of accountability - institutional checks and balances, monitoring, transparency and availability of information to the public - remains inadequate despite the fact that this was one of the most significant recommendations of the NECC (Jomo, 1994: 49; Gomez & Jomo, 1997: 173). As we shall see, the need for such disclosure has acquired greater saliency since Malaysia was drawn into the turbulence of the Asian currency crises in the late 1990s.

Nonetheless, by the early 1990s it was quite apparent that, as Malaysia began to exhibit the characteristics of Cerny's competition state and redistribution had become subordinate to growth, it was big business which had become the foremost sector within the bureaucratic/business/political complex.

1987 Revisited in 1997? The Asian Crisis and Beyond

Given Mahathir's incessant push for Malaysia to become a developed country by 2020 through the entrepreneurial flair of the BCIC, cheap and readily available credit was deemed "politically correct". Between 1990 and 1997, bank lending to the private sector increased from 18 to 33,5 percent respectively, with the level of outstanding credit relative to GDP increasing from an average of 85 percent during 1985-9, to 120 percent in 1994 and over 160 percent by the time the crisis broke in mid-1997 (Athukorala, 1998:92).

Prompting this explosion of private sector debt was the increased demand for credit to purchase shares during the privatisation binge of the 1980s. But whereas the state had borrowed heavily from abroad during the 1980s, it was now banks and big companies which had become indebted. Commercial banks' net foreign liabilities increased from RM 10,3 bn at the end of 1995 to RM25,2 bn in June 1997, whilst their external reserves declined from RM5,3 bn to -RM17,7 bn during the same period (Jomo, 1998a:182). Although Malaysia had a lower share of short-term foreign borrowings than Thailand and Indonesia, much of it was US dollar denominated and unhedged as banks seized the opportunity for profitable arbitrage, and in the process, tripled liabilities between 1995 and 1997. Corporate borrowings were also highly concentrated with the three biggest borrowers accounting for three quarters of this total (Jomo, 1998a:183).

To make matters worse, *as much as seventy percent* of such lending was not for productive investments in manufacturing, agriculture and mining but for share acquisitions, real estate and consumption credit. Property purchases in 1996 are estimated to have accounted for more than 45 percent of total outstanding bank credit, whilst the attraction of share acquisitions was enhanced by political manipulation and phenomenal growth of the Kuala Lumpur Stock Exchange (KLSE), creating a very vulnerable "bubble economy". With a market capitalisation of approximately US \$200 billion, the KLSE became the third

largest exchange in the Asia-Pacific region after Tokyo and Hong Kong (Athukorala, 1998:92-3). Driven by the share boom, Malaysia also experienced a significant increase of private short-term capital, which accounted for 43,3 percent of total annual capital inflow, making the country vulnerable to currency attack as the current account gap was temporarily closed by short term capital flows²⁶. However, operating on the basis of “easy come, easy go”, these capital infusions tended to act as stop-gap measures and to distract attention from more profound, structural weaknesses (Jomo, 1998:149).

This level of credit build-up heightened the vulnerability of the Malaysian economy as it suggested policy makers’ reluctance to use interest rates as a means to defend the currency should a crisis indeed occur. Apart from these financial sector problems, the country also faced acute foreign reserve problems. In this respect three factors were particularly salient. Firstly, massive construction projects fuelled rapid import growth, including labour. The fiscal excesses triggered by these projects meant that the ratio of public investment expenditure to GDP was 46 percent - the highest in the region. Indeed, the 1990s have been characterised by a consistent increase in the share of domestic expenditure from about 35 percent early in the 1990s to over 46 percent in 1997, with the public sector contribution to the annual increase in investment spiralling from 3,5 percent in 1996 to 32 percent in 1997 (Athukorala, 1998:89; 90). Secondly, reduced demand in the electronics sector led to a considerable slowdown in exports from mid 1995. And thirdly, reverse investment - i.e. Malaysian investments abroad (of which South Africa became a major recipient, see chapter 7) - totalling around RM 6 billion also reduced foreign reserves (Jomo, 1998a:182). By mid-1997 these outflows were more than 50 percent of total FDI inflows, a phenomenon which Athukorala (1998:90) has described as

predominantly, if not solely, the outcome of an aggressive investment promotion campaign by the Malaysian government (with direct involvement by the prime minister), rather than a reflection of local firms expanding their operations overseas as a “natural” response to global business opportunities.

Seeing the crisis as a personal attack upon his leadership, Mahathir’s initial and consistent response was to blame outside interests, generally Western currency traders and George Soros specifically.

The Asian crisis impacted fundamentally on South Africa as an emerging market. Yet in clear contrast to the Malaysian reaction, the South African Reserve Bank, enjoying considerably greater independence than Bank Negara, immediately and rapidly increased interest rates - at one stage even up to 25 percent - to contain the damage and prevent the rand from slipping even further.

Either government refused to appreciate the severity of the crisis or it was to hamstrung by the powerful grip of Malaysia’s business/politician complex for the 1998 budget failed to make a decisive policy shift and address the fundamental macroeconomic

²⁶ In contrast, only 13,2 percent of such inflows occurred during the previous year.

deficiencies which kept the Malaysian economy so vulnerable to the fickle international fund managers. Announced on 17 October 1997, the budget did very little on the fiscal front. It did not increase interest rates - or at least not enough to satisfy foreign investors - and did not send any signs that the massive state projects would be cancelled (Jomo, 1998a:190)²⁷. Indicative of the fact that Kuala Lumpur remained in 'denial' was Malaysia's financial commitment to IMF-sponsored financial rescue packages to Thailand and Indonesia to whom Malaysia offered RM3,4 billion each towards the end of October 1997 (Athukorala, 1998:101).

Anwar convinced his Cabinet colleagues (including a very reluctant Mahathir) that Malaysia needed to tighten its belt. The 1997 supplemental budget won immediate praise from the IMF's Michael Camdessus, yet failed to forestall either the ringgit or the share index' persisting downward slide. The ringgit lost 10 percent of its value against the US dollar, whilst the economy experienced a 1,8 percent contraction for the first quarter, the first time growth had diminished since the mid-1980s (*FEER*, July 16, 1998).

An Affair to Remember: The Anwar-Mahathir Debacle

The corporate bodies were beginning to pile up. Of all Malaysia's billionaires, Mahathir's son, Mirzan was the most adversely affected in percentage terms, having lost more than 69 percent of the value of his stock. In order to rescue UMNO's holding company, Renong, an associated but cash-rich firm, UEM, undertook a reverse take-over, thereby saving its Chairman Halim Saad from huge debts. Stock exchange rules, such as the mandatory share offer required when the 33 percent ownership was exceeded, were manipulated; and Renong was bailed out at the cost of RM2,34 billion, a considerable cost to minority shareholders (Jomo, 1998a:187). UMNO's co-operative Koperasi Usaha Bersatu (KUB) was expected to get the lion's share of the proceeds from a near bankrupt Sime Bank, although it initially only had a 30 percent stake. KUB was also expected to then take over assets from the government controlled Malaysian Mining Corporation at a discount rate and thus cut its losses from the collapse of Sime Bank "and perhaps even turn a handsome profit to placate its and UMNO's members" (Jomo, 1998a:188).

Anwar had publicly announced his opposition to rules being changed in order to facilitate the UEM transfer. Nonetheless, whatever influence Anwar could bring to bear was being checked by the newly created National Economic Association Council (NEAC) which Mahathir considered as significant as the appointed National Operations Council which ruled Malaysia by decree after the May 13, 1969 riots (Athukorala, 1998:95). Daim Zanuddin was - not unlike the 1980's - again drawn into government as the head of the NEAC, created on November 22, 1997- in order to gradually override and preempt Anwar and the finance ministry's role in managing the crisis. Furthermore, in order to halt the

²⁷These included, the Genting-Cameron's highland highway, the proposed new offshore international airport in Mahathir's home state and the world longest bridge between the Malacca Straits and Sumatra.

accumulation of non-performing loans, Bank Negara advised the country's 39 finance companies to begin merger talks in early January 1997 and on 9 February 1997 lowered the statutory reserve requirement ratio of commercial banks from 13,5 to 10 percent in order to reduce the shock of rising lending rates (Athukorala, 1998: 98). In short, Mahathir responded by creating alternative structures which he manipulated.

The more unfavourable economic figures which emerged, the more inconsistent policy became. Reversing a twenty eight year ban preventing Bumiputeras from selling stocks to other Malaysians²⁸, in early February, Mahathir indicated that the ban would be a temporary measure only. However, towards the end of April, Anwar announced that it was a permanent arrangement.

Indicative of Malaysia's integration into regional production chains, manufacturing output in January and February 1998 registered its steepest decline in 10 years, partly because more than 40 percent of Malaysia's exports go to Asia - including Japan - where the crisis sent demand crashing. Prices for personal computers, semiconductors and electronic components also remain mired in a global slump. Commodity prices, for Malaysia's most important primary exports - oil, gas and palm oil - declined sharply during the previous twelve months whilst domestic demand contracted. And non-performing bank loans were expected to top 22 percent in 1999 (up from 9 percent in 1998); property prices to go down to as much as 30 percent and inflation was likely to double to 7 or eight percent (*Asiaweek*, May 8, 1998; *FEER*, July 2, 1998).

With the annual UMNO general assembly looming and economic woes likely to top the agenda, Mahathir decided to drastically change course. On June 18 - the very day that the annual UMNO convention got underway - government announced a RM7,031 bn 'counter-cyclical' programme to kick-start the economy and increase GDP. To increase local demand for goods and services, these efforts clearly aimed overwhelmingly towards Bumiputeras, focussed upon agriculture, low and medium-cost housing, schools, expansion of skills training centres and institutions of higher learning, clinics, bridges, rural roads, water supply systems and infrastructure²⁹. An Asset Management Company with a RM 25 bn account would tackle the problem of non-performing loans (*New Straits Times*, June 19, 1998).

²⁸ This followed a recommendation by Zanuddin in a dramatic departure from the traditional ethnic by-pass approach as a means to prevent the collapse of the companies concerned and prevent foreigners from buying these companies instead (*Aliran Monthly*, 18(2) 1998, p. 4).

²⁹ Some analysts (*FEER*, May 21, 1998) noted that Mahathir's attacks against the West made any criticism of government policy tantamount to being unpatriotic, leaving Anwar without the wherewithal to stave off corporate bailouts and "explain why he is now focussing on welfare projects for the poor". Given that Anwar remained Finance Minister, this budget may well have reflected a compromise. The Asset Management Company helped Mahathir shore-up support amongst the tycoons whilst the budget's social security concerns reflected Anwar's attempt to extend his political support base to the poor and also those outside UMNO.

These measures did not however quench the unprecedented open expressions of disaffection. Zahid Hamidi, head of UMNO's youth wing and a noted Anwar sympathiser lashed out against "corruption, nepotism and collusion". Without naming anyone, his calls for "reform" were a clear, if veiled reference to Mahathir and with it, a subliminal reference to Suharto who had recently been toppled by the popular "reformasi" movement on May 21. Despite considerable differences, the similarities between Suharto and Mahathir appeared with growing frequency³⁰. Indeed, Mahathir "became paranoid about the Indonesian situation" (Muzzafar, 1998:236).

In a stinging rebuke of Zahid's allegations³¹, Mahathir seized the initiative from his adversaries by publishing the next day, for the first time, the names of hundreds of individuals and the companies who had benefited from privatization contracts, thereby effectively blunting any nascent move to unseat him³². Mahathir survived, not only because the discontent was still limited to a small number of people, but also because opposition within UMNO remained weak and unorganized, largely because of various preemptive moves by Mahathir as early as 1993 to thwart Anwar's power both within the party and government³³.

His power further consolidated since the UMNO general assembly, Mahathir moved swiftly to oust Anwar completely. Not unlike the late-1980s crisis, on June 24, Daim Zainuddin was appointed special functions minister, directly curbing Anwar's power. The editors of two of the most influential Malay dailies and Anwar sympathisers resigned in July and by the end of August both the governor and deputy governor of Bank Negara

³⁰ Anwar also played up these similarities, remarking on June 8 that "weaknesses in internal policies contribute to some of the problems...if we are unwilling to accept this, then we may face the Indonesian situation where the people demanded changes" (*FEER*, June 18, 1998). After his dismissal, Anwar confessed that "[N]ow I remind him of Habibie" (*FEER*, September 17, 1998).

³¹ Mahathir compared it to "throwing faeces at a spinning fan which...would result in everyone getting soiled" (*FEER*, July 2, 1998).

³² These lists were even printed in the English language dailies. It proved that Anwar's father, for example had received 3,8 million shares in Nissan Industrial Oxygen and that Zahid had a stake in a joint venture company which Zahid claimed he had *ex officio* as head of UMNO Youth (*FEER*, July 2, 1998).

³³ In order to regain his hold over government, big business and the party, Mahathir pursued a three-phased strategy. First, he began to splinter Anwar's ascending "vision team" either through isolation from or cooptation into, governmental positions. Secondly, Mahathir, blocked Anwar's supporters elsewhere in government and finally assumed greater control over business resources (Case, 1997).

However, Anwar still enjoyed considerable popularity with the party rank-and-file. Some observers noted that Anwar could have won the nominations of some 70 percent of UMNO divisional heads for the party presidency in 1996. Hence, Mahathir incrementally tightened UMNO's democratic procedures by securing passage of a resolution which would discourage any contest in 1996 for the presidency and deputy presidency and even removed altogether the power of the party divisions to make nominations (Case, 1997:399; 400).

resigned citing policy differences with Mahathir³⁴.

By the end of August the economy had contracted by a further 6,8 percent and on September 1, 1998 Mahathir imposed currency controls, fixing the ringgit at 3,80 to the US dollar. No longer freely tradable, ringgit became illegal tender outside the country after September 30. Although this boosted reserves considerably, the KLSE fell by 50 percent - 80 percent since the crisis began 14 months ago. By erecting a fence around the currency and portfolio investment, Mahathir - possibly influenced by recent policy suggestions by Paul Krugman - expected to create some political breathing space to allow the central bank to rapidly push down interest rates, while preventing domestic savings from leaving the country in search of higher returns elsewhere (Jomo, 1999:435; *FEER*, September 10, 1998). Mahathir sacked Anwar as both deputy prime minister and finance minister the very next day, September 2, 1998, thereby preempting the collapse of the ringgit. Anwar, who had always been seen as one of the most progressive intellectual and cultural custodians of Islam, was arrested and charged with a litany of allegations: sodomy, adultery, corruption, even endangering national security (*FEER*, September 17, 1998).

Although Mahathir was wary of the negative publicity which increased social unrest might cause whilst Malaysia was being showcased during the Commonwealth Games (see chapter 8), this window of opportunity permitted Anwar to activate a nationwide opposition movement, *reformasi* taking its name from the Indonesian movement which had toppled Suharto. Some political analysts even expressed the concern that "if general elections were called now, the ruling coalition could lose its two-thirds majority for the first time in almost three decades" (*FEER*, October 29, 1998).

In one of the largest such gatherings in Kuala Lumpur on September 20, nearly 5000 people squeezed into the symbolic Merdeka square. Described as "the largest opposition rally the country had seen in three decades" (*FEER*, October 1, 1998), Anwar's arrest and the subsequent political clampdown, once again exhibited the kind of authoritarianism displayed in the late 1980s, though not to the same degree. Not only were all *reformasi* meetings banned, but Anwar and 16 of his allies were jailed under the Internal Security Act. Not unlike the massive UMNO rally which had been planned in 1987 in support of UMNO's Team B but cancelled by the government; a permit for a similar mammoth pro-Anwar rally also to be held in the national stadium on October 10 was refused.

³⁴ Differences between the prime minister and the central bank had been simmering for some time. As early as May 30 Mahathir criticized the bank for its maintenance of tight monetary policies which were strangling businesses. The next day, Anwar defended the bank and argued the case for high interest rates (*FEER*, June 18, 1998). By late August, Fong Weng Phak, deputy governor of Bank Negara failed to convince Mahathir that the country did not need capital controls and subsequently resigned with the Governor of the Bank, Ahmad Mohamad Don (*FEER*, September 10 1998).

³⁵ "Jomo on current situation in Malaysia". <http://members.xoom.com/-XOOM/harakah2/semasa/1062b3e09.html>. Accessed: March 18, 1999.

In addition, by not immediately appointing his successor, the contest for Mahathir's successor remained open, thus enhancing greater loyalty to Mahathir himself and averting the possibility of another split within the party (*FEER*, October 15, 1998). And, just as Mahathir sought to soften his image after *Operasi Lalang* in 1987, he now did the same in 1998. Eleven of the sixteen arrested Anwar allies were promptly released. Unencumbered by Anwar's opposition, government announced a rescue package totalling RM 10,5 bn for Renong, a major conglomerate closely tied to UMNO, and without which Renong would have defaulted on nearly RM 26 bn in loans (nearly 5 percent of the entire banking system's total loans) (*FEER*, October 22, 1998).

Towards the end of 1998, interest rates had come down sharply to 7,5 percent, while government reflatd the economy vigorously by spending more than RM 13 billion on infrastructural projects in order to draw Malaysia out of recession³⁶.

Despite the fact that Mahathir had proverbially anointed Anwar as his successor by handing over the reigns of power during his two month holiday in May 1997 - and also indicated his readiness to step down - by July the onset of the Asian crisis changed everything. *Whereas Mahathir remained attracted to the virtues of a powerful developmental state with its capacity for Keynesian counter-cyclical growth programmes and reduced interest rates to keep business going, Anwar realised that Malaysia's adaptation to the competition state model meant that such political excesses could no longer be afforded.* As globalization wrecked havoc on the shining star economy of the early 1990s, and the analogy with Indonesia became popular, Mahathir feared Anwar would "sell Malaysia". As Chandra Muzaffar (1998:238) remarked

The real reason why Mahathir has gone all out to destroy and denigrate Anwar is because he fears that the latter will not protect his family's business after his time. By questioning the bail-out for Mahathir's son, Anwar was telling his boss that he was not prepared to salvage the Mahathir family. For an ageing leader who has witnessed what happened in South Korea and what is now happening in Indonesia, Anwar's attitude was the antithesis of the iron-clad guarantee he was looking for in a post-Mahathir era.

Conclusion

By failing to engage domestic capital in favour of foreign, particularly Japanese investment, the Malaysian economy became much more vulnerable to external economic volatilities. Hence when the 1980s recession coincided with a considerable doubling in Malaysia's foreign debt (much of it due to the post-Plaza appreciation of the yen) the economy had to be reinvigorated through economic liberalization. However, in order to reduce domestic

³⁶ Banks were urged to extend credit to the property sector, the share market and car purchases by at least 8 percent in 1998. Announcing the 1999 budget, Mahathir extended the default period for classifying loans to six months instead of three months. Moreover, to help recapitalize banks, the state created Danamodal-agency raised about RM 11 bn, whilst another state agency, Danaharta, set up to buy non-performing loans from banks is expected to need RM 15 bn. Nonetheless, Mahathir predicted 1 percent GDP growth in 1999 and a current account surplus of RM 20 bn in 1998 and RM 11 bn in 1999 (*FEER*, October 15, 1998; November 5, 1998).

resistance against the gradual abandonment of the NEP, Mahathir embarked on a process of privatization which allowed the state to sell its assets to a select few - extending the state's vast patronage network - whilst conforming to neo-liberal expectations and the prospect of renewed access to foreign capital. Without rentier patron-client networks, the impact of globalization and Malaysia's adaptation to the competition state model would have been even more difficult, complex and unstable.

However as an intermediation process, patronage is not without its limitations. For economic decline inevitably meant that some patrons were denied new business opportunities, thus intensifying divisions within UMNO as the 1987 party split suggests and with it an increasing degree of authoritarianism to reassert control and ensure stability. Fortunately all this coincided with structural change in the political economy of the Pacific Rim, from which Malaysia benefited immensely to once again boast amongst the highest growth rates in the world, until the onset of the 1997 Asian crisis. Again, the vicious cycle returned in the 1990s: disjuncture between the Malaysian and international economy exacerbated divisions within the ruling elite and the reassertion of political control by authoritarian means.

Although state transformation towards the competition state model was facilitated by patron-client networks, it was only sustainable as long as relatively high rates of economic growth continued. In short, the outcome of this process of state adaptation to the demands of globalization is not necessarily linear, but is determined by the way in which intermediation processes, state strategies and the state's location in the international political economy interact.

6

ANC Economic Policy in Transition: From Aspiring Developmentalist towards Neo-Liberal Competition State

"...through the dictates of imaginary international investors *we* are making a fetish of competitiveness...the possibility of structural adjustment being forced on us by stealth is a real one"

- ANC MP, Philip Dexter (cf. Padayachee, 1997:23).

"As a former trade union leader, Congress of South African Trade Union (COSATU) officials would refer to Naidoo as "comrade". Then they would pause, and ask: You are still a comrade, aren't you?"

- Matisonn (1998:3).

'This is the post-apartheid paradox: neo-liberalism expects a "hollowing-out of the nation-state", when the consolidation of democracy requires a strong developmental state'.

- Webster (1998:58)

The South African case provides a vivid illustration of the problems which developing states face in trying to cope with the pressures of economic globalization. Despite tremendous expectations amongst the formerly disenfranchised majority for economic redistribution and therefore state intervention, its transformation into a competition state has effectively stymied such expectations. Whereas ANC economic policy was initially firmly cast in the mould of the developmentalist state, it had by the late 1990's evolved to accord largely with prevailing neo-liberal macro-economic logic. This dramatic shift is all the more remarkable considering that the Afrikaner Nationalist state intervened massively to shape economic development (see chapter 4).

Illustrating how ANC economic policy has increasingly become more neo-liberal since 1990, I argue that the imperative to be 'competitive' possibly impacts even more fundamentally upon policy-makers in the developing world who face powerful domestic pressures for state intervention and redistribution. Amidst these tensions arising from both the domestic and international domains, the South African state has also had to conform to the structural demands of the international political economy. This chapter attempts to show how the state even in societies in transition, seeks to balance its interests against these countervailing forces. I contend that in the South African case, corporatism as a 'crisis response' in conjunction with the initial acceptance of the Reconstruction and Development Programme (RDP) enabled the ANC to reconcile these contradictory pressures, if only to ensure a relatively peaceful democratic transition.

Three major points are made in this chapter. Firstly, that the relative lack of progressive policy-making within the tripartite alliance, compounded by pressure from domestic big business, the international financial institutions, the influence of

transnational social forces as well as factions within the alliance, caused the ANC to succumb to a decidedly more conservative economic outlook. In reaction thereto, labour and other constituencies sought to hold the ANC accountable as a government through the RDP. However, the RDP became an instrument to entrench the corporatist political culture of the post-apartheid order and consolidate the political power required to develop South African into a competition state. This is borne out - as the third point - by the subsequent adoption of the neo-liberal GEAR with its extraordinary high dependence on foreign investment as the means to secure growth. Thus within a short six or seven years, the ANC has shifted from an initial commitment to redistribution, to a developmentalist state and ultimately the growth *uber alles* competition state. Similarly, the political pendulum in Malaysia shifted from redistribution in the post-NEP era very clearly back to growth by the 1990s as the previous chapter demonstrated.

The Post-Apartheid/Post-Cold War Nexus

The negotiated settlement acknowledged the fact that both the apartheid state and the democratic movement commanded sufficient, though differential resources to prevent the unilateral imposition of a new order. The former remained capable of subjecting the latter to both the coercive and infrastructural capacity of the state, whilst the democratic movement presided over considerable symbolic power and international sympathy as well as popular mobilization domestically. Given the fluidity and complexity of these negotiations, the possibility of a Bosnian imbroglio exploding on the tip of the African continent loomed particularly large. As a result, the more immediate need to address political and constitutional safeguards to secure a peaceful transition enjoyed overwhelming priority¹. Exacerbating this neglect of economic policy within the ANC in 1990 was both the demise of Marxist alternatives and the absence of a well-devised economic programme or even basic set of principles, short of the vague and lofty declarations of the Freedom Charter.

The Freedom Charter of 1955 - probably influenced by post-war Keynesianism - emphasised the need for redistribution with a strong appeal to working class demands, but was nonetheless vague enough to 'reconcile business as well as working class interests' (Nattrass, 1994:344). Nationalization however, remained a critical touchstone, with Nelson Mandela noting on the very day of his release that "the nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable" (cf. Munck, 1994:205). Apart from some research

¹ Blade Nzimande, one of the few alliance figures to draw attention to this danger, quoted Mexican sociologist Carlos Villas:

most important about transitions [initiated by previous repressive regimes] is that 'they do not project into the economic sphere, nor do they provide a framework for any substantial changes in the level of access of subordinate groups to socio-economic resources - by income distribution, creating employment, improving living conditions, etc (Marais, 1998:90).

centres abroad, notably Economic Research on South Africa (EROSA) at the School of Oriental and African Studies (SOAS, University of London)², it was only at the Harare Conference in April/May 1990, that internal - mostly COSATU affiliated - and external - ANC-SACP supporting groups - met to draft economic recommendations in the new world of the 1990s³.

Indeed, the failure of the East European economy and the "end of history" *zeitgeist* of the 1990s prompted economists, foreign and local businesses, other governments and international organizations to bring immense pressure on the ANC to review its statist economic sentiments. Yet, even at this early period of the policy debate, the ANC recognised that South Africa's linkages had to be transformed in order to enhance its global competitiveness; that foreign capital was to be used to supplement domestic savings and that foreign investment needed to be encouraged but channelled according to a predetermined growth path, within defined labour standards and environmental balances to ensure that foreign investors reinvest part of their profits into continuing growth (Padayachee, 1997:43).

Nonetheless, for the ANC nationalisation was seen as the only way in which the necessary capital and resources could be obtained to tackle the issue of national redistribution. However, what the ANC was required to do was to find

a consistent set of policies which promoted economic growth and job creation, alleviated white fears and boosted business confidence - while at the same time supporting redistribution, affirmative action, small business development and trade union demands. The policy had to be economically sound, understandable and contain sufficient continuity with past pronouncements that it did not alienate the ANC's political support base (Natrass, 1994:346).

The 1990 Discussion Document on Economic Policy

The 1990 Discussion Document on Economic Policy (DDEP) called for a restructuring of the South African economy - again, a term, vague enough not to tie the movement unequivocally to a particular segment of the multi-class alliance (Natrass, 1994:346). Though strategically useful, it was practically confusing, failing to clearly delineate exactly how state and markets would relate to each other. Rather, the ANC opted for a largely

² Much of the work carried out at EROSA concerned the minerals-energy complex, the savings-investment constraint and the financial market. Although EROSA related to the ANC through activists like Max Sisulu and Pallo Jordan, "there is little evidence that the policy options generated there fed into ANC economic thinking in any systematic way" (Padayachee, 1998:434).

³ The Economic Trends Research Group (ET), initiated by COSATU in 1986 played a key role in hosting that conference, despite the fact that some exiled ANC members viewed the ET leadership with some wariness. In fact, Padayachee (1998:436) notes that the conference represented something of a turning point in the relationship between progressive economists and the ANC-SACP alliance. ET was located within the auspices of the Labour and Economics Research Centre in Johannesburg and by late 1990 had 21 members, of whom all but two were white and only two were women. ET national coordinators, Stephen Gelb and Alec Erwin (who would become Minister of Trade and Industry) led the COSATU delegation to ET meetings (Padayachee, 1998:434).

pro-Keynesian approach which accommodated "both direct intervention via industrial policy, and expansionary demand management" (Nattrass, 1994:346). The state would not only be involved in strategic industrial planning, and the protection of the environment but would also address racial, gender and rural/urban as well as regional imbalances. Although nationalisation remained on the agenda, it would only be contemplated in those cases where "the balance of evidence suggests that it would be advantageous" (cf., Nattrass, 1994:347). Corporate control of mining finance was however on the cards, although the compulsory purchase of enterprises would be a rarity. Though the DDEP's take on industrial policy has prompted many to criticise it for giving the state too much power, Nattrass (1994:347) rightfully contended that it displayed more of an attempt to emulate South Korean industrial policy, stressing strategic intervention and greater control over investment flows. According to the DDEP:

the capital market does not sufficiently direct savings directly into productive activity nor into critical areas of infrastructural development. Instead paper chases paper in a scramble for short-term speculative profit (cf Nattrass, 1994:347).

The DDEP also made the case for tackling the extreme centralization of economic power in the hands of a few conglomerates, committing itself to the 'unbundling' of these enterprises (see chapter 7). At the heart of the DDEP was a process of restructuring via a policy of

'growth through redistribution in which redistribution acts as a spur to growth and in which the fruits of growth are redistributed to satisfy basic needs'. *The central idea was that boosting demand - primarily by putting income in the hands of the poor - would stimulate output in socially and economically beneficial ways* (Emphasis added, Nattrass, 1994:348).

However, the document was sensitive to the danger of inflation due to a massive injection of capital. It therefore recommended that domestic savings had to be mobilized - possibly through prescribed assets and raising taxes on companies and the rich (Nattrass, 1994:348-9). Not only did it have an intuitive appeal but the DDEP also united the various constituencies within the ANC and "appeared to offer a tempting solution to the trade-off between growth and redistribution in the short term" (Nattrass, 1994:349).

ANC policy was clearly seen as catering to labour, with the growth through redistribution framework enabling COSATU to argue that there was no inherent trade-off between high wages and unemployment or between high wages and inflation. But what the DDEP clearly sidestepped was the need for wage growth to be consistent with productivity. Rather, a 'high wage economy' would be underpinned by more resources being devoted to research and development to enhance the capacity of the industrial sector. Nattrass (1994:350) suggests that the ANC was clearly influenced by the prescriptions of American economist Michael Porter⁴. However, the stress on a high wage

⁴ Porter (1990) has argued that the basis for national competitive advantage is not lower wages, but the ability to develop ever more sophisticated industry segments with higher levels of productivity.

economy plus the relative lack of emphasis on a low wage productivity sector, left the DDEP on tenuous foundations (Nattrass, 1994:350).

The media as well as mainstream economists attacked the "growth through redistribution" approach upon which the DDEP was based, arguing that it would force the state into a spending spree, overheating the economy and leading to foreign exchange shortages, currency devaluations, inflation and cuts in real wages along the lines of Chile in 1970-3 and Peru in 1985-9 (Marais, 1998:149).

Within the ANC disagreement over the DDEP divided it into three groups: moderate national leaders supported by most of the economists within the ANC; more grass-roots oriented activists; and finally, the trade unionists. In contrast, given the emasculated position of Malaysian labour, faction fighting revolved more around particular business/politician/bureaucrat coalitions.

For the national moderates within the ANC, the need to enhance conditions to restore economic growth by wooing foreign investors was essential. They feared that the macroeconomic populism implicit within the DDEP could lead to over-rapid redistribution and economic collapse, thereby seriously undermining their chances of reelection. Over the course of 1991, this group increasingly projected business-friendly sentiments (Nattrass, 1994:351). Grass-roots activists were equally unhappy about the ANC's increasingly top-down approach to negotiations and policy formation and skeptical about the technical explanations for what appeared to be a decidedly less militant economic policy. They demanded greater democratic accountability. The trade unionists, becoming suspicious of a tendency to appease business, disliked the assumption of conflict between the interests of organized workers and the unemployed whilst continuing to support the growth through redistribution framework. They also demanded a greater degree of accountability and subsequently pushed for the creation of a 'National Economic Forum' (NEF) between labour, the state and capital - the beginning of a process of societal or tripartite corporatism to attain more of a say in the running of the economy and stop the NP government's privatisation programme and unilateral restructuring of the economy (Nattrass, 1994:352)⁵.

With the launching of the NEF in November 1992 as well as the restructured National Manpower Commission (NMC) COSATU sought to gain more of an autonomous position within the ANC-SACP-COSATU alliance from which to negotiate. In the meantime, ANC economic policy-makers increasingly distanced themselves from

⁵ The first major target of privatisation was the state owned iron-and-steel company, Iscor in October 1989. However, civil servants' hostility to both the notion of privatisation and deregulation, forced the government to rather opt for 'commercialisation' of the South African postal services, telecommunications (which became known as Telkom), as well as electricity generation (Escom) (Lazar, 1996:618). A number of other less significant enterprises were also privatized, but constitutional negotiations stalled the momentum of the process (Lazar, 1996:618).

the trade union agenda in both the draft economic policy resolutions of 1991 and 1992 (Nattrass, 1994:352).

Big Business, the "Change Industry" and the 1991 & 1992 Draft Resolutions

Though there was some continuity between the DDEP and the 1991 draft resolution, the tone of the latter was decidedly more mild and accommodating: "we are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us" (cf. Nattrass, 1994:352). However, the document still stated that "a democratic government will need to restructure and rationalise the financial sector" whilst the burden of taxation was to be shifted to corporations. Maintaining the need for a restructuring of the economy, the draft resolution explicitly called for "*a developmental state to lead, coordinate, plan and dynamise a national economic strategy*". In fact, the new emphasis upon the developmental state was to *substitute* for the commitment to growth through redistribution (Nattrass, 1994:353).

The fact that the democratic movement had not yet developed a clearly defined macroeconomic policy at least until 1994, also spurred the considerable growth of the business sponsored, "change industry". With South Africans witnessing unprecedented levels of change both domestically and internationally, a multitude of consultants, workshops, books and scenario planners, sought to make some sense of it all. This change industry however, was concerned with coming "up with a deal rather than with good analysis" (Bond, 1996:18). Consistent with Cox's notion of intersubjectivity, these exercises rather sought to illustrate the consequences following from the future incumbents' failure to adhere to the demands of globalization and emulation of the competition state model.

As early as the mid-1980s, Shell Oil's Paris based scenario planner, Pierre Wack, helped Anglo American launch its "High Road" growth predictions, subsequently popularised by Clem Sunter and his book/video, *The World and South Africa in the 1990s*. This process becomes all the more significant considering the influence of transnational social forces. Given the power of Anglo American and its close connection to De Beers, one of the earliest and most important elite planning networks remains those connected to Cecil John Rhodes' society of "Initiates" and "Helpers". Its off-shoots include, the Round Table both in the United States and the United Kingdom (after Rhodes' death in 1902); the now famous Rhodes Trust as well as the British Royal Institute of International Affairs and the US Council of Foreign Relations (Van der Pijl, 1995:106).

Following Anglo American, another South African conglomerate, Old Mutual, launched its scenario programme throughout mid to late 1990. It called for a 'social compact', which would try to marry basic needs with the successful strategies of the

NIC's⁶. *South Africa: Prospects for Successful Transition* called for a 'black/white coalition government which would achieve considerable redistribution through high and sustained growth in a market-oriented economy, and which would respect the macro-balances so essential to sound economic growth" (cf. Bond, 1996:20).

If the Tucker vision was at least open to some state-led job creation programmes, Sanlam's 1993 scenario, *Platform for Investment* was decidedly less statist. And, the South African Chamber of Business (SACOB)'s *Economic Options for South Africa*, whilst accepting the need for economic reforms, roundly rejected "growth through redistribution".

Despite some differences between these scenario's, they all argued the case for economic policy to be grounded in trust, negotiation and consensus-building. A kind of "coerced harmony" similar to the dynamic applied at the political level was to be extended to the economic domain (Marais, 1998:150). A set of fundamental truisms also underlay them all, namely macroeconomic stringency, restraints in social spending, and an outward-oriented economy with a facilitating, rather than a regulating, state.

Coming from a motley group of social democrats under the direction of Pieter le Roux at the University of the Western Cape, the Mont Fleur scenarios projected South Africa's future according to the 'ostrich', 'flamingo', 'Icarus' and 'lame duck' images⁷. Bond (1996:29) notes that nobody took the flight path of the flamingos terribly seriously, its value being the emphasis on process rather than product. Even if the scenarios were all rather simplistic, the overall aim was more heuristic. Thus, Icarus illustrated the fate of the ambitious who sought to fly too high too soon as it attempted to satisfy vast working class expectations and ended up being self-destructing. The implicit reference here was directly aimed at the "growth through redistribution model" proclaimed by the Democratic

⁶ Thus towards the middle of 1990,

Tucker [CEO of Permanent Bank] assembled an eminent group of economists and political thinkers (including several from the ranks of the Democratic Movement) and spent R1,7 million on scenario planning brainstorm. The team took as its starting point rather stereotypical views expressed by 40 bank executives who, as part of the scenario planning project, were interviewed for two hours each about what they would want to see in a post-apartheid society. Tucker thus managed to weld a few progressive positions onto an utterly orthodox framework. This eclecticism permitted him to present scenario planning to groups as diverse as the cabinet, the ANC national executive, Anglo American, COSATU leadership and its 'Economic Trends' group, the ANC Department of Economic Planning and the like. Then State President FW de Klerk was said to be especially keen (Bond, 1996:20). Tucker called for a construction job corps and other demand-side factors to kick-start the entire economy. With the kick-start exhausted by 1994, standard manufacturing would move into gear (Bond, 1996:21).

⁷ Without detailing them all here, what is significant is that the favoured 'flamingos', "take off slowly, fly high and fly together" due to the achievement of a "decisive political settlement" and "good government" observing macroeconomic constraints leading to real income gains for wealthier South Africans of 1 to 3 percent and 6 to 9 percent for poorer classes due to increased employment in the formal sector.

Movement. Apart from sowing the seeds for a macroeconomic compromise and pointing the new incumbents in the "right direction", the multitude of scenario building exercises activated by South Africa's burgeoning change industry, also helped create a greater degree of commonality and intersubjectivity amongst the (white) South African public at large⁸.

The Bank and the Fund

International financial institutions also pressured the new "government in waiting", prompting one observer to note that, "even by World Bank standards the Bank's presence represents an unusually large research effort" (cf. Padayachee, 1997:30). As a founder member of the World Bank, South Africa had always enjoyed a "special relationship with the Bank and the IMF" until the mid-1980s when South Africa's status and borrowing rights were restricted in terms of US law (specifically, the Gramm amendment)⁹.

One of the first major IMF reports on the impending transition, predictably called for the liberalisation of financial relations as a means of overcoming balance of payments deficits and increasing exports, foreign investment and credits. Marais (1998:152) contends that "the Bank's *Reducing Poverty* report became the public component of an intensive process of lobbying and 'trust building' with the ANC and other popular organizations". Growth, urged the Bank, hinged upon private-sector led expansion in labour-intensive sectors of the economy" but retaining a subsidising (through incentives and credit) and facilitating role (through investment in health and education) for the state:

South Africa's unequal legacy cannot be reversed solely by market reforms because those disenfranchised by apartheid will be unable to obtain the resources necessary to exploit market opportunities (cf. Marais, 1998:152).

The Bank therefore conceived of some - albeit restricted - role for the state, noting that public sector investment may stimulate private sector investment. It argued that import liberalization needed to be done gradually; recommended the promotion of small-scale black agriculture and land reform and highlighted the complementarity between its conclusions and the RDP which would appear in 1994 (Padayachee, 1997:33). Although reminding it of the need for continued fiscal discipline and "happier" industrial relations,

⁸ Sunter's optimism about the prospects for going along the 'high road', for example, generated a great deal of interest. The white middle class came to realise the possibility of moving beyond the political abyss of the 1980s, whilst Bond (1996:30) highlights how Sanlam's *Platform*, for example, began assuaging manufacturers' unease about the need to export into international markets.

⁹ Vishnu Padayachee has been the foremost scholar on the history of South Africa's relations with these institutions. See his, "South Africa's International Financial Relations: History, Crisis and Transformation". Unpublished Ph.D dissertation, University of Natal, Durban (1990); "The IMF and World Bank in Post-Apartheid South Africa: Prospects and Dangers". Economic Trends Working Paper 6, University of Cape Town (1992); "Development implications for South Africa of using IMF and World Bank loans and resources" in P. Baker, A. Boraine & W Krafchik (eds.) *South Africa and the World Economy in the 1990s*, pp. 184-203 (David Philip & Brookings Institution, Cape Town and Washington, DC); "Foreign capital and economic development in South Africa: recent developments and post-apartheid prospects." *World Development*, February 1995.

the Bank did however note that "labour should not bear the brunt of reduction in real wages" (cf. Marais, 1998:152).

It is on the latter score that the Bank diverged from the Fund. The IMF's *Key Issues in the South African Economy*, reiterated the positive spinoffs from slashed budget deficits, lowered inflation, the maintenance of macroeconomic stability and liberalized financial relations. It argued that "excessive" government expenditures on education, health, training and complementary infrastructure was counter-productive, contending that structural unemployment had to be reduced through increased productivity or lowered real wages, or a combination of the two (Marais, 1998:152). In short, in the post-Cold War era, the message coming from the IMF was, *growth first and redistribution later* contrary to the pro-redistributionist sentiment of the 1960s and 1970s (cf. Padayachee, 1997:31). These recommendations were, for the most part, well received by South African business¹⁰.

Not surprisingly, the ANC's 1992 draft policy guidelines (DPG) were considerably more business friendly than earlier proposals. Instead of advocating increased company taxation, the draft proposed setting up a fiscal commission to deal with the "complex details of fiscal changes". The DPG made no reference to restructuring or regulation of the financial sector and even proposed that the role of the state sector be reduced through privatisation. In addition, the DPG attempted to assuage white fears as well as those of business by emphasizing that "everyone should be protected against arbitrary and lawless interference with their property rights" and that the ANC "did not support giving positions to unqualified people simply on the grounds of race or gender" (Nattrass, 1994:354). Moreover, ANC policy began to distinguish between the interests of consumers and the interests of workers¹¹. Prior policy positions implicitly gave priority to production over consumption, demanding targeted intervention and tariff protection for certain industries.

However, trade unions and activists did fight against the compromises at the ANC's May 1992 Policy Conference. Privatization was pushed off the agenda and the wording of other placatory pledges were softened. In the end, however, the personal

¹⁰ Johannesburg's *Business Times* in particular, openly declared that

The IMF will want measures such as currency liberalisation, reducing government spending, cutting subsidies to blue chip companies, privatising state assets and busting the cartels in labour and other markets. Some will complain about a loss of sovereignty, but we would have undertaken these reforms years ago had we not been thwarted by vested interests...we've been unable to make the reforms that will give us 6% growth. Perhaps the IMF will help (cf. Marais, 1998:152-3).

¹¹ COSATU largely supported the retention of tariffs even if it meant more expensive goods - particularly for the poor who could least afford it. Yet as Nattrass (1994:354-5) argues, the ANC's constituency stretches way beyond the trade unionists. It therefore declared that "trade barriers will be adjusted within an agreed framework to prevent the destruction of domestic production, jobs and exploitation of South African consumers".

presence of Cyril Ramamphosa, Walter Sisulu and Nelson Mandela ensured that post-1990 policy retreats were endorsed. Nationalisation remained rhetorically on the cards, whilst the term "privatisation" was substituted with "reducing the public sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged while ensuring the protection of both consumers and the rights and employment of workers" (Nattrass, 1994:355; Marais, 1998:154). The need for controls over financial institutions was reinserted, compelling a future government to "introduce mechanisms to ensure that financial institutions channel resources into appropriate directions". The notion of a "developmental state" continued to gain increasing currency as a means to "lead, coordinate, plan and dynamize a national economic strategy aimed at job creation and redistributing resources to the poor" (Marais, 1998:154).

Reflecting on the shifting sands of ANC economic policy, Nattrass (1994:356) finds the 1990 Discussion Document a pacifying effort for those who demanded immediate redistribution by going with "growth through redistribution". As the ANC leadership became increasingly sensitive to the need to ensure long-term sustainable growth and its own political future, economic policy became more business friendly. At the same time, the labour movement came to be seen as representing a narrow and relatively privileged "labour aristocracy" as tensions arose regarding a minimum wage, which also ran against the interests of the *petit bourgeoisie* within the ANC. As Nattrass (1994:356) suggests,

An ANC government will clearly want the freedom to pursue industrial policies - even when these are not to the short term disadvantage of capital and employed labour. If ANC policy makers are going to model themselves on the Asian developmental state, the last thing they will want is COSATU to be demanding to be consulted at every turn.

In Malaysia, it was because of the compliant labour movement that state elites enjoyed some degree of insulation from these kinds of societal pressures. However, the subordination of labour also meant that capital exercised a preponderant influence upon the state, thus exacerbating the likelihood of a rentierist patronage network.

Labour Reacts

In order to counteract a gradual move toward the right, labour in late 1992 issued a policy document emphasising the need for more extensive state intervention, in terms of job creation, education, health and housing in order to overcome attempts to portray it as an exclusively labour based movement (Marais, 1998:156). In addition, COSATU sought to institutionalise a greater role for itself in economic and industrial policy making. Within ANC economic policy circles, much of the strain and lack of policy direction arose from parts of the organisation espousing a developmental state approach against social democratic type measures. In full recognition of these tensions, COSATU floated the idea

of binding the ANC into some kind of 'reconstruction pact' which would address affirmative action, training, better social services and a variety of public works programmes. COSATU indicated that its electoral support would henceforth be dependent on the degree to which the ANC committed itself to the reconstruction pact (Natrass, 1994:357). To labour, the strategic value of a social compact proved its worth earlier when several COSATU affiliates at the level of business and industry, notably the NUM (National Union of Mineworkers), put a profit-sharing agreement into practice with mining houses; whilst NUMSA (National Union of Metalworkers) had generated agreements with employers regarding the restructuring of the auto industry. In line with this thinking, COSATU pushed for the creation of a National Economic Forum (NEF), a bargaining body which would transfer decision-making policy from government into a new forum where trade unionists could wield greater influence (Marais, 1998:156). In Malaysia in contrast, initiatives such as the NECC (as well as the NEAC, created amidst the Asian crisis) were paraded as corporatist institutions, but were ultimately a function of the Malaysian leadership, especially Mahathir and not the Malaysian labour movement.

Whilst the ANC did not particularly greet this development with enthusiasm, COSATU agreed at its 1993 Congress not to adopt a hardline position on the reconstruction pact. However, as the conference discussed the 1994 general election, the long standing strains between the ANC and the trade union movement came to a head. It was finally decided that 20 trade unionists would take up positions in the top half of the the ANC's election list, even though many feared that the departure of such prominent figures as Jay Naidoo, Alec Erwin and Marcel Golding would leave COSATU as well as other sections of civil society, notably the NGO sector, considerably weakened (Webster, 1998:49). COSATU agreed to remain within the multi class alliance in exchange for the ANC developing a coherent, mass driven programme for reconstruction (i.e the Reconstruction and Development Programme) to be included in its preelection manifesto.

1993: The IMF, MERG and the NEM

Three prominent developments had a particular impact upon ANC economic policy in the immediate pre-multiparty elections phase. Firstly, the Transitional Executive Council (TEC), the multiparty body established to oversee preparations towards the 1994 elections, signed a US \$ 850 million Compensatory and Contingency Financing Facility with the IMF. This was purportedly designed to support South Africa's balance of payments following a decline in agricultural exports and increase agricultural imports in the wake of a prolonged drought. As a condition of the loan the IMF simply wanted "an undertaking, by a legitimate body, that the economy would be responsibly managed". The accompanying Letter of Intent, however, was at pains to stress the importance of controlled inflation, monetary targeting and industrial liberalization and cautioned against overly "regulatory interventions". The Letter in turn, committed the new government to a

reduction of the government deficit to 6 percent of the GDP within the next few years; expenditure containment rather than tax increases; containing the civil service wage bill; the continuation of tight monetary policies as followed during the previous four or five years; wage restraint coupled with investment promotion and employment promotion; trade liberalization and the maintenance of the financial rand system without introducing further exchange control mechanisms (Padayachee, 1997:32; Habib, Pillay & Desai, 1998:107). In addition to these measures, the IMF also indicated that "some form of social compact with the trade unions and business would be required for a standby facility". Presumably, a commitment to wage restraint would be a key element of such a compact (Padayachee, 1997:37).

Secondly, the National Party (NP) released its Normative Economic Model (NEM) in March 1993, drawing heavily on IMF thinking. Whilst continuing to emphasize a more neo-liberal approach¹², the NP also called for the creation of a transitional safety net and, in the longer run, a 'targeted' safety net to protect the very poorest and the most vulnerable, who may be disadvantaged by the removal of protective tariffs, reduced state expenditure and the like. Clearly, the NP was motivated by the need to establish its credentials in an attempt to project itself as a party capable of recruiting members beyond its traditional base (Lazar, 1996:619). For as the ANC became more business-friendly it increasing cut into the pro-business political niche the NP - Afrikaner Nationalists erstwhile party bulwark against "international capital" - attempted to cultivate. Although both the ANC and COSATU immediately slammed the model, ANC economic thinking would - towards the end of the 1990s - be barely distinguishable from the NP's NEM.

In the third instance, one of the more promising policy frameworks to emerge from the democratic movement - *Making Democracy Work* - developed by the ANC's Macroeconomic Research Group (MERG), was rapidly run into oblivion by a multitude

¹² According to the NP's 1993 document, *Key Issues in the Normative Economic Model* "market oriented economic systems do better than centrally planned ones, and ...participants in market systems do better when their freedom of decision is not directly curtailed, but at most indirectly guided". It therefore advocated, "(i) a smaller state and public sector; (ii) a reduction of the overall tax burden, (iii) a shift from direct to indirect taxation, (iv) a curtailment of recurrent state expenditure, (v) a shift within the budget from consumption to investment expenditures; and (iv) the dismantling of "most of the government's market participatory and regulatory machinery" (Lazar, 1996:619).

of opponents both within and outside the tripartite alliance¹³. Essentially, MERG called for the restructuring of the economy through labour market reforms (improved training and higher wages) and improving the structure and operation of business. Strategically the plan consisted of two phases, namely a public-investment led growth phase and thereafter a "sustained growth phase" which tied growth to expanded and efficiently deployed savings and investment. Thus it stood in contrast to the demand-led path of large state expenditures advocated by the earlier growth through redistribution approach. These assumptions were a reflection of the enormous deficit in human development¹⁴ The state was to play a robust role, since state intervention was required

...in output and pricing decisions in the minerals sectors, regulation of the housing and building supplies market, tightening and extending controls on mergers and acquisitions, monitoring the behaviour of participants in oligopolistic markets, and creating supervisory boards (consisting of bank, trade union and other represented interests) for larger companies (Marais, 1998:159).

State investment in social and physical infrastructure (electrification, school education, housing, etc) would account for more than half the growth in the first phase and thereafter trigger growth-inducing effects throughout the economy in the second. The MERG model predicted an annual growth rate of 5 percent in 2004 and the creation of 300 000 new jobs per year.

Needless to say, MERG generated a barrage of criticism. The required minimum wage - to improve productivity, reduce absenteeism, labour turnover and illness, many argued, would cause low wage labour sectors to shed labour once the minimum wage was

¹³ During a visit to Canada in June 1990, then president of the ANC, Nelson Mandela raised the issue of the need for a better understanding of economic policy issues within the anti-apartheid movement. Coordinated by the Canadian International Development Research Centre (IDRC), a team of Canadian and African economists lead by John Loxley and Benno Ndulu made recommendations as to the improvement of policy making capacity within the movement. The IDRC Mission to South Africa found this capacity to be underdeveloped and uncoordinated and called for the establishment of MERG. Published as a book by the same title, the editors of *Making Democracy Work* were Ben Fine, Laurence Harris, Vishnu Padayachee and John Sender. Macro-economic modelling was done by Australian economist, Peter Brain with Vella Pillay acting as overall project coordinator. All in all, MERG produced 45 research papers and reports over two years. 64 university based economists, both South African and foreign, were involved in varying capacities. Only a handful were women, although as many as twenty were not white. Many of the South African participants were also involved in the ET and ISP (Padayachee, 1998:438).

¹⁴ South Africa required

a housing programme of 350 000 per annum (excluding the special needs of the rural population); a water supply programme of R1 billion per annum with recurrent expenditure rising to R600 million per annum within 10 years; an access and feeder road-building programme of R3,2 billion per annum; some R17 billion per annum to provide 10 years of universal education; an electrification programme rising to at least 400 000 new connections per year; and a health programme which among other goals would fund 2000 clinics at a capital cost of R300 million and a recurrent cost of R1,5 million per annum (cf. Michie & Padayachee, 1997:15).

introduced (Nattrass, 1994a:522). MERG was also accused of failing to pay sufficient attention to the question of business confidence¹⁵. And the need for the state to provide direction and coordinate development could not be reconciled, critics argued, with a coherent macro-economic policy which did not guarantee the "independence" of the Reserve Bank (Marais, 1998:159).

Despite the fact that even detractors described the MERG report as "by far the most comprehensive strategy document yet produced in South Africa on economic policy" (Nattrass, 1994a:219), it died an early death¹⁶. Being "the most sophisticated popular economic strategy ever devised in South Africa", *Making Democracy Work* "was savaged in the media and by mainstream economists" (Marais, 1998:160). In fact, the report was killed the very weekend it was launched in November 1993, by conservative ANC technocrats (Bond, 1996:32). Why the MERG Report was so precipitously abandoned, remains uncertain. South African Communist Party Secretary General, Jeremy Cronin has argued that because of the absence from the South African economic debate of MERG's 'outstanding British economists', the project became marginalized (Padayachee, 1998: 439). Another less specific explanation, has it that in addition to the actors and conditions discussed throughout this chapter, MERG did not effectively feed into the RDP's formulation. According to Padayachee (1998:440) "the more grassroots trade union and civic leadership of the movement which were charged with driving the RDP either did not trust nor have much faith in what they may have perceived to be the more theoretical/intellectual approach of many academic economists and social scientists. That may also explain SANCO's absence from MERG"¹⁷.

Thus well before South Africa's first democratic elections, the De Klerk government, private local capital and international financial institutions had formed an informal, though formidable "triple alliance" and in those "early years they honed whatever [the] occasion presented itself to attack and disparage any 'business unfriendly' ANC economic ideals and proposals" (Padayachee, 1997:41).

¹⁵ For more on the academic debate surrounding MERG, see also, Kaplinski, (1994).

¹⁶ Numerous positive reviews of MERG were published in academic venues, whilst the British economist, Chris Edwards, writing in the *International Review of Applied Economics*, noted that "...it is hard to see a peaceful or prosperous society emerging from the application of the 'orthodox economics' of the NEM. In comparing MERG and the NEM in the light of the appalling legacy of apartheid, it seems clear that there is no alternative to an approach modelled on that of the MERG" (cf. Padayachee, 1998:439).

¹⁷ Padayachee (1998:440) continues:

"Those relatively more senior movement leaders who did have a better history relating to progressive academics, mainly because of ET, ISP and MERG, and were champions of the RDP, such as Alec Erwin and Jay Naidoo, were fighting mainly on the political front to secure the ANC leadership's formal acceptance of the state-led, interventionist-RDP framework as official policy. That formal endorsement was made, after intense internal lobbying, just weeks before the April 1994 elections".

The Reconstruction and Development Programme (RDP)

The ANC's adoption - and ultimate abandonment - of the more populist driven RDP, clearly reveals the degree to which the pressures of globalization, domestic capital, the international financial institutions, factions within the ANC leadership as well as the *ancien regime*, prompted the new government into the equivalent of a globally acceptable self-imposed structural adjustment programme.

The genesis of the RDP can be traced back to an initiative by the trade union movement, particularly the National Union of Mineworkers (NUMSA), which envisaged a specific set of targets against which ANC economic performance could be measured. The RDP largely endorsed ANC economic policy as adopted at the National Conference, but emphasised rural development, housing issues and affirmative action much more. Both the RDP and MERG envisaged the promotion of economic growth and basic needs as part of a single, integrated development strategy¹⁸ :

The RDP integrates growth, development, reconstruction and redistribution into a unified programme. The key to this link is an infrastructural programme that will provide access to modern and effective services like electricity, water, telecommunications, transport, health, education and training for all our people (ANC, 1994:6).

Most notably, it was far less concerned with investor confidence. Regarding the treatment of foreign investors, the document was far less ambiguous than the 1992 draft policy document: no exemptions were to be made. Though conceding that "stable, consistent and predictable policies as well as a dynamic economy should create a climate conducive to foreign investment", the RDP did not refer to any specific measures to attract foreign investment and reaffirmed the 1992 policy towards the IMF and World Bank (Padayachee, 1997:44). The RDP was not particularly concerned with participating in the global "beauty contest" aimed at attracting foreign investment.

The RDP passed through a wide-ranging consultation and discussion process eventually also including the corporate world. The wide-ranging consultation also ensured that, gradually, the stridency of the Base Document was minimized with some COSATU activists openly conveying their dismay that in the first four COSATU drafts "every single

¹⁸ The RDP did commit government to a rather tall order. The Base Document pledged amongst other things to "create 2,5 million new jobs in 10 years; build one million low-cost homes by the year 2000; provide electricity to 2,5 million homes by the year 2000, doubling the number of households with such access from the then 36 percent; provide running water and sewage systems to one million households; redistribute 30 percent of agricultural land to small-scale farmers within five years; shift the health system from curative services towards primary health care, with free medical services for children under six years and pregnant women at state facilities - by 1998, all South Africans were to receive their basic nutritional intake, thanks to school-feeding and other schemes; provide 10 years of compulsory, free education as well as revise the curriculum, reduce class sizes and institute adult basic education and training programmes; extend infrastructure through a public works programme; and restructure state institutions to reflect the racial, class and gender composition of South African society" (Marais, 1998:180).

clause is already ANC policy" (Marais, 1998:179). Consequently, when the RDP went through another revision in February, "it was toned down with the caveat that any changes to private mineral rights 'be done in consultation with all stake holders'" (Nattrass, 1994:358).

After intense internal lobbying, the ANC leadership formally accepted the RDP's developmentalist framework as official policy only weeks before the April 1994 elections.

Slowly to the Right: The RDP White Paper

Six months after the ANC's handsome victory in South Africa's first democratic elections under the banner of the RDP, the ANC-led Government of National Unity (GNU) published the RDP White Paper as "a policy-making methodology and outline[d] government implementation strategies within the framework provided by the Base Document" (Marais, 1998:181). Rhetorically, the November 1994 post-election RDP White Paper continued to stress the need for "coherence, integration and transformation", but was markedly more market-orientated than the original base document, more technocratic and less prescriptive¹⁹. Moreover, Jay Naidoo the former General-Secretary of the Congress of South African Trade Unions would become Cabinet minister primarily tasked with the implementation of the RDP.

Many of the core principles of the RDP (Base Document) - particularly the commitment to a 'growth through redistribution formula' - were altered towards a clear focus upon those factors which inhibited growth and investment more directly rather than redistribution and meeting basic needs. In fact, notes Marais (1998:181), "the broad contours and some of the specific assumptions of the GEAR strategy were already evident in the White Paper".

In terms of the RDP White Paper, the programme would be funded by "better use of existing resources", that is, by rationalizing and reallocating budget priorities and thereby unlocking opportunities for private sector funding. Fiscal and monetary discipline would however reign supreme²⁰. Accordingly, plans for the restructuring of the financial sector were abandoned; the independence of the Reserve Bank was guaranteed and references to a possible national social security programme were dropped, whilst attention would have to be paid to "those economic factors inhibiting growth and investment and placing obstacles in the way of private sector expansion" (cf. Marais, 1998:188). Redistribution would not be

¹⁹ Reflecting the corporatist political culture of post-apartheid South Africa, the team drafting the RDP White Paper included from government, Ismail Momait of the Department of Finance, Andre Roux of the Development Bank of Southern Africa, as well as ex-COSATU leaders Jay Naidoo, Bernie Fanaroff, Howie Gabriels and Patrick Bond from SANCO.

²⁰ As then deputy president Thabo Mbeki noted to Parliament in July 1994:

The government is committed not to increase the tax burden, which could impact on revenue and was also committed to reducing the budget deficit. *The government's capability to deliver on the RDP depends on the economic growth rate* (emphasis added, cf. Marais, 1998:182).

simultaneous with fiscal discipline as proposed by MERG but would predetermine the scope for redistribution.

Instructively, the RDP White Paper went through eighteen different drafts, circulated within government, whilst business was also part of the redrafting team. In contrast, social and labour movements only saw versions of it towards the end of September 1994, when most of the work had already been done (Padayachee, 1998:441).

Not 'Competitive' Enough: the Demise of the RDP

By August 1995, less than a year later, however, the first tell-tale signs of waning support for the RDP became evident. A new cabinet committee, chaired by Thabo Mbeki, then Deputy President, was established to coordinate economic policy with a particular emphasis on the need for generating economic growth, clearly cutting into Naidoo's turf. However, the RDP Office remained intact, but only up to February 1996, when Mbeki announced that a new interdepartmental team under his direction was putting plans together for a new National Growth and Development Strategy. Following a surprise cabinet reshuffle at the end of March, the RDP Office was abolished with Naidoo reappointed as a very energetic & reformist Minister of Broadcasting, Post and Telecommunications (Blumenfeld, 1996:188). The RDP Fund itself became more integrated with the Department of Finance together with all the staff and project planning, monitoring and evaluation functions.

These redeployments occurred against a backdrop of growing financial turmoil. From a record net outflow of R15 billion in foreign capital in 1993, the capital account registered a net inflow of R5,2 billion in 1994. And in the ensuing 18 months, from July 1994 to December 1995, a net amount of more than R30 billion flowed into South Africa from the rest of the world.

Like Malaysia during the late 1990s, most of these flows were short-term capital leading to a sudden outflow of foreign capital in the first half of 1996 causing the rand to depreciate²¹. The rand, which had appreciated by 5,5 per cent from the end of May 1995 to the middle of February 1996, depreciated by more than 15 per cent in the next two and a half months (Padayachee, 1997:18). The trade account of the balance of payments became highly erratic and with foreign exchange reserves equal to just five weeks' import cover (one of the lowest in the world), growing attention came to rest upon the appropriateness of government's macro-economic framework (Mitchie & Padayachee, 1997:224). Trevor Manuel, minister of finance, admitted two years later during an

²¹ The crisis was, in part, self-created for in early 1996 officials in the Department of Finance felt the rand was too high and needed to be devalued, in order to boost exports. But given the independence of the central bank, the question was how to achieve a devaluation and take maximum advantage thereof. However, whilst these plans were being conjured, there was a run on the rand. It would later appear that some business people saw where the politicians were going, prompting them to preempt it all by selling rands. Thereafter, the problem was stopping the rand from slipping even further (Matisonn, 1998:3).

academic conference in Cape Town, that these pressures were catalytic in prompting government to review the usefulness of the RDP. And Padayachee (1998:441) also notes that "the dramatic collapse in the value of the rand in the first quarter of 1996, appears to have forced the GNU to accelerate the production of its macro-economic framework document in part to reassure jittery international financial and currency markets of its fiscal prudence". In much the same fashion, the 1980s and 1990s crises also prompted the Malaysian state elite to reconsider economic policy, although with much greater resistance within the ruling clique (see chapter 5).

The markets clearly did not look favourably upon the prescriptive and interventionist new South African state with its specific targets for everything from housing, land redistribution, health care, education, electrification, and water supply to telecommunications and transport - even nutritional and environmental standards.

Institutionally, the potential success of the RDP was also undermined by a lack of autonomy. It was never clear whether the RDP Office would be a 'super-ministry' as Blumenfeld (1996:187) calls it, auditing the activities of line departments, or simply a development planning ministry which initiates new projects. Although Jay Naidoo, was a full cabinet minister ('Minister Without Portfolio'), his most senior official was only accorded the status of a deputy director general. Institutional uncertainties abounded, leading to territorial disputes between the RDP Office and individual ministries. For example, although Naidoo had signing power over the RDP Fund, projects had to be approved by a cabinet committee, whilst the Department of Finance was responsible for disbursements. The RDP Office insisted that all foreign aid, including aid for non-governmental organizations (NGO's), be channelled through the RDP Fund for proper coordination. This created bottlenecks. On the one hand projects were starved of funds and alienated donors. On the other hand, more than R2 billion of unspent funds were rolled over from 1995-96 (Marais, 1998:190). And many other projects were labelled as 'RDP' even though they had no connection to the RDP Office nor the RDP Fund at all (Blumenfeld, 1996:188).

Delivery, which was so crucial to the perceived success of the RDP, was thus immensely complicated by the lack of administrative capacity - particularly at local governmental and provincial levels where these bodies had to be established *ab initio*. Many local governments especially were only founded after the postponed local government elections in November 1995.

In addition, incumbent civil servants were highly resistant to the kind of changes the RDP would bring about, worsened by a tendency to rely on the expertise and personnel of the more orthodox post-"homelands" Development Bank of Southern Africa as well as the World Bank. Rather than considering the RDP as a gauge with which to prioritize budgets, many line ministries frowned upon the intrusive role of the RDP, using it as a bargaining lever with which to extract more expenditure without significantly

altering preexisting programs.

Thus, confusion over the exact role of the RDP, the lack of clarity on mechanisms and priorities, the growing emphasis on growth as well as possible jittery reactions from the international capital markets, all combined to seriously jeopardise support for the Programme.

Yet, despite these very practical problems, the unavoidable conclusion is that these problems served in effect to undermine the potential of the RDP and make a straw man of it from the outset. As the essential policy document with which the ANC would be brought to victory in the country's first democratic elections, it remains remarkable that "no organised academic think-tank, *a la* ET, ISP²², or MERG lay behind the formulation of the RDP" (Padayachee, 1998:440). Moreover, if the issue was the inefficiency of the RDP National Office, it could have been redesigned - to be less orientated towards the Finance Department and the international financial institutions - and implementation programs developed. From a more leftist position, Maganya (1996:7-8) contends that the main reason for closing the RDP National Office - bureaucratically inefficient as it was - had more to do with the need to observe fiscal prudence, particularly because the World Bank was skeptical about the possibility of reducing state expenditure by leveraging RDP funds. According to the World Bank, this approach to restructuring state expenditure would worsen the Public Sector Borrowing Requirement which had already reached an unsustainable level of 10 per cent of GDP in 1994. John Matisonn (1998:2) has remarked that by having the RDP ministry's work financed by savings in the existing line budgets of departments, Naidoo had no control over fiscal policy, that is, spending levels whilst the line departments saw him as "at minimum an intrusion, at most a threat".

Problematically, the RDP, "is committed to fundamental transformation on the one hand, and macro-economic stability on the other. The RDP is friendly to business, friendly to labour and friendly to the poor" (Fine & Van Wyk, 1996:21). Politically, the RDP's openness ensured that the ANC retained the support of a variety of social, political and economic interest groups. Practically, however, the means by which those objectives were to be reached remained vague. The document failed to suggest priorities or costings, nor did it suggest that resource constraints would force the consideration of trade-offs between objectives. It failed to appreciate the difficult macroeconomic constraints within which it was to operate (Blumenfeld, 1996:186-7).

Therefore, considering the initial reluctance of the ANC to accept the RDP as the basis for a post-apartheid "Marshall Plan" and the *kind* of difficulties which beset

²² The ISP was led by four co-directors, all university based political economists or sociologists: Dave Kaplan and Dave Lewis at the University of Cape Town; Avril Joffe at the University of the Witwatersrand; and former South African, Raphael Kaplinsky at Sussex University's Institute for Development Studies. The arrival of the latter in particular emphasised "the creation of international competitiveness, supply-side intervention, skills upgrading, technological and work place reorganisation" and similar post-Fordist concerns (Padayachee, 1998:436).

implementation of the RDP, *its fundamental purpose lay in the ideological and not the economic realm*. Padayachee (1997:440) also writes that "it has become even more clear that the RDP was viewed by the ANC leadership as just a mobilising tool for election purposes".

In contrast, for many mass-based grassroots organizations, the main aim of the RDP was to commit the ANC to consultative policy formulation and implementation. Implicitly, as Natrass (1994: 359) notes, the RDP was intensely suspicious of the future central state and therefore heavily emphasised community control and access to governmental resources²³.

The RDP/Corporatist Conjuncture

The RDP provided the pretext for an extraordinary level of centralisation of decision-making. This centralisation was not restricted to state created institutions only, but was intended to incorporate key sectors of civil society as well.

As Fine & Van Wyk (1996:58) reflect

The RDP promises to grant government resources to organizations of civil society and to set up a coordinating body for NGO's; but only, as it puts it, for the implementation of the RDP itself (WP 7.6.5). The role assigned to 'civil society' is to interpret (but not define) the aims of the RDP (WP 7.6.9) and to lead their members to align their own particular interests with those of the RDP. The organisations of civil society are obliged to support the RDP if they are to be granted access to state controlled resources. Civil society becomes that society which supports the RDP.

In other words, instead of the RDP becoming a means to hold the ANC as government accountable, it served to entrench the corporatist political culture of post-apartheid South Africa. The political value of the RDP lay in the fact that it was a "one size fits all" programme through which the ANC could construct a growing hegemonic role. Hence, Jay Naidoo, RDP Minister, encouraged "everyone...every organisation, every opinion-making group that can contribute"... "that's the protection this government needs

²³ According to the document, "[T]he RDP reflects a commitment to grass-roots bottom-up development which is owned and driven by communities and their representative organizations. The RDP proposes setting up many new structures. One of these is a community development fund within the context of a national public works programme to make resources available to communities. The RDP demands that government provide 'substantial funding for land redistribution', that it provide subsidies to make housing affordable, keeps interest rates low, and ensures housing is provided for all. However, communities are in control here too: 'community organizations and other stake holders must establish minimum basic standards for housing types' and communities must get sufficient funds to ensure that they are not divided. Similar demands for community control and access to substantial government resources are found throughout the RDP with respect to rural development, water and sanitation, electrification, transport, environment, health care and social welfare".

to ensure that if anything goes wrong, it will be our collective responsibility" (cf. Marais, 1998:185). Indeed, once everybody has become responsible for the lack of governmental delivery, it becomes quite evident that corporatism and hegemony become two sides of the same coin. Infinitely malleable in policy terms, the RDP thus also served a hegemonic purpose for:

Within the context of the national liberation struggle it [the RDP] signifies continuity. Within the transition it signifies unity. In fact, it is against the background of the nation-building project that the RDP's utility becomes manifest. There it functions as an axis around which the principles of inclusion, conciliation and stability can be promoted in tangible form. Within its ambit, disparate interests are seen to become reconciled in a unifying "national endeavour" (Marais, 1998:193).

Reflecting "a residue of Marxism, a spoonful of Chicago economics, a dash of Western European democracy and much local spice" (Ash, 1997:33) *the RDP fulfilled the crucial role of appeasing international forces whilst consolidating domestic political power and buttressing a long-standing and powerful shift towards corporatist decision-making. In Malaysia, in contrast, the incompatibilities between international expectations and domestic demands were managed by rentierist patron-client linkages because of the emasculated position of labour.*

Corporatism is nothing new in the history of South Africa's political economy²⁴. Yet, the corporatism of the 1990s has been precipitated by various novel forces and conditions. Firstly, the reconciliatory spirit which underlay the political settlement encouraged a consensual approach to state-society relations - underpinned by the normative commitment to "national unity". Secondly, the history of co-operation between the ANC, COSATU and the South African Communist Party (SACP) prior to, as well as after the 1994 election, coupled with the overlap of membership between these structures, "meant that a repressive response [of the dissatisfied majority] could not be realised without debilitating divisions and tensions within the ruling party itself" (Habib, 1997:71). Thirdly, and somewhat ironically, the extension of corporatism was prompted by the organisational strength of COSATU as the largest movement in the country with a militant base situated in nearly every important industry.

Societal corporatism has become a 'crisis response' in which both elites within the National Party and the ANC realised the need to contain a possible campaign of mass

²⁴ During the 1920s, Afrikaner labour was also coopted so as to prevent it from upstaging the Afrikaner Nationalist project which sought to nullify class consciousness in favour of an ethnic identity (see chapter 4).

discontent against the largely neo-liberal economic programme upon which they were to embark²⁵. As Habib (1997: 71) writes:

A repressive response would have provoked a mass counter-reaction that could have threatened the viability of the transition itself. At the least, the mass reaction which such a response would have provoked would have generated political instability and threatened the much heralded investment that the GNU [Government of National Unity] was so eager to attract. Corporatism thus seemed the most feasible response for state elites intent on neutralising a potential opposition while simultaneously retaining a sense of political stability”.

Nor would the corporatist arrangement appear as appealing if COSATU leaders had not been participants in the ANC-led tripartite alliance, for “this conditioned their strategic choices and tied them into support for the new consensual capitalist order negotiated primarily between the ANC and NP” (Habib, 1997:71).

Whereas many COSATU leaders who were also members of the SACP vociferously rejected social democracy previously, the collapse of the Soviet Union and the ideological model that went with it, made social democracy the next best alternative. But to justify this policy shift, a “new route to power” had to be sought - one which lay between revolution and social democracy - and would allow the union movement access to the institutions and processes that determine the political economy of post-apartheid South Africa. These goals would be realised

[B]y sending the union leadership into the state structures through the electoral slate of the ANC, and, by establishing corporatist institutions that guaranteed the union movement, in partnership with the state and business, the right to determine industrial, labour market and economic policy (Habib, 1997:72).

²⁵ According to this perspective, corporatist institutional arrangements are state creations in times of crisis similar to those pursued in Peru, Brazil, Chile and Mexico. Stepan (1978) argued that through these measures, elites seek to realise the ‘integral security’ that connects national security and development. By entering into an alliance with the military and multinational corporations, Stepan argues, state economic elites attempt to achieve the social peace required for their developmental plans. In these conditions, Third World elites have been attracted to this type of corporatism because “there is a widespread elite fear that the old modes of domination are breaking down, and they search for new mechanisms to link the lower classes to the state and new formulas to legitimise such mechanisms” (Stepan, 1978:58).

The underlying and crucially important motivation for these corporatist moves originated with negotiations amongst the state, labour and business on economic policy and South Africa's entry into the world economy. For, as Habib (1997:61-2) has noted,

These negotiations, unlike those of the 1980's, were subsumed under the ideological rubric of national unity, and had as their express purpose the generation of a tripartite plan to make South African companies more competitive in relation to their counterparts in other parts of the world. In this new vision, labour, capital and the state were conceived as partners in a national project to make the South African economy more competitive".

The popularity of corporatist political practice has therefore been instrumental in galvanising the necessary political power required by the ANC for South Africa's development towards a competition state.

From RDP to GEAR

In the meantime, the South Africa Foundation (SAF) - the erstwhile diplomatic arm of South African big business during the sanctions era, now turned business lobby group²⁶ - presented its economic policy document entitled, "Growth for All" in February 1996 (hereafter "SAF"). A few months later, labour, particularly COSATU and Nactu (National Council of Trade Unions), delineated its views on macroeconomic policy in its document "Social Equity and Job Creation".

Amidst much controversy, the government also announced its new economic policy document, "Growth, Employment and Redistribution" (GEAR) on 14 June 1996, stressing that it was "not negotiable" (Padayachee, 1998:441). Remarkably, no consultation within the ANC preceded the unveiling of GEAR. Even top officials were not acquainted with its details, or at least this was what Mandela admitted to during COSATU's 1997 national congress (Marais, 1998:160). Even more surprising was the remark by one of its key drafters, Andre Roux, deputy-director general of Finance, that more research was required on the link between job creation and growth in GEAR²⁷.

Specifically, GEAR aimed to reduce government spending by driving the budget deficit down to 3 per cent by 2000; kept inflation to single digits; provided tax holidays for certain investments and reduced corporate taxes; gradually phased out all exchange controls; encouraged wage restraint by organized workers; speeded up inflation and created a more 'flexible' labour market by deregulating certain sectors of unskilled work

²⁶ For an informative rendition of the process through which a largely redundant South Africa Foundation was remade into a big business lobbying agency, see Uys (1996).

²⁷ Along with Roux, a 17 member "technical team" was responsible for developing the GEAR strategy. 16 were white and 16 were men, with six economists drawn from three South African universities: 3 from the University of Cape Town, 2 from Stellenbosch and 1 from Durban-Westville. Three worked at the Development Bank of Southern Africa, two at the World Bank and two at the South African Reserve Bank. The departments of Finance, Labour, Trade and Industry and the Deputy-Presidents office were represented by one person each (Padayachee, 1998:441).

and exempted small business from new labour laws. These measures were expected to increase annual growth by an average of 4,2 percent, create 1,35 million jobs by 2000, boost exports by an 8,4 per annum percentage and at the same time dramatically improve social infrastructure (Marais, 1998:161-2).

However, the plan hinged almost entirely on an implausible assumption concerning private investment levels. In order to achieve the 4,2 percent growth rate, a fiscal stimulus of 3,9 percent was required, *with a full 93 percent of that stimulus to come from private investors*. Yet, apart from targeting a reduced fiscal deficit and low inflation rate, there were no other specific incentives to attract investments (Marais, 1998: 165). In short, both GEAR and the NDP/Vision 2020 as competition state blueprints, fundamentally assume the state to be successful in order to attract the necessary levels of FDI.

The GEAR and SAF documents displayed a remarkable degree of similarity. Apart from differences over infrastructural investment, labour market policy, and welfare spending, both underlined the importance of policy consistency, fiscal discipline and investor confidence. According to the SAF, the ideal state is both strong and small: strong enough to combat crime and avoid being captured by sectional interests, but small enough to avoid 'crowding out' private investment. Government is to intervene as little as possible in the productive sphere of the economy and avoid running large deficits. GEAR, wanted Government's corporatist partners to continue buying into its macroeconomic framework and take steps to ensure that "the recent depreciation of the currency does not translate into a vicious circle of wage and price increases leading to instability in the financial markets and a decline in competitive advantage" (GEAR, 1996:20, cf. Nattrass, 1996:29). GEAR attempted to achieve favourable macroeconomic conditions by limiting the power of organised labour and binding the trade union movement through an incomes policy which involves price and wage restraint which, it is argued, will be achieved through an effective competitions policy and continued trade liberalisation (Nattrass, 1996:29). According to Nattrass (1996:37) GEAR's feasibility is problematic for

the integrity of the GEAR model depends almost entirely on a wild guess as to how much investment is likely to be induced (from domestic and foreign sources) as a result of the implementation of the government's new macroeconomic strategy. Rather than responding to an increase in demand, private investment expands automatically at 11,7 percent p.a., and thereby acts as a demand stimulus. And, despite the decline in interest rates, capital is assumed to flow into the country on the strength of increased investor confidence.

Marais (1998:165) also suggests that the logic behind GEAR rests on a profound "leap of faith" that a reduced deficit would spur investment dramatically²⁸. At the same time GEAR does not entertain other means through which the deficit could be reduced, i.e. more effective tax collection, more progressive tax rates for the top 20 percent of income earners or the use of value added tax on luxury goods or a capital gains tax (Marais, 1998:166). Even more alarming is the absence of any alternative plan, if the much needed investments are not forthcoming.

The COSATU commissioned, *From RDP to GEAR: The Gradual Embracing of Neo-Liberalism in Economic Policy* contended that the ANC's departure from the original RDP in the form of the revised 1994 RDP White Paper, signalled the gradual exchange of a Keynesian model for a neo-liberal framework. Indeed, it

transformed the role of fiscal prudence from a means to achieve RDP objectives to an objective of the RDP; the goal of redistribution was dropped as a main objective; and the government role in the economy was reduced to the task of managing the transformation (Adelzadeh, 1996:66-7).

Corporatist management therefore remains the crucial mechanism through which South Africa is transformed into a competition state. Accordingly, GEAR calls for a "social accord" in order to get a deal in which labour would accept wage restraint in exchange for a commitment from business to exercise price restraint (Marais, 1998:169). Yet, such a strategy assumes a relative balance of power between the state, business and labour, which is oblivious to the ability of capital to take flight and thus wield an inordinate degree of influence on the state. Thus, exacerbating the flexible wage deal, the temptation for the state to impose such restraints through coercive means remains.

Unlike Malaysia's ability to more incrementally accede to competition state policies since the early 1980s, the rapidity with which South Africa was reintegrated into a fiercely globalized economy in the 1990s assured that any protracted attempt to stave off the kind of liberalization the competition state model demanded was simply an unaffordable luxury. At least, this was how the most powerful and legitimate government South Africa had ever had, viewed the world in which it was supposed to govern.

Yet, within a short six years, the ANC-led government had to relinquish its initial model of creating a developmentalist state - emulating the successful growth paths of the Asian NIC's - and embrace policy prescriptions characteristic of Cerny's

²⁸Although two Development Bank economists have found that "a 1 percent reduction in the deficit before borrowing ...will reduce the average growth rate by 1,5 percent for each year", GEAR does not indicate why the deficit target has to be 3 percent (versus to 2 or 4 percent). Nor is it satisfactorily explained why the 1996 deficit was incompatible with a growth strategy. Marais (1998:165) argues that, "[I]n 1996, the government paid R34,4 billion (\$7,5 billion) interest on its debt. Debt levels of 1996 would push that figure to R63 billion (\$13,8 billion) in 2000 - hardly alarming for a country whose public sector debt stood at a respectable 56 per cent of GDP (compared to an average 72 percent for OECD countries) and whose external debt was decidedly low".

competition state²⁹. As has been illustrated in this chapter, a complex coalition of social forces and ideological power, gradually ensured that the populist new government ultimately conformed to a kind of "self-policed competitiveness"³⁰. To conclude this chapter, it is therefore useful to briefly review the actors, conditions and pressures which prompted the ANC into a neo-liberal trajectory, altogether contrary to what it had initially set out to achieve.

Conclusion: Self-Policed Competitiveness

One of the few advantages of decades of economic stagnation, was South Africa's low level of foreign debt relative to other middle-income countries. South Africa's foreign debt to GDP ratio stood at just 14,8 percent at the end of 1993 compared to an average ratio of 45,8 percent for severely indebted middle income countries and 35,2 percent for moderately indebted middle-income countries. Indeed, as Michie & Padayachee (1997:15-6) suggest, when the ANC took power in May 1994, "few countries would have been able to command as much international goodwill and such a groundswell of local popular support".

Why then, did the "Washington consensus" (Gills & Philip, 1996) get so powerful a grip on the imagination of the South African political leadership? One explanation would have it that it is precisely because of this slight degree of policy scope available, that the World Bank and IMF so assiduously sought to proselytise the new incumbents. As the World Bank's 1993 Report makes plain:

The macroeconomic heritage of the 1980s in South Africa is more favourable than that of crisis prone countries such as Mexico in the mid-1980s and very much better than Russia in 1992 (cf. Maganya, 1996:5).

Although South Africa's position in the international trade system and the state of its economy bore heavily on the minds of the country's new taskmasters, ultimately, the determining influences lay beyond these "objective facts"; i.e. in the realm of "epistemic communities" and the manufacture of a Coxian "intersubjective" consensus, especially during the course of the transition.

A number of conditions can be highlighted in this regard. Firstly, both the speed of the South African transition as well as the end of the Cold War caught many intellectuals ill-prepared to conceive of alternative developmental trajectories at a time when the economics of the New Right of the 1980s continued to prevail. Within the ANC itself, there was not

²⁹ Padayachee (1998:443) said it well:

From Neo-Marxism and the pursuit of a socialist alternative in the mid-to late 1980s, to an essentially social democratic version of Regulation Theory by 1990, to MERG's 1993 post-Keynesian approach which championed a major developmental role for the democratic state, to the ISP's mid-1990s corporatist strategy and post-Fordist vision of global competitiveness, and finally, in and through the RDP (WP) and GEAR, to neo-liberalism. All this, in the remarkably short time span of a decade.

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much of a tradition of vigorous economic debate, whilst economics, even orthodox perspectives, was generally underdeveloped in South Africa, with political economy tending "to be practised more by those originating in other disciplines" (Padayachee, 1998:444).

In the absence of a clearly defined macro-economic strategy, the democratic movement found itself having to "exit without a map" as Webster (1998) has described it, leaving considerable space for business and other neo-liberals to get the new political leadership to lend them their ears. During the 1992-3 period, numerous ANC economics staffers (including many with as well as without formal economics training) participated in short executive training programmes and orientation courses at business schools, investment banks and economic policy think tanks such as the World Bank (Padayachee, 1997:46). In addition, the multitude of scenario-planning exercises generated by the emerging "change industry" enhanced the campaign amongst big business to highlight the dangers of the new government succumbing to "populist macro-economic policies". Not to be left out of the equation therefore is the considerable size and influence of the local South African corporate sector with its own multinational corporations, distinguishing it from many other African states (Maganya, 1996:5).

Consequently, economic debate within the ANC - not to mention the broader tripartite alliance - became increasingly couched in a technocratic discourse, leaving policy-makers "dislodged from the social and political objectives proclaimed by the ANC and increasingly impenetrable to its activists" (Marais, 1998:158). Conflicting policy positions within the movement further weakened the possibility of a coherent alternative growth path emerging, thereby conceding primacy to the competition state policies peddled by local and foreign capital, the *ancien regime* as well as the IMF and World Bank. At the same, as the pro-business factions within the top ANC leadership were on the ascendancy (like Malaysia since the 1980s), and government found itself having to yield to the "realities" of globalization, rear guard action from the left was easily stymied. Not only did the organizational complexity of labour's linkages with the ANC prove problematic, but also the overall corporatist political culture evolving in post-apartheid South Africa. This is not to say that labour did not question nor disavowed the gradual shift to the right, but that its ability to do much more was severely constrained by the earlier agreement by COSATU, the SACP and SANCO (the South African National Civics Organization) to subsume their economic policy positions to that of the ANC.

That the ANC had become the senior partner in a Government of National Unity (GNU), however, did not mean that it had full control of a vast civil service which - in terms of a negotiated sunset clause - guaranteed five years' employment to NP appointed

bureaucrats³¹. ANC MP, Philip Dexter has noted the direct impact this has had on the generation of public policy with the result that "advice given on economic matters is almost exactly the same as under the National Party (NP) regime" (cf. Michie & Padayachee, 1997:12).

Moreover, once MERG had been discredited and with it, a considerable degree of sympathy for a more neo-Keynesian macro-economic policy, it meant that the outgoing government, secured the retention of the key finance portfolio as well as the retention of Chris Stals as governor of the Reserve Bank for a five-year term (Millward & Pillay, 1996:35). Technocratic control of the most important economic institutions of the state by opposition party appointees thus parallels Malaysia during the 1950s. Instructively, Derek Keys, former chief executive officer of General Mining Corporation (Gencor) became finance minister. He would see to deficit cutting, whilst Stals - with some consultation - would tighten foreign exchange controls and with the independence of the Bank constitutionally safeguarded to protect the currency and inflation, ensure that interest rates would be kept high³². According to some commentators, Michael Camdessus of the IMF wanted both appointments. One of the joys of this corporatist endeavour however, is that it allowed the ANC to justify these appointments as being forced upon it by the requirements of a government of national unity (Matisonn, 1998:2).

Finally, many ideas voiced by progressive academics encountered a cold reception amongst the ANC's emerging black business elite allies where it ran against the interests of the latter. For example, ISP researchers who pushed hard for an effective competition policy to break up the powerful (mostly white) corporate conglomerates encountered a growing silence as the new black business class emerged (Padayachee, 1998:444). It is to the historical significance and evolution of this black middle class and its influence upon the acceptance of competition state policies that attention is turned in the subsequent chapter.

³¹ Matisonn (1998:1) offers an intriguing tale: "The stories of the old Nationalist bureaucracy interacting with new ANC ministers are legion and varied. The postmaster general, Ters Oosthuizen, sat expressionless as his assistant brought a meeting to a standstill with a claim that his great department of state did not have a working copying machine, as the reason he could not provide the minister's new staff with basic documentation that was piled on the desk in front of him".

³² The purpose of seeking constitutional "independence" for the Reserve Bank was to insulate it from political independence. Under Nationalist rule, the bank used to cut interest rates before elections, and then raise them afterwards, creating considerable economic instability (Matisonn, 1998:2).

7

Echoes of History: From *Volkskapitalisme* to Black Empowerment

“In the 1940’s or 50’s it was much easier to find state employment for a few hundred thousand poor whites, compared with the millions of permanent economic outsiders now. Their looming threat exercises additional pressure to cultivate a black bourgeoisie as co-defenders of affluence for the relatively few who ignore the growing poverty of the many”

- Heribert Adam, Van Zyl Slabbert, Kogila Moodley (1997:211)

“When people talk about self-enrichment they call it black economic empowerment. Self-enrichment will get this country nowhere. This is the same thing that happened under the Afrikaner (National Party) government”

- Lawrence Mavundla, president, Micro Business Chamber,
8 November 1996.

In 1995 it was reported that although racial inequality had been narrowing in South Africa, class inequality was widening with the poorest 40% of Africans becoming 40% poorer whilst the top 20% became 40% richer between 1975 and 1994. Inequality among Africans was 90% as wide as overall inequality among all the population groups (*SAIRR Survey 1995/6*:280). These trends are significant, for not unlike the moneyed Bumiputeras, “the internal stratification among blacks is widening with the emergence of a new bureaucratic bourgeoisie far removed from the lifestyle of ‘the masses’ “ (Adam *et al.* 1997:205). Indeed,

the black middle class is likely to be the class that shifts most within South Africa’s class structure in the transition from apartheid to the post apartheid economy. In other words, it will grow in size, increase its share in distribution and improve its relative economic power significantly more than other classes (Stephen Gelb cf. Adam 1997:236).

This chapter represents a first attempt to grapple with the question: how does the South African state negotiate the very delicate and hugely contested balancing act between the demands of globalization on the one hand and the expectation of divided domestic constituencies on the other? Continuing the argument developed in chapter 6, I contend that, despite the degree to which globalization restricts the extent to which an ANC-led government can emulate Malay and Afrikaner Nationalist programmes of ERWG, corporatism remains the foremost strategy through which state elites seek to manage domestic resistance against South Africa’s transformation towards the competition state. As these patterns of co-optation - not altogether different from those pursued in the 1920s and 1930s - unfold, the strength of the state-capital alliance continues to define the way in

which the current South African state responds to the challenges of globalization. However, the *terms* of this engagement are different. Although the institutional practices of societal corporatism (i.e. NEDLAC) in some ways parallel its use by the Pact government earlier (see chapter 4), other modes of micro corporatist mediation also pervade the post-apartheid political economy.

Cerny (1990: 160) defines micro-corporatism as “the by-passing of supra-firm organizational networks or pressure groups such as trade associations etc., and the direct collaboration of firms with the state and/or trade unions”. In contrast, macro-corporatism relates to the tripartite characteristic of societal corporatism between the state, business and labour. In each case, the level of corporatism, “refers to the extensiveness of the production processes involved, not the size of the inner collaborative circle or the number of individual agents included” (Cerny, 1990: 160). Hence, I illustrate the significance of ‘unbundling’, union investment corporations, employee stock ownership plans, and other means to advance black economic empowerment.

In order to underline some of the similarities between Malays and Afrikaners’ subjugated position on the one hand and that of Africans on the other, a brief historical overview of Africans’ sociopolitical status is required¹. Thereafter, I highlight the limited scope available to the ANC to pursue ERWG by relying on an interventionist state along the lines of the Afrikaner/Malay experience. Rather, the state has shifted its attention to the possibility of advancing a black middle class through private sector initiatives. The current attraction of the Malaysian model among some South African policy makers relates to similar efforts to advance Malay capital in the 1980s and 1990s. Like the promotion of a Bumiputera Commercial and Industrial Community (BCIC) in Malaysia, black empowerment has become the focal point of political attention in South Africa. In the absence of an interventionist state, however, black empowerment is more likely to be perceived as benefiting the “well-connected” few, rather than constituting the basis for popular social advancement.

Both macro (or tripartite corporatist processes already discussed in chapter 6) and micro forms of corporatism are therefore critical to ensure that the centre holds. If it cannot, the Malaysian and Afrikaner Nationalist experience suggests a temptation to reassert political hegemony, very often, though not necessarily through authoritarian means. Accordingly this chapter concludes with a set of possible scenario’s, given South Africa’s continued emulation of a competition state model under the Mbeki regime.

¹ To say that Malays, Afrikaners and Africans all share a common history of socioeconomic subjugation, does not for a moment suggest that the kind of deprivation to which Africans were subjected under apartheid is similar to the kind of discrimination with which Afrikaners or even Malays, had to contend.

Mobilizing Political Power

Historically, the position of black South Africans was not all that different from their Afrikaner counterparts at the turn of the century. The black vote in the Cape during that time was significant. In fact, they constituted nearly half the electorate in five constituencies. But African hopes that the non-racial Cape franchise would be extended to the defeated Boer Republics were rapidly dashed as the 1910 Act of Union came to pass. Not only did the Act remove the theoretical right of enfranchised blacks to be elected to parliamentary seats - as existed in the Cape - but it also provided for the removal of the franchise from African voters through a two-thirds majority vote of both houses of parliament in joint session (Lodge 1990:1-2).

Responding to the demands of mining industry for cheap labour, the first post-Union government made it a criminal offence for Africans to break their employment contract in terms of the Native Labour Regulation Act. Africans were excluded from skilled industrial jobs through the Mines and Works Act of 1911, whilst the Natives Land Bill prohibited land ownership by Africans outside the 'reserves'. Not only does this parallel the Malay experience but both Africans and Malays were without that crucial base for capitalist accumulation, namely private property. These measures, as well as the 1913 Land Act, constituted, indicates, "the legal tools employed to destroy a whole class of peasant producers, forcing them into already crowded reserves or driving them into new and arduous social relationships - as farm workers, as mine labourers and later in the least skilled and most badly paid positions in urban industrial, municipal and domestic employment" (Lodge, 1990:2).

During the Second World War, Africans were even more destitute than their Afrikaner counterparts². They also flocked to the cities, where the War created boom conditions for South African industry and mining. Stimulated by heavy external demand whilst being protected and supported through import substitution, South African industry and mining entered a period of unprecedented expansion (see chapter 4). Lodge (1990:11) emphasises that

With the expansion of manufacturing (which in 1943 outstripped mining's contribution to the gross national product) and the diversion of a section of the white labour force into the army there was a rapid growth in the number of African factory workers, and for the first time African women began to be employed in manufacturing in large numbers. Between 1939 and 1942 the African urban population nearly doubled, the major proportion of this increase

² Lodge (1990:12) for example notes: "Poverty amongst the urban African population, while not as atrocious as the countryside, was nevertheless widespread. Although wages were higher than in rural employment - and indeed rose in some sectors during the war - this was offset by unemployment and increases in the cost of staple foods and fuel. Mealie meal, for example, went up between 1939 and 1940 by 20 percent and firewood by 50 percent. Unskilled workers rarely earned enough to cover the costs of essential food, shelter, fuel and clothing. As a result many people who depended on such wages simply did not survive: for example, in East London, six out of every ten babies born were dead by the end of their first year".

being the result of the movement of whole families from the countryside into the towns. The two most powerful impulses to this migration were the threat of starvation in the reserves and the deteriorating conditions on white farms.

Between 1940 and 1945, as the output from manufacturing grew by 116 percent, increasing with an 81 percent increase in the number of Africans employed in manufacturing, trade unions also grew exponentially. In 1940 there were about twenty African trade unions claiming a membership of 26,000. Five years later these numbers had grown to 119 unions with a claimed membership of 158,000. Similarly, from 701 758 trade union members in 1979, membership increased it had grown to 2 890 174 in 1993 - a growth in union density from 15,32 percent in 1979 to 57,98 percent in 1993 (Webster, 1998:40; Price, 1991:15).

Whereas Afrikaner Nationalists ensured that Afrikaners privileged an ethnic consciousness over a class consciousness in the since the 1930s, in the case of the ANC precisely the opposite occurred. In the early 1900s, the ANC - like the UMNO in Malaysia - largely represented the concerns and anxieties of the small professional middle class. Increasingly however, urbanization, lower wages, creeping inflation and the general deterioration of living conditions ensured that the less affluent members of the African middle class shared many of the concerns of the working class. Lodge (1990:4) writes that

their incomes were not appreciably higher, their wives had to resort to informal sector activity and they lived in the same miserable slums. With the expansion of the manufacturing work force (easier to organise than the mine workers who were isolated in compounds) and the example of white labour unrest in the immediate post-war period, African workers were becoming increasingly class conscious. At the political level this situation was reflected in the growing interest taken in blacks by white socialist groups, still yet to coalesce into the communist party, and in the success these groups had in attracting limited black support, especially for the syndicalist Industrial Workers of Africa, the trade union movement started by the International Socialist League.

When the Afrikaner Nationalist/Labour Pact government - which had incorporated Afrikaner labour (chapter 4) - introduced discriminatory legislation, the ANC shifted from petition to protest in the 1940's. The Alexandra bus boycotts and the Johannesburg squatters' movement as well as organised labour prodded the African political leadership in a more militant direction. Whilst more Africans were being employed in manufacturing, the value of real wages was declining so that in 1943 and 1944 sixty strikes took place (Lodge 1990:18). The incorporation of Afrikaner labour may have laid the basis for a closer state-capital alliance, but the more powerful African labour force remained 'outsiders' to this corporatist project.

During the 1940's the most important developments in African politics were the emergence of the Congress Youth League and the consolidation of its influence on the ANC leadership as well as the strengthening of relationships with the South African

Communist Party (Lodge, 1990: 20). With the election of the National Party government in 1948, the Communist Party contended that the coming 'exclusive nationalist consciousness' promoted by an intensified racial oppression concealed the objective reality of class division. It therefore suggested that the Party should be careful to avoid dogmatic hostility to nationalism and made the case for working with and through the national movement. By the 1950's the ANC embarked on its Programme of Action, incorporating mass boycotts, strikes, and civil disobedience; initiated the Defiance Campaign; and developed the Freedom Charter. It had moved from protest to defiance and by the 1960's was abandoning its non-violent tactics in the aftermath of Sharpeville (Leatt *et al.* 1986). These conditions, in conjunction with a white government which appeared to increasingly undercut African demands, fuelled the gradual shift toward a more assertive and subsequently radical orientation within the ANC. In the wake of the 1973 Wiehann recommendations supporting trade union activity, labour became an increasingly powerful political force. Through strikes, boycotts and other forms of resistance, organized labour was thus able to give particular momentum to the upheaval of the mid-to late 1980s.

Hence, just as the Nationalist victory in 1948 would not have been possible without the strong support of labour, the ANC's historic victory in April 1994 could not have occurred without strong support from the strongest trade union federation, Cosatu. For it was largely through the union movement that the momentum of mobilization for change could be maintained in spite of the fact that the ANC and later even the UDF were declared illegal organizations.

The Challenge of Restricted State Employment

Not unlike the National Party in 1948, by the time the ANC had captured the state in the mid-1990s, income gaps between whites and Africans remained vast. Whites, constituting 12,9 per cent of the population, had 58,5 % of total personal income, whereas Africans - who made up 76,2 percent of the population - received 29,3 percent of income share (*SAIRR Survey* 1995/6:280). However, over the period 1985 to 1994 personal disposable income of Africans increased by more than 35%, while those of Asians and coloured people increased by some 24% and white incomes declined by nearly 3 percent over the same period, suggesting some *limited* redistribution even before the GNU (*SAIRR Survey* 1996/7:379).

One of the few domains through which ethnic economic advance can be assured, is through state employment. In February 1995, the new incumbents announced that the public service would need to be transformed to reflect the composition of the population as a whole. Government would implement measures to ensure that those who had been disadvantaged in the past would be given the opportunity to develop their talents (*SAIRR Survey* 1995/6:267). Accordingly, *The White Paper on Reconstruction and Development*

(see the previous chapter) stated that within four years at least 50% of all public service personnel at management level should be black, while 30% of new recruits to middle and senior management levels should be women. It was expected that within ten years 2 percent of public service personnel should be people with disabilities (*SAIRR Review* 1995/6:269). Indeed, African workers in the public sector increased by 35% from March 1994 to March 1995, while the number of white workers decreased by 5,4 percent. Of the 1 885 443 workers in the public sector, 51,7 percent were African, followed by 22,5 percent whites, 9,6 percent coloured people and 1,9 percent Indians (*SAIRR Survey* 1995/6:270)³.

However, as ANC economic policy shifted in a more neo-liberal direction (chapter 6) it became evident that such levels of state employment could not be sustained. By December 1996 it was announced that the 'Jobs for South Africa' program which aimed to fill 11 000 government jobs, had to be abandoned due to 'rationalisation and restructuring' of the public service. Not only was the ANC cash strapped by the severe cost of providing for the early retirement and retrenchment packages of Afrikaner bureaucrats as well as the relocation of staff and retraining costs, but constitutional provisions securing the tenure of former state employees (the so-called 'sunset clauses') severely restricted its freedom of action to employ its own appointees. The consequences were significant. For as Kanya Adam (1997: 243) has remarked:

The more the socioeconomic conditions for the majority remain the same, the more the Government has to fall back on a symbolic demonstration of 'liberation'. This may increase the pressure to emphasise control and power in realms where this can be achieved, be it through bureaucratic 'face-lifts' or symbolic humiliation of former enemies through the Truth Commission in order to demonstrate 'real change'. *A more representative public service can signal such change at little cost to the state* (emphasis added).

No single instance illustrates the difficulties of trying to pursue the policy of ethnic redistribution with growth better than the demise of state created corporations in post-apartheid South Africa. Not only is the state not creating new corporations, but those already in existence are increasingly subject to pressures for privatization. To be more precise, some semi-state institutions are increasingly involved in "commercialisation", i.e. joint ventures with private business. Despite the existence of such partnerships, their capacity is incommensurable with the number of state corporations created both in South Africa and elsewhere during the post-war boom. These original state enterprises could not be founded without incurring fairly high levels of government debt. ANC economic policy has, however, increasingly conformed to the expectations of the so-called 'Washington consensus'. And central to GEAR, is the need to maintain tight monetary and fiscal policy. Indeed, government has committed itself to target the deficit before

³ Between June 1995 and June 1996, the number of African employees increased by 13%, whites dropped by about 4% and the number of Indian and coloured employees remained the same (*SAIRR Survey* 1996/7: 369).

borrowing in the 1998-1999 fiscal year to 3,5 percent of the GDP. Within such a macroeconomic framework, the creation of new parastatals is unlikely.

The same can be said for agricultural policy. In contrast to the extensive involvement of the Afrikaner state in agriculture, post-apartheid agriculture policy has been heavily influenced by international demands for liberalization. Williams *et al.* (1998:66) note that the recommendations of the World Bank have left a heavy imprint on ANC agricultural policy. In its 1993 report, *Options for Land Reform and Rural Restructuring*, the Bank considered "political and economic liberalization" to be the guiding principle of a new agricultural pricing and marketing policy, and a programme for land reform to be at the heart of such a process. Accordingly, the Bank

wished to extend the policies, which began in the 1980's, of abolishing subsidies, removing regulations and liberalizing markets. This would not just lead to greater efficiency but would also reduce the privileges which the state conferred on large-scale white farmers and level the playing fields on which black farmers would now have to compete with them (Williams *et al.* 1998:66).

Hence in 1996, for example, the ANC abolished the centrepieces of state agricultural policy in place since the 1937 Marketing Act. This Act had created, amongst others, the state monopoly of domestic maize marketing and provided a floor price for maize whilst creating a state export monopoly. Other agricultural marketing monopolies conferred by the state on government and, in some sectors, private institutions are being removed. Moreover, South Africa has committed itself to modification of past forms of import protection through tariff regulations in accordance with the Uruguay Round of the General Agreement on Trade and Tariffs (GATT) and has also become a member of the Cairns Group of agricultural producers (Williams *et al.* 1998:67).

Given these constraints and the fact that the pressures for globalization and the hegemony of neo-liberalism have severely constrained the state's ability to pursue a strategy of ethnic redistribution with growth, much like Malaysia since the 1980s, attention shifted to the possibility of pursuing such initiatives through the private sector⁴. The emergent black business class is therefore increasingly promoted on the expectation that it may, in turn, spur a more general African economic advance. The consolidation of the state-capitalist alliance is therefore driven by two particular micro corporatist processes: black empowerment and 'unbundling' on the one hand; and union investment corporations and employee share ownership schemes on the other. Before analysing those linkages however, the role of affirmative action programmes and the promotion of small business enterprises also need to be surveyed briefly.

⁴ Relying on empowerment measures through the private sector rather than the state is clearly reflected in the National African Federated Chamber of Commerce (Nafcoc's) so-called '3-4-5-6' resolution. Calling upon government to play a 'limited' interventionist role to facilitate black economic empowerment, Nafcoc want blacks to occupy 30% of the boards of listed companies; as well as a 40% equity in those firms; for companies to receive 50% of their supplies from black suppliers; whilst 60% of company managers should be black by 2000 (SAIRR Survey 1995/6: 165).

Affirmative action programmes

By early 1998, the Equal Employment Bill required employers to set specific targets for employment within the private sector. The Act requires every business or organization with more than 50 employees, to provide an annual analysis of its work force and the firms' plan to improve representation at all levels. In terms of the Bill, numerical targets are set for Africans, women and the disabled, who "should be considered [for a position] even where they lack the formal qualifications or experience but have the potential to do the job⁵" (*Sunday Times*, August 7, 1998). Failure to comply could lead to fines of between R500 000 and R900 000, but not without taking account of particular demographics, the existing pool of labour, staff turnover and other financial factors.

Critics alleged that both public and private sectors were being "compelled to reintroduce racial classification and racial discrimination" and that the Bill "creates 'an almost Kafkaesque legal system' by which employers will be required to prove they are not discriminating against the racial majority' while proving they are discriminating against minorities" (*Mail & Guardian*, February 6-12, 1998). Yet, in bold contrast, Jay Naidoo, then 'minister without portfolio' stressed in April 1995 that government would not 'dictate' to private companies how to implement affirmative action programmes as the government would only do this in the public sector.

However, corporate South Africa had already voluntarily adopted affirmative action programmes as a form of 'anticipatory compliance'.⁶ According to one estimate, the number of white men in management positions declined by 3,5 % from October 1992 to September 1994, while the number of African, Asian and coloured men increased at rates of 69%, 19,6% and 25%, respectively. Over the same period, the number of women in management positions increased by more than 14% with overall female representation standing at 9,3 %. African women managers increased by 75%, to comprise 5,6% percent of all women managers. In Malaysia in contrast, there is much less gender pressure, given the potency of Islamic revivalism (see chapter 8).

Prospects for Small Business

In early 1996, it was announced that "lucrative government contracts which were previously awarded to 'a handful of white-controlled companies' would be made available to black businesses" (*SAIRR Survey* 1996/7:263). The state tendering system had been

⁵ Following pressure by business, government agreed that candidates would have to acquire the capacity to do the job "within a reasonable time". (*The Sunday Times*, August 7, 1998).

⁶ According to Kanya Adam (1997:234, n.7) the concept of 'anticipatory compliance' was first used in the contested book by Raul Hilberg, *The Destruction of European Jews* (New York, 1961). He contended that "Jewish leaders moved in advance to satisfy or appease their German tormentors because they could do little else. Throughout their long history Jews had learned the necessity of placating their enemies if they were to survive - a natural, almost axiomatic reaction to the Nazi threat".

overhauled to favour small business and to encourage joint ventures and partnerships between black enterprises and established firms. In terms of the new tendering system, a points system had been issued whereby the tender price would count for 88 points out of 100 while an additional ten points would be given to companies owned by 'historically disadvantaged groups'. A further two points will be allocated if the company had substantial female representation on its board, and an additional 10 points are allocated to those companies which complied with the principles of the reconstruction and development programme⁷ (*SAIRR Survey 1996/7*: 265-6).

The policy of "affirmative procurement" also aims to develop small and particularly black business, encourage the use of labour intensive methods and the participation of disadvantaged communities in projects. Affirmative procurement gives preference to businesses with black and/or women equity ownership in the award of tenders. It includes the development of tender advice centres, broadening the participation base for contracts of under R7 500, waiving security on construction projects under R1 million, unbundling larger projects into smaller ones and promoting early payment circles within government as well as the simplification of tender submission requirements, and the reclassification of building and engineering projects (Segal, 1998:87). According to the Department of Finance, the share of government procurement going to affirmable enterprises over the past three years has doubled to 37 percent of the total value of contracts (Segal, 1998:87).

"Affirmative procurement" is not only being used to benefit black enterprise and force white businesses to take-on black partners, but also to get big business to in turn, favour small business. Some corporate behemoths have reciprocated by out sourcing a growing number of services and products to small business. For example, sugar manufacturer Tongaat-Hulett, has sold off small farms to promote smaller black businesses and the electricity supplier, Eskom, has identified R500 million of services that can be provided by outside businesses (Field, 1998:115).

In a 1994 policy document, the Department of Trade and Industry also stated that government would 'consider steps such as tax incentives, procurement quotas, voluntary commitments, etc. to motivate the big business sector to systematically expand its links with small enterprises" (cf. Randall, 1996:677).

Yet, a multitude of problems beset small and medium enterprises: past discrimination and excessive regulation; relative poverty and deprivation; a low education

⁷ The process explicitly provides for tendering by medium and smaller businesses. The requirement of a security guarantee for contracts below R100 000 was scrapped whilst guarantees for bigger contracts have been relaxed. Building contracts less than R1 million require a guarantee of 2,5 % of the value of the contract. For contracts of more than R1 million, a guarantee of 5% is expected and 10% is necessary for large contracts. State departments are to approach small business' directly for purchases under R20 000 and contractual requirements are to be broken down to the smallest possible units in order to enable small business to bid for them (*SAIRR Survey 1997-8*:264).

and skills base; subsequent managerial and organizational inequalities and a generally deficient business infrastructure. Above all, the lack of access to affordable credit constitutes "a critical deficiency in the black business community" (Phillips, 1993:144). As South Africa complies with the neo-liberal economic precepts driving its transformation towards the competition state, the characteristic monetary restraint does not bode well for small business. Even GEAR readily admits

High interest rates hamper the development of the small business sector which is dependent on bank credit, and put home ownership out of reach of more people. It is not possible, however, for the Reserve Bank alone to lower interest rates if conditions are not appropriate. Lowering the Bank rate could lead to higher credit demand, higher inflation, and as inflationary expectations take hold, higher long term interest rates. In addition such policy would lead to declining capital inflows, capital flight and higher imports, which all add to a balance of payment crisis (GEAR 1996, cited in Maganya 1996:10).

In practical terms this effectively means that low interest rates enable inefficient borrowers (i.e. small scale black businessmen and women) to crowd out the more efficient borrowers (i.e. largely corporate and therefore white entrepreneurs). As Maganya (1996:10) suggests, "the government is aware that to insist on a high interest rate policy is almost tantamount to a policy of crowding out the emerging black owners of small business from the mainstream economy of South Africa, and by the same logic the continued emphasis on crowding in of the largely white internal and external investors".

This constraint highlights the significance of the state-capital alliance developing the small business sector, for if it fails to do so, the lack of access to credit may well precipitate fractures within South African capital. However, determining the degree of success achieved thus far in facilitating the creation of many more small and medium businesses, is beyond the scope of this study.

The Rise of the Black Business Class

One of the most striking differences between the Afrikaner and black business class is the absence of a strong economic base in the case of the latter. Though very small, the *reddingsdaad* movement sought to accumulate capital on the basis of Afrikaner farming interests and collective savings. By stripping African farmers of their assets and imposing extreme obstacles to black enterprise, apartheid ensured that a similar process of capitalist accumulation could not be followed by them.

If the National Party government did allow black entrepreneurs to operate a business, their activities within urban 'white' South Africa were restricted so as not to outstrip their 'temporary sojourner' status. Rather, they were encouraged to set up shop in the economically depressed 'homelands' which were far removed from major business centres. As Randall (1996:665) has described it

To make matters worse, blacks for much of the 1960's and 1970's could own no more than one undertaking - which had to be in the retail sector - and were

only allowed to trade in a limited range of daily essentials. Black businessmen were not permitted to enter into partnerships with other blacks, let alone whites; were prevented from advancing into financial, industrial, or wholesale sectors; and most debilitating, were not authorised to erect or own their business premises. *This meant that they were denied that crucial element of capitalism, the ownership of property, and hence lacked the collateral to finance the growth of their enterprises* (emphasis added). An already enfeebled black business sector was dealt further body blows by apartheid in the form of an enervating system of education and, until 1979, job reservation which not only closed off opportunities for the acquisition of administrative experience in white collar occupations, but also barred blacks from apprenticeships and employment in certain skilled trades.

Even older generations of astute black businessmen and women who exploited the few opportunities available - such as trade in the townships and homelands where apartheid bestowed on them a kind of monopoly - were often easily accused of collaboration with the regime. Criticism was particularly harsh for those who became members of the Urban Bantu Councils of the 1970's, regardless of the fact that many took on these solely in the hope that it would allow them to have some influence over the issuing of business licenses and the allocation of letting premises (Randall, 1996:665).

Consequently, many but certainly not all black capitalists owe much of their influence not primarily to their ownership of property, but from collective political action⁸. Randall (1996:666-9) for example, identifies five such types: Firstly, 'activist capitalists' with Robben Island connections; secondly, 'educated exiles' who left the country after the Soweto riots opened up educational opportunities and scholarships to study abroad; thirdly, the 'corporate sophisticates' who benefited from efforts within the corporate world to enhance opportunities for black managers through initiatives such as the Sullivan code; fourthly, the so-called 'consultants of change' who "promoted themselves as agents to 'help big business get its environment in sync with political change;" and finally, the 'conference circuit champions' - high-profile office bearers of black business organizations - "who have established contacts with white business eager to speak with those who are propounding black economic empowerment".

Critics have also alleged that, despite a strong tradition of informal black saving in the form of *stokvels*, the greatest challenge facing the black business class is to convince the mass of ordinary Africans to be less conservative and invest in more risk-taking initiatives (*The Economist*, March 15, 1997). Yet these problems are not unprecedented. In the immediate aftermath of the Nationalist victory of the 1940's, some entrepreneurial

⁸ This is not to deny the existence and gradual growth of a black middle class amidst the restrictions of the apartheid state as Sipho Maseko ("The real rise of the black middle class", *M&G*, May 27, 1999) has recently suggested. It is merely to underscore the degree to which the black middle class - lacking the agricultural base for capitalist accumulation on the one hand and considered by some within the Black community to be traitors to the liberation struggle on the other - had less political power to bargain with the state-capital alliance. At least up to the mid-1970s, the latter thus did not need to engage the relatively powerless, incipient black business class.

Afrikaners also marketed themselves amongst the English establishment as being close to the new Afrikaner-Nationalist elite. Afrikaners were also extremely risk-averse, and hesitant to support Afrikaner enterprises (see chapter 4).

Black economic empowerment has also been precipitated by unbundling as the particular response of post-apartheid corporate South Africa to the challenges of globalization. Another, related development, has been the growth and proliferation of union investment companies (UIC) as well as employee stock ownership programmes (ESOPS) during a time of wide-spread privatisation. The relation between black economic empowerment and unbundling on the one side as well as privatisation and UIC's plus ESOPS on the other, suggests the significance of these junctures as varied corporatist mutations to the state's acquiescence to the competition state model. However, whereas the dynamics of the former - unbundling/black economic empowerment - tends to be driven by business, trade unions tend to be the driving force behind the privatisation/union investment nexus. Both, however, represent complementary means by which the tensions arising from South Africa's transformation towards a competition state are diffused into the pervasive corporatist political culture of post-apartheid South Africa.

Corporate 'Unbundling' and Black Empowerment

Globalization and the supremacy of finance in particular has much to do with the rapid emergence of the black business class of the 1990s. With the legacy of a laager economy, international opprobrium and exchange controls, South African capital was unable to freely invest elsewhere. An incestuous circuit of capital therefore led to interlinked share holdings and corporate directorships.

However, with a democratic transition and access to capital markets and international investment regained, South African conglomerates were as unfashionable as investment vehicles, as conglomerates became elsewhere. And, as foreign investors came to play a larger role in the Johannesburg Stock Exchange, they expected more focussed investment vehicles⁹. Accordingly, 'unbundling' became very much in vogue and throughout the 1990s a multitude of South African corporations were restructured: Barlows, Malbak, Servgro, Sankorp, Old Mutual, Sanlam as well as parts of Anglo American to name but a few¹⁰ (Field, 1998:111). Given the new prospects of raising capital abroad, Derek Keys, the technocratic minister of finance, introduced a number of tax advantages, thus providing an incentive to both Afrikaner and English capital to move

⁹ It was only after these corporations were listed on foreign stock exchanges, governed by stricter disclosure regulations that the incredible salaries of its directors became public. Anglo American chief executive Julian Ogilvie Thompson's basic salary alone comes to 620 000 pounds sterling, whilst the chairman of Nail, "explained away the near tripling of the directors' total pay increase - from R7,5 million in 1997 to R20,6 million last year - by saying two new directors had been appointed to the board". *The Sunday Independent*, April 25, 1999.

¹⁰ Anglo American however, already distributed shares to black workers since the 1980s.

towards black economic empowerment through corporate advancement. Although there are some strong Malaysian parallels in this regard - particularly the process of privatization (see chapter 5) - these corporations are firstly not state enterprises nor is patron-client rentierism as apparent.

Ironically, it was Afrikaner capital which made the first move towards the facilitation of black capital when Sanlam and Metropolitan Life created Methold, Metropolitan's holding company which has subsequently become New Africa Investments (Nail). Alongside Real Africa Investments Limited (Rail), Thebe Investment Corporation and Johnnic, it is one of the major stakeholders in the National Empowerment Consortium (NEC) - a group of 23 partners consisting not only of the new black bourgeoisie, but also 15 trade unions (*Financial Mail*, February 7 1997; *The Economist*, March 15, 1997).

Nail has as its core asset one of South Africa's largest life assurance companies and was listed on the JSE in August 1994¹¹. Rail was established in February 1994 after the Southern Life Association (Southern Life) - an associate of Anglo American - announced that it would sell 51% of the African Life Assurance Company (Aflife) for R160 million to a black-dominated acquisition group¹². Thebe, which initially began as the Batho-Batho Trust, with Nelson Mandela and Walter Sisulu on its board in 1992, currently has a turnover of R500 million and unlike the other black investment groups, has focussed on high growth sectors in industry: leisure services, education, medical care, technology and financial services. Thebe consists of four holding companies. Msele Financial Holdings; Alliance Airline; Moribo Investments and Vuna Industrial Holdings (*Finansies & Tegniek*, 22 November, 1996).

Though Afrikaner capital may have made the first move, Anglo American's decision to split up or 'unbundle' its subsidiary house, the Johannesburg Consolidated Investment Company (JCI) and offer its 40% stake in these groups for sale to the NEC, was seen as one of the largest black empowerment deals yet¹³. Its significance as the historic parallel to Anglo's offer of General Mining to Federale Mynbou in the 1960's

¹¹ Its main shareholders are Corporate Africa - a black advancement holding company -with a 51% stake ; Sanlam and its investment arm, Sankorp, with a 20% investment stake; the National Council of Trade Unions (Nactu) with a 13,7% stake; and Sefalana Employees Benefits Organisation (a company with some R4 billion worth of pensions in North-West province) with a 4,9% stake. The company is 78% black controlled with 8 500 shareholders (*SAIRR Survey*, 1994/5:173).

¹²This group, headed by Don Ncube, is made-up of black businessmen, a number of church groups, trade unions aligned to COSATU, the National Stokvels Association of South Africa, the Kagiso Trust and various pension and provident funds. The acquisition group, according to Ncube, is estimated to total 3 million people each with three dependents (*SAIRR Survey*, 1994/5:172). Rail and Real (Real Africa Holdings) jointly comprise the Real Africa Group. Real has acquired a 51% stake in Aflife, 20% in NSA Investments, 13% in Oceana Fishing Group and 2,8% in the cellular phone service provider, MTN.

¹³ JCI was subsequently unbundled into a platinum group, a gold mining and other minerals group, and an industrial group, with each group being listed separately on the market.

was only matched by the fact that, as one commentator noted, “without a mining house in its stable, no conglomerate in South Africa can really be said to have arrived” (*Financial Mail*, February 7, 1997). With Cyril Ramamphosa as its chief negotiator, the NEC agreed with Anglo to buy, at a 12% discount price, a 20% stake in Johnnies Industrial Corporation (Johnnic) which held 47,4% of the shares¹⁴. According to the agreement, the NEC could increase its share in Johnnic by 35% over a period of 18 months after the initial purchase, with the NEC administering a share offer of up to 6% of Johnnic to smaller black investors. Moreover, the NEC would have first option to buy the remaining 6,4 % of shares which Anglo holds in Johnnic¹⁵.

But if Anglo American blocked the bid for JCI by Federale Mynbou in the 1960's, why did it sell off and unbundle it in the 1990's? When Johnnic and parts of JCI were unbundled in the mid-1990's, part of the deal was that Anglo maintained the diamond monopoly and extracted a premium on the equity itself (*Financial Mail* February 7, 1997)¹⁶. The case of JCI remains remarkable, not only because of the degree to which it mirrors similar actions taken earlier by the Afrikaner Nationalists, but also suggests a more deep-rooted concern to extend African economic interests into the heart of the South African economy, namely the minerals-energy complex. Yet the prime reason driving both English and Afrikaner capital's support for black big business has as much to do with profit as with political power. In the case of Metlife for example - which was getting 90% of its new business from black South Africans - it simply made sense to make it a fully-fledged black company. In addition, as Herman Giliomee has argued, Afrikaans business groups which enjoyed state patronage and contracts throughout the apartheid years, “realised that State-dependent companies would have to be partially black controlled” if they were to survive.

As recently as 1995, market traders were skeptical about the prospects for some of the largest black investment groups such as New Africa Investment Limited (Nail) and Real Africa. But three years later the latter were becoming sought after holdings “because of their ability to attract deals and because they were favoured by government policies in

¹⁴ As an industrial holding company, Johnnic holds shares in several major corporations, amongst others, South African Breweries, Omni Media (holding company of Times Media), the Premier Group and Toyota South Africa (*SAIRR Survey* 1996/7:270).

¹⁵ “Part of the agreement was that individual members of the NEC would not sell their shares for two years or hold more than a 25% share in Johnnic. In October 1996 the NEC paid R2,7 billion for a 35% stake in Johnnic rather than the initial 20% which it was required to buy in terms of the agreement with Anglo. Fifteen organisations representing labour purchased half of the shares while the other half were purchased by eight business organisations” (*SAIRR Survey* 1996/7:270).

¹⁶ In a rather ironic twist in the tale, by February 1998, the takeover of JCI was described as “a classic example of how not to embark on a black empowerment deal” as it was decided to unbundle JCI in order to make up for mounting losses. Anglo American, which had already made R1 billion on the original sale of the deal with the consortium lead by Robben Island Mzi Khumalo, stood to regain two of JCI's best gold mines at attractive prices (*The Sunday Independent*, February 1, 1998).

the award of tenders and business" (*Sunday Independent*, 1 February 1998; *Finansies & Tegniek*, February 28, 1997).

In 1996 the so-called 'black chips' grew at 20% outstripping the JSE all-share index which grew by 6,9%. Their performance was based on the expectation that these shares have "the ability to corner government contracts and customers in the mass market" (Madi, 1997:56). The number of listed black companies is also growing at a much faster rate than those fostered by Afrikaner capitalists. Afrikaner economic empowerment began with the 1939 Volkskongres and the founding of Federale Volksbeleggings one year later (see chapter 4). And it was only in 1979 according to one estimate, "that Afrikaner control of the JSE reached the percentage that black corporations have notched up in only four years" (*Financial Mail*, February 7, 1997: 20).

In 1991 there was not a single black-owned company on the Johannesburg Stock Exchange (JSE). In November 1994, eight black-led companies were listed; by May 1995 eleven; by April 1996 fourteen and by the end of 1996, seventeen (*SAIRR Survey 1996/7:262*). By early 1998, 53 black companies had a total market capitalisation of R111 billion compared to the R57,9 billion at the end of 1996 held by 33 black firms (*Business Day*, 10 February 1998). Towards the end of 1998, the business consultancy BusinessMap recorded on average, 20 black empowerment deals per month, whilst its database lists over 500 companies that either have, or are participating in, such transactions (Segal, 1998:79). Many of these 'black chip' companies have outperformed the JSE as a whole. NAIL's African Merchant Bank for example, has a market capitalisation of R4 billion, though it only began with capital of R5 million. Suggestions are that between 6 to 10 percent of all shares traded on the JSE are under black control, although beneficial ownership may be as low as 4 percent (*Financial Mail*, June 26, 1998). 1997 also saw Metropolitan Life emerge as the largest black-controlled firm in terms of assets (R13,1 bn) and thereafter Johnnic with a market capitalisation of R10 bn.

The proliferation of black empowerment deals is partly explained by the popularity of pyramidal financing structures through which control can be vested for relatively small amounts of money. The creation of Nail can be contrasted to two models of Afrikaner economic empowerment, that of Sanlam and the Rembrandt Group. In the case of the former, Afrikaner Nationalists used white workers' money to buy into an economy dominated by English capital by creating Sanlam through widespread ownership and a shared vision. Until early 1999, it remained a mutual society owned by its policy holders, whilst the Rupert and Hertzog families of Rembrandt attracted the savings of Afrikaners on a "trust" basis, but used a pyramid structure to amass vast personal wealth. Whereas Rembrandt's main investment focus is global, Sanlam's is more regional, preferring to invest in South and Southern Africa. Not unlike Rembrandt, Nail has a seven-layered pyramidal structure that ultimately invests ownership in a company - Corporate Africa - with only four shareholders: Nthato Motlana, Dikgang

Moseneke, Cyril Ramamphosa and Jonty Sander¹⁷. More revealing is that when Nthato Motlana, Dikgang Moseneke, Jonty Sander and Zwelakhe Sisulu were in line for a R34 million incentive bonus each, both domestic and foreign fund managers threatened to ditch the stock (*M&G*, April 23-29, 1999). The Nail scandal in early 1999 unmistakably conjures Malaysian images. As a *Mail & Guardian* editorial (April 23-29, 1999) asked, "...how does the chair of the SABC walk out of his job as a public servant and, within a year, stand to earn himself R34 million from a public company's share options scheme?"¹⁸.

However, whereas the investment drive of Afrikaner capital occurred just after the worldwide depression, during a period of rock-bottom share prices as well as generally low interest rates and as the South African economy was entering a sustained growth phase, African investment capital is making its appearance at a time when both the global and South African economy reflect very different conditions (Patrick Bond, cf. Madi 1997:66). With discounted shares weighted down by excessive debt (or "heavy gearing") and dependent on the equity market, the value of black chips are highly vulnerable to the volatile stock markets of the 1990s. Thus, when the Asian crisis struck, the dangers of a bursting bubble also became evident in South Africa, with some R20 bn wiped off the value of the 28 black-controlled firms, which plummeted by nearly one-third from R67,8 bn to R48,3 bn¹⁹. In combination with high interest rates, it will be very difficult for these firms to service their debts and could put some black ownership schemes in jeopardy (*Mail & Guardian*, September 11-17, 1998). Not unlike the Malaysian case, the process of share ownership is also complicated by the sheer wizardry of organizational control underlying many of these financial deals²⁰. As Adam, Slabbert & Moodley (1997:218, emphasis added) have noted

for a long time the underprivileged individuals of the formerly disadvantaged collectives will not enjoy significant returns as the empowerment companies struggle to reduce their debt, particularly if the market does not perform well. The liberation market has nailed the fortune of its constituency to a speculative market without its executives fully sharing the risks. The liberation

¹⁷ Estimates have it that these four men are together worth a staggering R150 million (*Mail & Guardian*, January 24, 1997).

¹⁸ Zwelake Sisulu, son of Walter Sisulu, was previously head of the South African Broadcasting Corporation (SABC).

¹⁹ For example, the share price of the National Economic Consortium would have to double for the consortium to merely pay the debt owed to the financial institutions which underwrote these deals.

²⁰ The controversial JCI acquisition led by Mzi Khumalo was based on the following:

The African Mining Group - the original bidder for Anglo American's 34,9 per cent stake (in JCI) came up with only 6,5 percent through Saflife, with the option of acquiring another 4,8 percent the following April. Mzi Khumalo now holds 34,9 percent through Saflife and another 6 percent through NK properties, a R3 bn mining holding company owned by Brett Keble. NKP owns 34,9 percent of Saflife, while Khumalo's interests hold 20 percent of NKP! (Madi, 1997:72)

managers would have become rich anyway from the lucrative deals on the basis of their representation, with the promised tradeoffs for the represented looming in an uncertain and distant future. *The comrades in business are innovative risk-takers rather than entrepreneurs who start off from scratch to create new wealth.*

Privatisation and the Significance of UIC's and ESOP's

The corporatist intermediation between South African capital and black economic empowerment also includes labour, especially in the form of union investment companies (UIC's) and employee stock ownership plans (ESOP's).

Union Investment Companies

Union provident funds control either directly or indirectly up to R250 bn of the South African economy's R450 bn in retirement funds. Between R50 bn and R100 bn of these funds have been invested with the new black empowerment consortia (*M&G*, January 24, 1997). For some trade unions, these investments have brought impressive returns. The Chemical Workers Industrial Union provident fund, for example, had an estimated R200 million in assets in 1993; by 1997 it was valued at over R700 million (Smith, 1997:111). In part, the remarkable growth of these UIC's represents a response to the nature of the post-1990 South African political economy and an awareness that the generous foreign funding which had been available during the heyday of apartheid would no longer be available to unions and political organizations. New modes of engagement as well as financial resources were required. But these moves reflect political pressures as well. Not only the unions, but each major component of the tripartite alliance has embarked upon a variety of business and investment measures in order to reduce their dependence upon the ANC as political differences increase. There would seem to be some parallel between these moves and the various investment arms linked to individual political parties in Malaysia's Barisan Nasional coalition (see chapter 3)

As traditional sources of funding from communist countries around the world and Scandinavia in particular dries up, the South African Communist Party for example, has embarked upon joint ventures with civic and non-governmental organizations; plans to develop a tourist agency; and plans to invest in smaller companies, eschewing speculative deals on the stock exchange (*M&G*, June 20-26, 1997).

The South African National Civics Organisation (Sanco) - the 'unofficial' fourth partner in the ruling alliance - with its Sanco Investment Holdings has targeted its investment activity towards direct insurance, marketing and advertising. Its portfolio includes a 26 percent stake in the Vula Communications Group (expected to invest in a US satellite phone company); 20 percent in Powerlib, a "shell" company aiming to create a black empowerment fuel operation with Sasol and Engen (in which the Malaysian oil

conglomerate, Petronas²¹ now has majority control); 20 percent in Solid Gold Commercial Radio and 51 percent in Price Tag Wholesalers (*M&G*, October 11, 1996). Interestingly, after Liberty Life's 16 percent stake, Malaysian investor Dato Samsudin's holding company SMG hold the second most shares (10 percent) in Sanco Investment Holdings (*M&G* October 11, 1996).

With highly favourable labour legislation, unions have had to redefine their role and provide new incentives for their members. Thus, the UIC's have become the essential means of fund raising to finance scholarships for members' children, housing loans and more affordable credit facilities. By having members contribute 20 cents per week, the South African Clothing and Textile Workers Union (Sactwu) created an education fund through the labour controlled Hoskins Consolidated Investments (HCI) and pushed asset levels from R2m in 1993 to R8m, thus paying for the university tuition of more than 2000 students (Smith, 1997:115). Sactwu in association with the National Union of Mineworkers through HCI, have also set out to acquire a bank which would focus on the lower end of the market and extend credit facilities to working class families. Plans are also afoot to provide a housing delivery programme, since that provided by government "is highly skewed in favour of the very poor...[but those] who form the core of union membership, find it hard to save, and therefore to get loan finance" (Smith, 1997:115).

Although UIC's therefore provide much needed social services, this positive role is indicative of the degree to which other societal actors are providing some of the essential services once provided directly by the national welfare state of the Fordist/Keynesian era. In many cases, the kind of social assistance provided by trade unions are focussed especially upon workers in those (Fordist) sectors which are bearing the brunt of globalization (i.e. mining and the NUM, clothing and textiles and the Sactwu, etc.). In the gold mining industry for example, 25 000 jobs were lost in the second quarter of 1997 alone. The Mineworkers Investment Company is plunging about R1,5 m into helping jobless miners start their own businesses: getting former miners to become bricklayers, chicken farmers or bakers (*M&G*, May 23, 1997). Similarly, the South African Railway and Harbour Workers Union (Sarwhu) Investment Fund has ambitious plans for a business development programme for its 2000 workers expected to lose their jobs in 1998 and 1999 as the process of privatisation proceeds apace (*M&G*, November

²¹ Until the mid-1990s, Malaysia accounted for 21 percent of FDI to South Africa, only second to the 35 percent of the United States. The two largest investments by Malaysian companies are the purchase by Malaysia Telekom of a R2,2 billion stake in Telkom SA and Petronas' R1,9 billion purchase of a controlling stake in Engen. Most other investments have been in existing assets and the property and tourism and leisure markets in particular. Some of these deals are shrouded in controversy. The site for the Hilton Hotel in Durban as well as the development of Durban's waterfront, for example, "were sold to Renong at a substantial discount on market value, and in spite of higher bids from other developers. In both these cases prominent (ANC aligned) businessman Mzi Khumalo is alleged to have played a central role (Padayachee & Valodia, 1997:25).

21-27 1997).

The provision of these services acts as an incentive for workers to remain loyal to the union movement. In the process, union investment companies taking advantage of the new opportunities provided through black economic empowerment extend the corporatist framework and act as much needed "shock absorbers" whereby a variety of social forces are insulated from the disruptive effects of South Africa's transformation into a competition state. As the state gradually concedes primacy to the market, other societal actors step in, aspiring to provide a degree of "privatized Keynesianism". To quote Hoskins Consolidated Investment executive, Marcel Golding²², on the significance of UIC's:

...it is these people, with steady jobs, who will do most to transform the economy once they have homes, who can boost sales in white goods, revive the dying culture of bond repayment - and bring along with them all the other economic spinoffs that economists have long hoped for" (Smith, 1997:115).

Facilitating conversion to the competition state model, the corporatist nature of these arrangements is reflected in the fact that although nearly 50 000 labour cases have been referred to the newly created Council for Conciliation, Mediation and Arbitration, 1997 also saw the lowest strike activity yet by the unions since 1994 (*M&G*, November 21-27, 1997).

Through these manoeuvres the devastating effects of liberalization are not only softened but it also blunts opposition to privatization as opponents are co-opted either as shareholders through their respective UIC's or employee stock ownership plans (ESOPS). For example, the company operated by the South African Railway and Harbour Workers Union - part of a consortium bidding for a privatized Sun Air and with future stakes in a privatized South African Airways - went against Cosatu policy, which had at the same time sought to prevent the very privatisation process their union's investment firm was bidding for! Similarly, Cosatu's bid with a Danish labour federation to buy the old Afrikaner tourism parastatal, Aventura, was embarked upon despite the fact that the Cosatu leadership opposed privatisation. Again in the case of Nail's acquisition of Johnnic, barely had the champagne corks popped when JCI - to the shock and horror of many NUM members - announced that 4000 employees, most of them NUM members and de facto shareholders, were to be retrenched. Cynics subsequently argued that Mzi Khumalo had been set-up by white management to do their dirty work for them (Madi, 1997:65). Yet, some UIC's have clearly indicated their desire to invest abroad rather than domestically (Smith, 1997:112).

Given these constraints and the awkward position in which it has put many labour organisations, the secretary general of one union remarked that "the debate is between

²² Golding was previously a trade union leader and is a prominent political activist in the Tripartite Alliance.

those who see investing worker retirement funds in big business as a new way to further the aims of socialism, that is for workers to control the means of production by buying them, and those who see this tactic as a sell-out by people who are looking for a new route to become upwardly mobile"²³ (*M&G*, January 24, 1997). Accusations of a lack of accountability also abound due to deals being shrouded in confusion and the suspicious way in which some decision-makers within the UIC's - like Marcel Golding and Johnny Copelyn - have made fortunes by securing the right to take a personal investment in every deal they cut (*M&G*, September 11-17, 1998). Other complaints are that UIC's put ordinary peoples' savings in high-risk investments and commercialises the solidarity and collective ethic of the trade union movement (*M&G*, January 24, 1997). Interestingly, women's investment organisations - such as Women's Investment Portfolio and Nozala Women's Investment - are said to stand in a much better position as they do not have long "struggle alliances"²⁴. In fact, other than their concern with the empowerment of women as a disadvantaged group, they do not have a particular ideological base and stand least accused of having "sold out" in ideological terms (Madi, 1997:67).

Employee Stock Ownership Programs

Similarly, at one extreme ESOP's, or employee stock ownership plans, are viewed as genuine means to give workers a stake in the system, to have created a "share-owning democracy or people's capitalism" not unlike Thatcher's idea of a stock holding nation. At the other extreme, they are seen as merely a different way in which wage labour is paid, thus obscuring the fundamental conflict between labour and capital. The more likely explanation involves both dimensions.

At the macro-economic level, the rationale behind ESOPS are based on the assumption that profit-sharing will lead to lower levels of unemployment. Profit-sharing "removes the large element of direct conflict of interest between capital and labour" and reduces the conflict between 'insiders' and 'outsiders'. Those already employed will have to face a reduction in pay as a necessary condition to allow unemployed outsiders to join in (*M&G*, May 16, 1997). As labour's pay falls during a recession - along with profitability - it will make higher levels of employment more attractive than otherwise to the firm paying for-profit related pay. In other words, more jobs are gained at the cost of lower pay. Wages may therefore seem to be supplemented by the added element listed as profit share, but it may also well be that "the pre-profit wage will be driven down to

²³ Noted a senior Cosatu official: "Whether by design or because of the willy-nilly way in which this strategy is unfolding, workers are losing control of the way in which their funds are being used...Even more disturbing are signs that the lack of public scrutiny is opening the way for a great deal of insider trading in the way these deals are being set up" (*M&G*, January 24 1997).

²⁴ For more on women's empowerment groups, see "Empowerment, Cape Town Style", *M&G*, April 6, 1999; and "Sisters grab the corporate wallets", *M&G* August 7, 1998.

compensate for the other elements making up wages" (*M&G*, May 16, 1997).

The political significance of course is another form of corporatism writ large. Thus at the political level, ESOPS enable the downsizing of corporations with workers' acquiescence and ease the privatisation and deregulation of utilities against the opposition of labour. In addition, ESOPS can act to create impediments to changes in corporate control as a defensive measure against hostile takeover; in those cases where a firm is under threat of bankruptcy, the *quid pro quo* is negotiating wage cuts or restraint (*M&G*, May 16, 1997). Not unlike Afrikaner Nationalists who used the savings of white workers to buy into the English dominated economy of the 1930s and 1940s, African Nationalists are doing the same in the expectation that the proceeds of their investments will flow back down to their supporters (*M&G*, May 16, 1997). However as noted, this process is being embarked upon at a time when world stock markets are in an altogether different state than the immediate post-World War Two era.

Black Economic Empowerment:

Improvement of the Masses or Enrichment of the Elite?

Despite the evident success and impressive growth of black big business, it has not occurred without severe criticism. Considering the unprecedented speed with which the new enterprises have been listed, it is not surprising to note the high level of capital concentration and number of directorships shared amongst a select few. Three black businessmen, Enos Mabuza, Don Ncube and Nthato Motlana are reported to hold between them no fewer than 25 directorships (*The Economist*, March 15, 1997). But the most revealing and dangerous criticism, is the degree to which black empowerment is perceived to be by-passing the vast majority of ordinary South Africans. One critic remarked:

While brilliant financial engineering by the big black economic empowerment groups has been enriched, not many jobs have been created, or even planned for.....The biggest question the black economic empowerment groups should answer is whether they can deliver middle-class living standards to most black South Africans, like their fellow Afrikaner counterparts did when they were in the same situation years before" (*Independent Online*, 25 November 1996)²⁵ .

Not unlike the Malaysian depiction of "Ali-Baba" deals, others have contended that "white moguls are the real beneficiaries of black empowerment" and given that "most black businessmen do not have access to the same level of capital and financing as their white counterparts....the result is empowerment deals between existing successful white business and emergent black business that favour white business" (*The Sunday Independent*, 15 June 1997).

It has, for example, been alleged that Nail's acquisition of shares in Johnnic was

²⁵ "The dark side of black empowerment", www2.inc.co.za/Archives/1996/9611/25/gree.html

financed through money contributed by Metropolitan Life, which in turn is predominantly owned by white shareholders with the economic benefits of the deal accruing largely to whites (*SAIRR Survey* 1996/7:275). Others, such as Lawrence Mavundla of the Micro Business Chamber, contend that the sale of Johnnic assets to the NEC has done little to create new jobs and that black economic empowerment deals served only to enrich a small group of about 300 black entrepreneurs, a group identified by the white sector with whom it was prepared to do business “and [has] made them richer than they already were” (*SAIRR Survey* 1996/97:275).

Again, these developments mirror the Afrikaner acquisition of General Mining in August 1964 at a fraction of its value. Nationalists then decried it as “an attempt to co-opt Afrikaners”²⁶ and Verwoerd even appointed a special commission to enquire into Anglo American’s vast holdings and role in the South African economy (O’Meara, 1996:121). Similarly, cynics argue that the support of black business represents an attempt to co-opt the fledgling black bourgeoisie and help established businesses shelter from the demands following a “second revolution” of failed expectations (*Financial Mail*, February 7 1997). *The political significance of black economic empowerment therefore is its corporatist role as one of the means by which popular opposition against competition state policies can be muted.*

But far, far more severe is the suggestion that the multiplicity of mergers, takeovers and the creation of new companies do not really create new jobs and fails to penetrate to grassroots supporters of black empowerment. In sectoral terms, black controlled firms are largely to be found in the insurance sector; as industrial holding companies; and in food as well as retail. The big success stories however, are to be found in the media and publishing industry, followed by catering (*Financial Mail*, June 26, 1998). The most pronounced big black business deals seem to be largely confined to the finance and insurance sector with limited potential to create massive job opportunities. Not unlike Malaysia well into the 1970s, there are virtually no black controlled *manufacturers*. Segal (1998:82) claims that

virtually no black operating company can stand on its own and claim to add the type of value to the economy that creates significant jobs and improves skills. Outside Nail, Real, Thebe, Kagiso and less obviously Capital Alliance, black firms have been unable to go beyond their initial start-up phase and grow into entities able to stand on their own...Most black economic empowerment deals are little more than investment syndicates taking small equity stakes in firms, only a handful of which are start-ups”.

Moreover, the particular sectors in which these conglomerates are active, i.e. media

²⁶ O’Meara (1996:121) cites the perceptive predictions of ‘A Concerned Afrikaner’ at that time: “The next step will be to build up and portray the men of *Mynbou* as being the real leaders of the Afrikaners and as representing the force of ‘moderation’ and ‘progress’. Other Afrikaner financial leaders will follow suit, and each time a new Oppenheimer-Afrikaans deal is closed, there will be less and less criticism, to the point of disappearing altogether”.

and publishing, tourism, the leisure industry, technology, medical care, financial services and the like tend to be typical *knowledge-intensive, post-Fordist* industries²⁷. Whereas these are undoubtedly the necessary sectors upon which South Africa should focus in order to gradually reduce its heavy reliance on primary commodity exports and enhance its position in the New International Division of Labour, growth in these sectors is likely to favour a highly skilled, mostly male and therefore mobile elite, rather than the mass of unskilled and unemployed. Although urban Afrikaners were not subject to the same degree of structural discrimination, they shared some disadvantages in terms of social stratification. However, the growth of Afrikaner big business coincided with the high-point of relatively *unskilled or semi-skilled Fordist production* both in the global and South African economy, coinciding with the national -welfare state.

Finally, growth in some sectors, notably media and publishing also reflect governmental influence as a result of new broadcasting licences and general political pressure. And although state tenders, licences and procurement may be an effective way in which to kick-start black business, ultimately, the emergence of a vibrant black business class will be determined by the number of self-started, independent enterprises which are not solely dependent on state largess for their survival, as has become the unfortunate legacy of many Malay business ventures.

Can the Centre Hold?

By the late 1990s, there is no question that severe and fundamental tensions exist within the ANC itself as well as its coalition partners. These tensions are set to worsen as the South African economy, with a GDP: export ratio of more than 25 percent (higher than many OECD countries and NIC's), is forced to liberalize (Maganya 1996:11).

By popularising the notion of "black economic empowerment", a straw man has been created with which an illusion of policy continuity with the RDP can be maintained, thus mitigating the political fall-out with the implementation of the neo-liberal GEAR. Much therefore depends on the degree to which "black empowerment" is perceived as a panacea to the multiple constraints facing both government and labour.

Many beneficiaries of black economic empowerment programmes are accused of being mere "tokens", richly rewarded for the degree to which their appointment as "non-executive" directors of the board lends political legitimacy to the firm, whilst ultimate decision making remains firmly under white control. On the other hand, where newly created firms under the unequivocal control of black entrepreneurs have achieved successes, allegations of nepotism and corruption have become widespread. As the frequency of these allegations are only matched by the numbers of the *nouveau riche*,

²⁷ Given the high state-related demand in the information and telecommunications industries, for example, identifiable black empowerment deals accounted for R4,5 billion during 1996 to 1998. "The future of black empowerment is on the wire", *Mail & Guardian*, Accessed: May 3, 1999. [twysiwyg://8/http://www.mg.co.za/mg/news/99may/1/3_may-empowerment.html](http://www.mg.co.za/mg/news/99may/1/3_may-empowerment.html).

during a period of stagnant growth and negligible employment, the parameters of public discourse already highlight the manifestation of “crony capitalism”, “the empowerment of the black fat cats”, “the new Randlords” and the degree to which the new black bourgeoisie “remain part of the motive forces of liberation or whether they have been co-opted by the former ruling class and therefore become comprador”²⁸.

With race no longer an obstacle to individual achievement, state elites will emphasise the potential of black empowerment to provide an opportunity for everyone to better their lives. This is more likely if the professed patriotism of the emerging bourgeoisie does in fact serve to unite and bridge class differences through community empowerment and national incorporation. In that case, “[P]atriotism legitimises the burgeoning black middle class with the ring of fulfilling a duty for the new nation” (Adam *et al.* 1997:217). Consistent with Horowitz’ (1985) notion of “group worth”, positive affirmations of ethnic identity may make for considerable political stability. Hence the ANC’s landslide victory in the mid-1999 general elections, puts it on par with UMNO’s overwhelming parliamentary representation.

However, if black empowerment ultimately comes to be seen as largely benefiting “the connected elite” (much like the NEP - even among poorer Malays - is seen to have benefited the wealthy few) the intensification of class difference and competition is likely to become more severe. Neither UMNO nor the National Party - which had been most successful in overcoming the *armblankevraagstuk* (poor whites problem) - could escape similar pressures. The National Party’s conversion from *volkskapitalisme* to the more pragmatic view of the Afrikaner corporate world ultimately prompted the reactionaries to abandon their erstwhile political home²⁹. The so-called *verlig-verkramp* debate - (see chapter 4) mirrored in Malaysia in the 1987 UMNO split³⁰ (see chapter 5) - saw the relatively more pragmatic apartheid ideologues gain ascendancy and actively promote a black middle class in co-operation with big business through various initiatives (the Small Business Development Corporation, the Urban Foundation, the Carlton and Cape of Good Hope conferences with business etc.); whilst relaxing some of the restrictions

²⁸ From late 1997 and throughout 1998, the debate has been particularly well-reflected in the *Mail & Guardian*. Some of the most noteworthy and ideologically diverse contributions include: Ben Turok, “Save us from the crony capitalists” (August 25-September 3, 1998); also his, “The case of the black bourgeoisie” (October 3-9, 1997); Heribert Adam, “Empowering the black fat cats” (April 9-16, 1998); and Pallo Jordan, “ANC must cultivate the new elite” (November 28-December 4, 1997).

²⁹ As O’Meara (1999:13) has remarked, “successful nationalist movements are likely slowly to ‘work themselves out of a job’ once in power. The very success of the hegemonic project of Afrikaner nationalism by the end of the 1960s both eroded the very conditions which had brought it into being, and transformed the social position of the various social forces which comprised its mass base”.

³⁰ Similar patterns emerged in 1998 with the Anwar debacle but this time Mahathir as the reactionary preempted the ascendancy of the Anwar led pragmatists (see chapter 5).

previously imposed on aspiring black entrepreneurs. The likelihood of a division or protracted break-up of the Tripartite Alliance along similar lines, should therefore not be discounted.

Of all the stakeholders, labour faces the greatest dilemma in this regard. Although it may have been co-opted successfully thus far and its continued participation in the alliance has been buttressed by a number of tactical advantages, this situation cannot persist indefinitely without encountering severe legitimacy problems. On the one hand, if it stays in the alliance but fails to influence policy, labour will become increasingly marginalized and/or incorporated by neo-liberal economic and social policies. Alternatively, if labour opposes neo-liberal measures it risks a confrontation with government "in which it will be presented as a special interest concerned with a small proportion of the labour force" (Webster, 1998:58). It may, as Webster (1998:59) suggests, embark upon the challenge of engaging in the process of "strategic unionism"; that is, being committed to the creation of wealth as well as its redistribution and continuing to participate in tripartite institutions.

However, this scenario assumes that pressure following disillusionment within the Alliance will largely come from the Left. Equally decisive, although currently under-acknowledged, is the emerging black middle class, and with it, burgeoning black entrepreneurship. The claim made by none other than Cyril Ramaphosa - that government assets should be privatized as means to enhance opportunities for black business - flies in the face of consistent efforts by labour to block the sale of state enterprises. Nafcoc (the National African Federated Chamber of Commerce) has made similar suggestions, calling on government to establish a black economic empowerment fund to support black consortiums that want to buy portions of unbundled companies or privatized parastatals and asking government to sell its shares in Sasol and Iscor and use the proceeds to finance the proposed empowerment fund (*SAIRR Survey 1996/7:272*).

Moreover, Nafcoc wants government to facilitate the development of small and micro economic enterprises (SMEE's) through *a more flexible labour market*, a strong new competition policy and more lenient monetary policy (emphasis added, *SAIRR Survey 1996/7:273*)³¹. For example, Nafcoc contends that The Basic Conditions of Employment Bill, leaves small business without adequate protection against the powerful trade union movement (*M&G*, August 29, 1997)³². Just as UMNO in the late 1990s made inroads amongst Chinese constituencies as the commitment to redistribution gave way to the pursuit of growth, a more conservative ANC faction is likely to find itself strongly supported by the tiny but vocal white, Indian and Coloured middle classes.

³¹ Interestingly, at the same time Nafcoc and the Afrikaanse Handelsinstituut signed an agreement to work towards the establishment of a single body representing business in South Africa (*SAIRR Survey 1996/7:273*).

³² It contends that government does not seriously see small business as a vehicle for job creation and that GEAR fails on specifics as to how small and medium enterprises could be encouraged.

However, if the corporatist project fails - due to the difficulty of sustaining labour's strategy of "strategic unionism" or if an alternative coalition of counter-hegemonic social forces cannot maintain a more multilateral domestic balance of power, Pretoria may increasingly come to resemble Kuala Lumpur. That is, corporatism may give way to patron-client linkages between the state and business tying otherwise disgruntled but economically influential white, Indian and Coloured elites - with the black bourgeoisie - into a vast network of state patronage. If economic growth declines to the extent that the mass of unemployed outsiders threaten the status quo, or a fundamental political rupture occurs within the ruling coalition, both the Malay and Afrikaner Nationalist experience also suggest that the temptation to reassert political hegemony through authoritarian means is a very real one. Anne Munro-Kua's (1996) analysis of Malaysia as a "populist authoritarian" or Harold Crouch's (1996) depiction of Malaysia as a "repressive-responsive regime", may be the more likely outcome than the brutal and structural authoritarianism of the apartheid regime. It is within this context that the political significance of the notion of an "African Renaissance" warrants a few cursory remarks, before concluding this chapter.

Unpuzzling the "African Renaissance"

Remarkably similar to erstwhile Malaysian deputy prime minister Anwar Ibrahim's (1996) proclamation of an Asian Renaissance (see chapter 8) ³³, very few analysts have recognised how the idea of an African Renaissance - also popularised by Mbeki as deputy president - buttresses South Africa's transformation towards a competition state. As an intellectual project the notion of an African Renaissance serves two primary objectives. Firstly, it masks the growing influence of capital within the ruling alliance in the call for "a new patriotism". Secondly, it serves to highlight the significance of (especially black) big business in post-Mandela foreign policy.

The notion of an African Renaissance attempts to infuse the broad alliance upon which the ANC has relied for support with a new sense of ideological coherence. Numerous analysts have acknowledged the marked decline of the earlier non-racialist ethos which has always been the ideological hallmark of the broad democratic

³³ Indeed an aide to Mbeki, whose "views on the African Renaissance are thought to be the most comprehensive and reflect most closely Mbeki's own" (Vale & Maseko, 1997:6), has remarked that:

It is difficult to discuss the possibility of the emergence of the era of renaissance in our continent without occasionally making reference to the new Asian Renaissance...those of the African continent who are engaged in social transformation of their societies cannot ignore its historical significance as well as its sheer socioeconomic scope and dimension. As a result, in the projection of our own continent, we are bound to look for lessons from some of its indices (Mavimbela, 1997:31).

movement³⁴. For as globalization has forced the ANC into adopting neo-liberal precepts, it has increased pressure inside the highly variegated alliance accordingly. Hence, for very strategic reasons, the actual substantive content of the idea of the African Renaissance is left unexplicated³⁵. Moyo's (1998:9) suggestion that the term is "a little nonsense" underscores how it has lead to the

particularly comical [situation] in South Africa where the term is rapidly losing its potential because of its daily abuse by all and sundry pandering to what they perceive to be the fortunes of espousing the ideology of South Africa's next president, Thabo Mbeki. Any term that means anything and everything to whoever evokes it is necessarily useless not least because it cannot be defined and cannot have useful examples.

The missed point, however, as Antonio Gramsci would quickly suggest, is that its power lies in the superstructural realm of ideas. Vale & Maseko (1997:6) have been the first to recognise this, comparing the African Renaissance to Franklin D. Roosevelt's 'New Deal' and Lyndon Johnson's 'Great Society' which were "little more than invitations to mobilisation: openings around which, with both goodwill and energy by governments and citizens, significant policy initiatives might eventually take form or social movements develop". Thus, given the tensions within the ruling alliance precipitated by the shift from the RDP to GEAR, the necessarily vague notion of an African Renaissance may serve to overcome these differences and cloak the growing influence of capital within the ANC in a new nationalist garb. Though there are profound differences, this was after all, what kept Afrikaner Nationalism going, at least until the 1970s when the embourgeoisement of white Afrikaners eroded the ideological justification of that particular historic block.

The African Renaissance also clearly relates to the rise of the black business class, as the creation of Afrikaner enterprises at the turn of the century ostensibly heralded an "Afrikaner Renaissance" (chapter 4). Mbeki used the term for the first time in a formal or official sense during an address in America to the Corporate Council on Africa's "Attracting Capital to Africa" summit in Chantilly, Virginia, USA during April 1997. Conceding that "we want to move beyond the current situation where Africa accounts for

³⁴ As Kornegay & Landsberg (1998:4) suggest:

The ANC government is battling to come to terms with pressing developments of its core constituency in all its increasingly multi-class character: an emerging and impatient black bourgeoisie within and outside the ANC, a mass constituency of organised working class (represented by the Congress of South African Trade Unions (COSATU)), and the working and unemployed poor in urban and rural areas. The resulting emergence of an affirmative action and empowerment agenda in response to these objective realities has eroded 'non-racialism', a concept that, in any case, begs for fresh definition.

³⁵ Vale & Maseko (1998, n. 25) report that "A meeting on the African Renaissance hosted by the Foundation for Global Dialogue, on 31 July 1997, which was addressed by Vusi Mavimbela, an aide to Thabo Mbeki, generated much confusion. Operating under Chatham House rules, some participants reported that there was little real policy substance".

a small portion of all foreign capital flows” (Mbeki, 1997:36) he pleaded for rapid foreign investment in exchange for substantial economic and political reforms that would make African societies responsive to democratic norms of accountability, human rights and “good governance”. Although confirming the primacy of the African continent in South Africa’s foreign policy, the important role of big business in generating a new appreciation of Africa’s economic potential looms large.

Mbeki (1997: 36) acknowledged the importance of “our own, African business sector, which has a critical role in continuing the African Renaissance into the 21st century, capable of both acting on its own and in partnership with international investors”. Kornegay and Landsberg (1998:5) note that in the wake of the American Minerals coup in Congo-Zaire at the expense of Anglo American, Mbeki remarked that “the exploitation of the continent’s huge mineral resources, which is currently one of the most important sectors of the African economies, can no longer be the preserve of companies from outside our continent”.

If the Mbeki presidency is to be characterised by a renewed emphasis upon Africanism (an issue which remains ambiguous and contested), Mbeki’s reassertion of the need for African rather than foreign companies to exploit Africa’s endowments, suggests the invocation of an Africanist variation on the theme of the “Asian Way”. That is, African companies are more welcome than others. Considering corporate South Africa’s vast expansion into the continent since 1990 - especially by firms linked to the minerals energy complex (see Ahwireng-Obeng & McGowan, 1998) - the implicit subtext may be that Africa is there for South African de facto dominance³⁶. As early as April 1940, South Africa’s very eminent prime minister of that era, Jan Smuts, in a speech to the country’s premier agricultural and industrial show argued

If we wish to take our rightful place as the leader in pan-African development and in the shaping of future policies and events in this vast continent, we must face the realities and the facts of the present and seize the opportunities which these offer. *All Africa may be our proper market if we will but have the vision, and far-sighted policy will be necessary if that is to be realised* (emphasis added, Vale & Maseko, 1997:5).

A succession of initiatives sought to realise the potential which Smuts and even Rhodes before him grasped. The most notable of these - the so-called Dialogue and Detente of John Vorster in the mid-1960s - as well as the proposal for the creation of a “Constellation of Southern African States” in the late-1970s, failed due to the anti-apartheid threat posed to South Africa’s “law and order”, according to National Party rhetoric (Vale & Maseko, 1997:5-6). Insofar as apartheid therefore kept the expansion of South African capital into the continent at bay, *those restrictions no longer apply*. Indeed,

³⁶ Before the 1994 election, South Africa’s direct investment in Africa was about R 3,752 billion and increased to about R13 billion thereafter. Trade during 1994-95 has increased by 52,6 percent to R16, 771 billion (Vale & Maseko, 1998:9).

the still unanswered question is whether South African foreign policy in the next millennium will be replayed to resemble Cecil John Rhodes' dream of a Cape-to-Cairo capitalist empire at the turn of this century?

However, to suggest that the South African business sector has had a considerable influence upon foreign policy, is not to pretend that government and business, especially white business, see exactly eye to eye. In fact, given the degree to which globalization has effectively tied governments hands to pursue a strategy of ethnic redistribution with growth, hopes that the state would be able to prevail upon the private sector to pursue a kind of ERWG by pushing such initiatives through the private sector, has met with some disappointment (as in Malaysia during the 1980s). Indeed, Mbeki has publicly indicated his dismay at business' failure to measure up to the challenge.

Kornegay & Landsberg (1998:7) as well as Friedman (1997:2) suggest that a general perception exists "that corporate South Africa is not willing to invest in South Africa and that this lack of domestic 'business confidence' may have a negative impact on the flow of direct foreign investment into the new South Africa". This, in part, is reflective of business' belief that South African labour is, in comparative terms, under productive and thus less competitive (Kornegay & Landsberg, 1998:7).

Government therefore has called upon the "patriotic bourgeoisie", that is, the new black business class which shares the state's strategic vision in building a new society. Yet, because of white dominance of the business sector and the fact that it will be some time before an equally economically powerful "patriotic bourgeoisie" emerges - given the lack of both capital and experience - government has set its sights on joint ventures with foreign investors who would be prepared to work with the *noir nouveau riche* (Friedman, 1997:3).

Once again, the strategy bears a remarkable similarity to that pursued by the Malay elite during the late-1970s and 1980s. As I noted in chapter 5, the failure to engage domestic (i.e. Chinese) capital in favour of foreign, especially Japanese, investment held Kuala Lumpur ultimately far more captive to less sympathetic international capital markets in the 1980s than would have been the case otherwise. In the Malaysian case, state sponsored heavy industrialisation was justified on the basis of Chinese capital's reluctance to adequately support the Malaysian government in its efforts to advance a larger Malay middle class. If domestic capital fails to live up to the challenge, South Africa may find itself similarly "straight jacketed". For if the "patriotic bourgeoisie" does not emerge as rapidly as is hoped, government remains dependent upon local (predominantly white) big business. Moreover, international investors will take their cue from the way in which they see government getting along with the local variety (Friedman, 1997:3). Regardless of assurances to the contrary, the unbundling & London listing of South Africa's corporate "jewels" - Old Mutual, Sanlam, Anglo American and South African Breweries - in the late 1990s, whether coincidental or untimely, indeed reflects (if

only perceptively) badly upon the confidence of local capital.

Conclusion

The ANC inherited a political economy which had undergone vast structural changes reflective of the change in the nature of the world economy as a whole. Whereas the post-world war era looked favourably upon an enlarged role for the state and direct economic intervention in accordance with Keynesian economic philosophy, the National Party could quite easily advance a few hundred thousand poverty stricken Afrikaners into a middle class lifestyle whilst the global economy was booming. The decisive element was the fact that these conditions were both stimulated and favoured by *Fordist* modes of production. More specifically, with its economy dominated as it was by the mineral-energy complex the South African economy provided the raw materials with which Fordist industry could not go without.

In contrast, the post-industrial world order into which the post-apartheid state has been inducted, only indulges societies which are able to reduce the level of state intervention and thereby prevent the crowding out of private investment as dictated by neo-liberal precepts. This is, in part, a reflection of the emergence of *post-Fordist* modes of production in which state enterprises are often unable to match the degree of 'flexible' specialisation required. These processes are no longer as dependent on the kind of resources which fuelled the post-war boom, including the minerals and energy which has made South Africa subject to "the classic vulnerability of a developing economy to fluctuating mineral commodity prices, both raw and beneficiated" (Fine & Rustomjee, 1996:85)³⁷.

The efforts to advance Africans into the middle class have not only been stymied by the structure of the international political economy. Domestic considerations were as decisive in accounting for the success of Afrikaner advance. Firstly, the initial growth of Afrikaner small capital well preceded control of the state after 1948. Thereafter, Afrikaners were unambiguously privileged by their concomitant political hegemony, with few other modern states having "attempted such elaborate or systematic interventions as those undertaken in South Africa" (Lipton & Simpkins, 1993:4). Secondly, the emergent Afrikaner business class grew from a solid base for capital accumulation, agriculture. It is from these small, rural enterprises - the initial political supporters of *volkskapitalisme* - that larger businesses in manufacturing, mining and finance later evolved.

Apartheid naturally ensured that African capitalists would not be able to avail themselves of the same conditions. Yet, indicative of the degree to which globalization "speeds-up" financial interaction, black corporate growth has occurred many times faster than amongst Afrikaners in the 1960s and 1970s. And although capital also tended to be concentrated amongst a select few of the Afrikaner elite, class divergences within *the volk*

³⁷ A significantly lower gold price, has for example been a major contributing factor to the failure of the black consortium under Mzi Khumalo to prevent the unbundling of JCI in early 1998.

became undeniably obvious. However, the rapid advance of most Afrikaners into middle class occupations and/or state employment with its attendant discriminatory labour policies, and couched in nationalist rhetoric, largely mitigated these class divergences.

For the ANC in the mid-1990s, the situation is very different. Restricted by the degree to which it can expand the public sector and therefore provide jobs to those who would otherwise be disgruntled by growing class cleavages, the political challenge is quite daunting. As Adam *et al.* (1997: 209) have noted:

The South African underclass does not suffer from a sense of relative deprivation because rich whites are not necessarily a reference group, but wealthy blacks may well become one. While the underclass is generally not a political threat through organised political opposition, its size in South Africa hugely increases the cost of containing, policing and caring for the outsiders.

Indeed, the overwhelming support registered for the ANC during the June 1999 elections, reflect the expectation, regardless of GEAR, that the new incumbency will continue to provide “a better life for all” as the ANC’s 1994 election slogan proclaimed.

Nevertheless, the competition state in South Africa, as elsewhere, does not appear to be particularly conducive toward eroding the kind of inequalities generated by globalization; nor does it leave much room for state entrepreneurs to engage in a *popular* process of “black empowerment”. It is therefore immensely difficult for the ANC to replicate the same strategies pursued by Malays or their Afrikaner predecessors which converged during the Fordist/Keynesian interface.

Insofar as the process of transformation towards the competition state therefore tends to erode the sense of *gemeinschaftlich* commonality as Cerny suggests, it also forces the state to adapt to the challenges of globalization at the cultural or symbolic level. Hence, part 3 illustrates how state elites appropriate popular culture to expand the state’s marketing power.

III

MARKETING THE COMPETITION STATE

THE POWER OF THE MUSIC, FILM AND SPORTS INDUSTRY IN MALAYSIA AND SOUTH AFRICA

As globalization forces the state to participate in the global “beauty contest” to enhance its international visibility, it is especially small states which attempt to expand their marketing power. Complementing other state strategies facilitating the adoption of the competition state model, marketing power by definition reveals the two level games in which states are engaged. Marketing power fulfils both an *internal* role in attempting to shore up support for a sense of *gemeinschaftlich* commonality and externally denotes various attempts to “put the country on the map”.

However, the quest for marketing power throws up a multiplicity of complex dilemmas. As the next two chapters demonstrate, it is extremely difficult to develop appropriate means to expand marketing power in societies without a strong sense of national identity. In as much as marketing power is sought after as a nation-building exercise, and enhances political legitimacy, it can very often exacerbate or expose deep seated societal cleavages. Marketing power in short, is not a strategy without risk.

Chapter 8 suggests that the revival of Islamic activism and authoritarian trends have made sports events one of the few means by which to project Malaysia as the model modern Islamic state. Similarly, in South Africa, as chapter 9 suggests, sports events have also become the quickest and most accessible means to signal the arrival of the “Rainbow Nation”.

8

Mobile Phones at the Mosque: Marketing Malaysia as a Model, Modern Moslem State

Building the world's tallest towers in the heart of KL cannot cancel out many problems KL faces on the ground. Becoming the world's 13th largest trading nation does not miraculously erase our trade deficit problem. Constructing a huge dam in Sarawak will not solve our energy problems overnight. Hosting the Commonwealth Games will not transform our athletes into world class sportsmen. Creating a multimedia super corridor will not magically "teleport" the Silicon Valley into the Klang Valley. Having four women from different ethnic groups sing together every night on TV will not change the reality of racial politics in this country
- Stothard (1998).

To many - at least in the West - the immediate Malaysian image would be "diversity and colour"; "vibrantly unique" and a "tropical wonderland". Official promotions of the country strongly play-up these images and that of Malaysia's multiculturalism as the mainstay of its marketing power. In its advertising campaign for Visit Malaysia Year 1990, the Tourist Development Corporation declared:

Malaysia has a wonderful pot-pourri of different races comprising three main groups - Malays, Chinese and Indians - in Peninsular Malaysia, and numerous indigenous groups ...Sabah and Sarawak...Visitors from all over the world can...expect to always feel at home and welcome in this vital, colourful and kaleidoscopic nation of ours" (cf. King 1993:101).

Although the multiculturalism which Malaysia, like South Africa as "the Rainbow Nation" exudes, provides a competitive advantage to expand their marketing power, the cultural distinctiveness of both countries also imposes severe restrictions in terms of the kinds of projects which state elites can export to enhance the state's marketing power. Whereas apartheid crippled South Africa's cultural and creative imagination, similar authoritarian trends in Malaysia in combination with the revival of Islamic activism have also had a debilitating effect on the country's ability to promote itself via its cultural industries, most notably, the motion picture and music industry. Besides sharing many of the same obstacles producers and artists face throughout the developing world, "putting Malaysia on the map" becomes an incredibly complex task, requiring state elites to manage a multitude of political tradeoffs in order not to risk the wrath of the *ulamas*.³⁸

As this chapter will illustrate, Malaysia has assiduously sought to make the most of its multiethnic character to fashion a tradition which exemplifies moderation, modernity, but above all, an undeniably Islamic identity. In short: the model, modern

³⁸ An *ulama* is a Muslim scholar and theologian.

Muslim state. After providing some background to the rise of Islamic political power, its societal influence, and UMNO's Islamization policy, I illustrate how the mobilizing potency of an Islamic revival restricts the use of movies and music as means to enhance Malaysia's marketing power. Less encumbered by Islamic convention, however, sport remains one of the few avenues available to state elites with which to project Malaysia internationally whilst celebrating its national identity domestically. Concluding this chapter, the possibility of extending Malaysian marketing power through high profile sports events is analysed in greater detail through a case study of Malaysia's hosting of the XIV Commonwealth Games.

The Challenge of Islamic Revivalism

Although Malaysia is a secular state, with freedom of religion, at independence, Islam was designated to be "the" religion of the country (Funston, 1981:169). Nonetheless, the dominance of an otherwise secular state by a predominantly Muslim governing coalition has remained a source of considerable tension. On the one hand, some Malays expect a more definitive Islamic identity whilst some non-Muslims, on the other, tend to perceive each step in that direction as assimilationist and an assault on their respective identities. Hence, the constitutional classification of Islam as 'the' religion of the country left considerable room for debate over the actual role it should assume in national life. Well before the NEP, various Islamic groups agitated for greater governmental concern to the problems of Malay backwardness in areas such as health, education and the economy, and for positive measures to institute Malay as the national language, with profound cultural as well as economic implications (Funston, 1981:170).

For many Malays, Islam therefore remains their most enduring custodian, the earliest associational basis through which their interests were asserted and a potent force for political mobilization. Accordingly, during periods of economic decline, more fundamentalist Islamic groups such as the opposition PAS, tend to enjoy greater appeal.

Following the racial riots of 1969, communal emotions were deeply felt and to many Malays the affirmation of their ethnic character - the Malay language, customs, and economic benefits - all coalesced around their Islamic consciousness. The general strengthening of communal consciousness therefore reflected the rise of an Islamic consciousness (Crouch, 1996:171). Throughout the 1970s, the NEP induced modernization process subjected the Malay community - and its youth in particular - to profound pressures, dislocations and psychological challenges. For many, their dedication to Islam helped assuage the contradictions between modernity and tradition as they experienced it. At the same time, the accelerated stratification of Malay society during the NEP did not occur without considerable class disaffection (Khoo, 1995:159). Although Africans (as well as Afrikaners at the turn of the century) also had to negotiate the tensions between tradition and modernity, falling back on traditionalism was not as

politically explosive as in the case of predominantly Moslem Malays.

Whereas earlier generations were content with the spiritual and traditional content of the religion, for the newly urbanised and educated Malays their contact with Islamic literature, preachers and organizations during a worldwide period of Islamic revival - the Iranian revolution and the OPEC oil crisis - left them pondering how Malaysian society could be more fully transformed according to the tenets of Islam (Crouch, 1996:172).

The departure of the Islamic political party PAS from the ruling coalition in 1977, and the limitation imposed on political activity - extended to all forms of student activity - left Islamic activism as one of the few avenues through which a more political associational life could be pursued. Moreover, increased corruption amongst top Malay bureaucrats and politicians and the lack of fundamental, structural change in the rural sector considerably heightened the appeal of Islam and especially the *dakwah* movements³⁹(Funston, 1981:172). Apart from these factors, the expansion of opportunities for tertiary education amongst Malays under the NEP also strengthened various *dakwah* organizations⁴⁰.

One of the largest of these groups, the Muslim Youth Movement of Malaysia (ABIM) which had claimed up to 35,000 members in the 1980's, became so powerful that government had to take various steps to curtail its influence. In addition, its growing *rapprochement* with the most vociferous Islamic political party, PAS, prompted the Malaysian state to embark upon an Islamization policy in order to undercut Islamic criticism of secularization. Soon after Mahathir became prime minister, this policy included both fairly minor steps - such as banning the import of non-halaal beef and a prohibition against gambling - and more substantive measures aimed at cultivating the country's Islamic credentials both locally and abroad. The first Islamic bank in Malaysia was created in 1983. It would not charge interest on deposits, but rather share the profits earned from investing the deposits with the bank's customers. An Islamic insurance company was also created in 1984. However, particularly great emphasis was put on education, or intellectual enlightenment, reflecting the moderation and pragmatism of Medina more than Mecca⁴¹. For Mahathir in particular, the golden age of Islam was "a great epoch of creative ability" and "unprecedented flowering human genius" that "manifested itself in remarkable advances in the arts and sciences" and "laid the foundation of modern knowledge and learning" (Khoo, 1995:163). Malaysia

³⁹ Literally, 'dakwah' means to call or invite and can be loosely translated as missionary activities. In the Malaysian context however, this refers more to the task of enhancing a Muslim's spiritual basis than converting the non-believer (Funston, 1981:173).

⁴⁰ Evincing considerable political differences - from those private *dakwah* groups committed to establishing a fully Islamic society in Malaysia to governmental *dakwah*'s which adhere to official policy to uphold a secular state - these various groups cannot be examined here .

⁴¹ Interview, Malaysian academic, University Sains Malaysia, Penang, July 1998.

therefore announced the building of the International Islamic University in Kuala Lumpur in 1983 and compulsory courses in Islamic civilization in the universities. It also initiated a campaign to apply Islamic values in government and administration, upholding justice, honesty, dedication and diligence (Khoo, 1995; Crouch, 1996:170). A notable feature of all these measures is that whilst they helped enhance Malaysia's Islamic identity, they did not impose upon the freedoms of non-Malays. Moreover, such an approach perfectly complemented the notion of an "Asian Renaissance"

The Significance of Political "Gimmicks": *Melayu Baru* & the "Asian Renaissance"

Not unlike the South African debate regarding the African Renaissance (see chapter 7), the Malaysian academic and policy making community has also been set ablaze in an attempt to grapple with the significance of the notion of *Melayu Baru* (New Malay). For Mahathir, indisputably the most ardent modernizer of Malay society, *Melayu Baru* clearly reflects his vision that the ultimate salvation of the Malays lies not in the continuation of their state-led privilege, but their full participation in the national and global economy as a distinct industrial and commercial community. Indeed, according to Embong (1997:2)

the project of *Melayu Baru* "assumes a distinctly pro-business character today in the post-New Economic Policy (NEP) era because of the ideological orientation of its foremost champion, Mahathir, who combines the praxis of power with his vision that the salvation of the Malays lies in their full participation on an equal footing in the national and the global economy through the development of a vibrant and keenly competitive Bumiputera commercial and industrial community.

With globalization rapidly reducing the possibility of retaining political support through state employment and other means successfully used through the NEP in the 1970s, *Melayu Baru* reflects the acknowledgement - also not wasted on the new South African state - that political allegiance and the advance of a *nouveau riche* increasingly resides in the way by which the state sets the terms for private sector engagement. Hence the significance of influence networks located less within the public sector and more resolutely within the marketplace. Not unlike the South African proclamation of an African Renaissance, *Melayu Baru*, reflects - if only at a symbolic or rhetorical level - an attempt to manage the pressures on the competition state emanating from both the international and domestic policy domain. It is, in other words, part of a larger coterie of state strategies *to reduce Malay dependence on the state and yet retain other means of sustaining political patronage.*

Known less for his kow-towing to Islamic orthodoxy than for his modernist "can do" attitude, nuancing Malaysia's articulation of a progressive twenty-first century vision

of Islam, was left to Mahathir's deputy, Anwar Ibrahim⁴². Mahathir's embrace of Anwar's Asian Renaissance, suggests not only a continuation of the notion of a *Melaya Baru* but a response to growing concerns from within Malaysia's Islamic portholes of power that for all the appeal to a new cultural mentality, the newly created wealth enjoyed by middle class Malays

has not been accompanied by a flourishing culture or renaissance in the social, intellectual and artistic sphere. Instead, it has been accompanied by a growth of consumerism, a general decline in patriotism and a dearth of cultural enrichment" (Embong, 1997:19).

The idea of an Asian Renaissance thwarts criticism from Islamic quarters that Malaysians' newfound material prosperity has contributed to a superficiality of spiritual values and considerable moral decay. Demonstrating UMNO's Islamic commitment in such a fashion may therefore quench dissent from those quarters, but it also exacerbates non-Muslim minorities' fear of a growing Islamic cultural hegemony at the risk of other Asian cultures and values (Esposito & Voll, 1996; Osman-Bakar, 1997). Hence, the reference is not to an Islamic Renaissance, but an *Asian* one with a celebration of mutual social and political values between Confucianism and Islam standing at the core of this nationalist project⁴³.

Both the *Melayu Baru* of Mahathir and Anwar's Asian Renaissance - not unlike Thabo Mbeki's African Renaissance - suggest the injunction of intellectual projects by state elites to mask a growing intra-ethnic class consciousness as these societies engage world markets. (In apartheid South Africa, Afrikaner Nationalism fulfilled a similar role, albeit more crudely, see chapter 4).

Being part and parcel of the larger debate about Asian values, the idea of an Asian Renaissance also fulfils an important foreign policy role sustaining Malaysia's competition state transformation. As Wong & Blaskett (1995:182) remark

In promoting a cultural relativist position to support its domestic policies, the Malaysian government sought to legitimize its democratic and human rights record. Essentially, it contended that Malaysian was democratic but that it could not be judged by "certain particular (i.e. Western) yardsticks" that defined democracy too narrowly.

⁴² See Ibrahim (1996).

⁴³ Hence Malaysia's contribution to the debate about "Asian values" began with a series of international conferences on civilizational dialogue (attended, amongst others, by Samuel P. Huntington). Anwar gave the keynote speech at the first of these conferences on an Islamic-Confucian Dialogue. This initiative was given considerable institutional impetus with the establishment of the Centre for Civilizational Dialogue in March 1997. In addition, then Malaysian Minister of Education and a front-runner for political power in the post-Mahathir era, Najib Tun Abdul Razak directed all public universities to teach Asian civilizations as a compulsory course (Osman-Bakar, 1997:54).

This is not to deny sincere attempts by many in Asia - including Anwar - to infuse "Asian values" with the liberal democratic idiom, but that the scope for doing so has, at least in Malaysia, been reduced considerably since Anwar's arrest.

In the sphere of popular culture, apart from religious devotion on radio and television, the number of Islamic programmes were also increased and a sterner approach taken on issues relating to rock music; motion pictures with sexual or violent content were banned; penalties for drug offences increased substantially; and an Islamic dress code was instituted for Muslim women (though still not as forbidding as in Iran). In reaction to these initiatives ABIM - which put greater emphasis on an Islamic commitment to justice, especially in the economy and politics, than lifestyle prescriptions - moved towards gradual support for UMNO (Funston, 1981:177). Hence, another dimension of the Islamization policy consisted of a process of cooptation, tellingly revealed in Mahathir's invitation to Anwar to join UMNO shortly before the 1982 general elections⁴⁴. Since then UMNO, whilst continuing to affirm its Islamic credentials, has consistently made much of PAS's intention to "turn back the clock" and transform Malaysia into an Islamic state. Making much of its sense of moderation, UMNO has augmented its political support both amongst Malays and through its coalition in the BN, amongst non-Muslims as well.

Given these constraints and the profound multiethnic and multi religious nature of Malaysian society, Kuala Lumpur has sought to fashion itself as the model modern Moslem state. The Arab-Malaysian Bank markets an Islamic credit card designed to reject payments for nightclubs, massage parlours and other proscribed activities. Using Islamic indices indicating the degree to which companies are thought to be free of *haram*⁴⁵ fund managers can trade stocks and bonds more selectively (*Financial Times, Weekend*, April 26, 1997).

Yet negotiating the blurred lines between religious acceptability and modernity does not come easily. Rising affluence has meant that the country has also not escaped social problems familiar in the West: Heroin addiction in the 1970s and 1980s, and child and wife abuse, incest and teenage gangs, continued drug use and illegitimate births in the 1990s. While Chinese involvement in these problems account for only 16 percent of such cases, the Malays account for 67 percent, a ready stone for the Islamic opposition to mill. Consequently, imposing restrictions upon creative expression has become a convenient political target. Malay filmmakers, for example, cannot show a woman's naked armpits on screen, despite the fact that it is a common sight in imported soap-operas. Similarly, following a government ban on open air heavy metal/rock

⁴⁴ This was not for exclusive domestic political consumption, but Anwar's close relationships with a number of international Islamic personalities made his role imperative in cementing Malaysia's relations within the Islamic world (Nair, 1997:113). Only six years earlier however, Anwar as leader of ABIM had been released from twenty-two months in detention for instigating student protests in support of poor Malay peasants in Kedah.

⁴⁵ UnIslamic business activities - i.e. from the number of interest-bearing loans, involvement in gambling to the serving of alcohol or pork.

concerts, it was also banned over radio and television (Sooi Beng, 1992:286). However, the underdeveloped state of these cultural industries is not solely due to the fact that Malaysia is a predominantly Moslem society. As in apartheid South Africa, a tradition of censorship, lack of state support and an emphasis on Bahasa Malay film production has also stymied development of the industry. Similar problems pervade the music industry.

The Movie Industry

Even since colonial times, the Malaysian motion picture industry has been subjected to extensive censorship restrictions. In 1925, for example, the official censor banned 12 percent of all films entering the Straits Settlements, the Federated Malay States and Johore, whilst objectionable portions were cut from 90 per cent of these films⁴⁶. Despite these restrictions, the film industry flourished and from the late 1930s to 1950s, "it was estimated that the per capita rate of film attendance in Malaya was probably the highest in the world" (Lent, 1990:187).

However, an indigenous film industry only began to make its appearance in Malaya after the Second World War and thereafter with the production of propaganda films during the Emergency of 1948 to 1960. Before World War II, locally produced movies often employed Indian and Chinese languages and when the Shaw Brothers set up Malay Film Production in 1947, a number of directors from India were hired to establish the Malay feature film market. However, scripts inevitably tended to have more Indian nuances and cultural idiosyncrasies with very little that was truly Malay (Lent, 1990:189). Nonetheless, signs of a prodigious industry emerged as many films were exported to Indonesia, where a similar vernacular provided a huge, captive market. During the *konfrontasi* period between Indonesia and Malaysia in the early 1960s, the gradual emergence of an Indonesian film industry as well as the advent of television in Malaysia virtually brought the entire industry to its knees.

By 1972 the Malaysian film industry virtually ceased to exist, with only one company making Malay films (Lent, 1990:190). Not only were these movies uninspiring and nearly totally devoid of any social conscience or inspiration, but the lack of adequate funding for technical infrastructure and talented personnel left the industry in dire straits.

To make matters worse, a campaign against sex and violence also got underway. Up to 1972 "sex films" were allowed to enter the country on condition that screenings were restricted to those 18 years and older. However, a number of *dakwah* movements succeeded in lobbying for a total ban on these films and in 1973 all crime, violence and

⁴⁶ During 1927, 128 films were banned as they were considered "harmful to Eastern audiences", given the portrayal of the "immodest dress of Western women"; gambling and criminal methods; whilst also showing intimate interracial marriages and attachments.

sex in films were banned⁴⁷. Highly supportive of most governmental campaigns the state-controlled media blamed sex films “as the causes of public love-making, crime, venereal disease, orgies and the creation of sex maniacs” (Lent, 1990:196).

Films dealing with crime are also subject to censorship: they may not be criminally instructive, encouraging or inspiring whilst the criminal methods used must not be easily applicable to local circumstances. These criteria certainly do not hearten aspiring film producers, since the underlying theme of any crime film should be that crime does not pay⁴⁸.

According to a 1977 governmental report, Chinese motion pictures took up 53,9 percent of screening time; English 21 percent, Indian productions 12,2 percent and Malay 12,1 percent. Boosting Malay cinema whilst ensuring that at least 30 percent of these businesses were in Bumiputera hands, in accordance with the NEP, proved to be particularly demanding, considering that in 1976 only seven Malay films were produced (Lent, 1990:193). Similarly, during the heydays of Afrikaner Nationalism, motion pictures with a predominantly Afrikaans dialogue qualified for a disproportionately greater amount of state subsidy than English or African language films (see the following chapter).

Throughout the mid-1970s to mid-1980s, the state became increasingly involved in the industry. In 1976 it ruled that all non-Malay feature films, shorter films as well as commercials should carry Bahasa Malaysia sub-titles in order that “the film industry [make] its contribution towards national unity and nation-building efforts” (cf. Lent, 1990:193). However, the growing popularity of the home video market exacerbated long-standing problems within the industry. Between 1984 and 1987, film attendance dropped from over a million to 300, 000 whilst the number of theatres went down to fewer than 200 from earlier highs of more than 400 (Lent, 1990:195). As Azmil Mustafa lamented:

being a Muslim nation, we have our limitations with regards to moral values depicted in films. We cannot have scenes that are too steamy nor too violent. So we have a little of this, a little of that, and what do we end up with? Half-baked, tawdry films (cf. Sooi Beng, 1992:285).

As in South Africa, prospects for the Malaysian music industry are somewhat better, although political restrictions and censorship, in addition to similar difficulties facing all developing countries trying to break into the international music market,

⁴⁷ The Parliamentary Select Committee on Controversial Films noted that “sex films which serve no educational purpose and films which emphasise violence should be banned where they are likely to lead to a lowering of public morals, affect racial harmony or disturb the security of the country” (cf. Lent, 1990:196).

⁴⁸ Moreover, “Step-by-step criminal procedures must be deleted, criminals should not be glamorised, police tactics (not those of criminals) should be emphasised and scenes of the apprehending of criminals should be lengthened” (Lent, 1990:197)

present severe obstacles to the music industry becoming a major vehicle for Malaysia's marketing power.

The Music Industry

Although Malaysian popular music has increasingly been influenced by Western styles, its geographic location means that the blend of ethnic influences brought by the Arab and Chinese traders, Indian workers and Portuguese, British and Dutch colonisers have left a distinct impression on the evolution of Malaysian music. Popular music emerged as *bagsawan* songs with Arabic, Western Hindustani, Latin American, Javanese and Chinese elements as well as dance style orchestras combining strings, trumpets, trombones and maraccas, harmonia's as well as the tabla.

Throughout the 1930s and 1940s, Malaysian folk music was blended with the popular music styles of the West - swing, mambo and fox-trot. But it was not until the late 1950s that P. Ramlee, Malaysia's Harry Belafonte, began laying the basis for a more unique Malaysian musical style. Indian flavoured but with a definite Malay feel, it heralded a genre of popular Malay music. Ramlee's repertoire was mediated through the Malay world via the then expanding and successful Malay film industry which ensured that he became a household name (Ibrahim, 1995:8; Sooi Beng, 1992:296). As the Beatles and Rolling Stones became popular in the West in the 1960s, Malaysia entered its so-called "pop yeh yeah" era with bands such as "The Siglap 5", "The Hooks" and "Mutiara Timur".

The revival of folk music in the U.S. was also transfused into Malaysia as it was into South Africa. Attracted to the intellectual force behind it, the music of *Kembara* appearing in the early 1980s from artists like M. Nasir also reflected a distinctive Malaysian twist in the tradition of *musica nusantara*, or the music of the archipelago (Ibrahim, 1995:12).

However, *nusantara* music finally came into its own when composer, Manan Ngah with his newfound singer, Sheqal - introduced "Balada Nusantara" - a genre which became an overnight success⁴⁹. The significance of Nusantara is that "it is at once an important political act of 'resistance' in the struggle for cultural identity in the Malaysian music world". A particular feature of the genre is not merely the use of traditional musical instruments, but "the Malaysian values depicted in the aspects of its melody, rhythm and harmony" (Ibrahim, 1995:18).

In the 1970's, Malaysia had become a major new market for multinational recording companies. With huge marketing budgets, television programmes and

⁴⁹ Manan describes it as

an original composition, the product of a synthesis or hybrid generated by the influences of world music which are dominant in the cultures and nations of Asean, Southeast Asia and Asia, and which highlights the musical aesthetic values of Europe, Spain, Latin America, Arabia, India and China which have been integrated into a Malay music base, in the context of a Malay world, Nusantara (Ibrahim, 1995:17).

merchandising campaigns, a kind of “transnationalized culture” was promoted, consolidating the growing popularity of Western pop music. Although sales of international tracks account for 50 to 65 percent of revenue, about 20 to 35 percent of music sales are now local products (Ibrahim, 1995:29). In fact, the top-selling albums from homegrowns are largely due to the support and marketing efforts of the subsidiaries of these transnational music companies (Ibrahim, 1995:28; Sooi Beng, 1992:297).

In reaction hereto and concerned that these transnational corporations could create conflicting cultural values, the state belatedly supported those Malay popular songs it approves through television song contests. Songs dealing with patriotism; loyalty; national pride (“Thanks for the Memories”) and progress (“Sing a Song of Progress/Show How Much You Care”) were even commissioned for radio and television broadcasts several times a day. At the same time, the state also stepped up monitoring efforts and imposed restrictions on songs it disapproved of. Yet, lacking clear guidelines, Radio Television Malaysia (RTM) banned songs with words that can “stimulate one to violence” and/or “heavy metal” or any other music “that is too westernised” (Sooi Beng, 1992:297)⁵⁰. Following the rock concert, “Battle of the Bands” in Penang, government banned open-air rock concerts for a few months because the audience acted wildly due to the influence of the heavy metal band⁵¹. These bans have been justified on grounds that such concerts promoted “undesirable influences”, “violence”, “obscenity” and “long and unkempt hair”. Following the Rock Summit held at Stadium Merdeka, an official lamented that:

The audience...were dancing and some of them even removed their shirts. Now this is unruly behaviour and should be stopped...This pattern will catch on, and soon, everybody who attends a concert will be dancing. ...What will the foreigners think of our society dancing and behaving wildly? What’s more dancing at concerts is the way of the west. We are supposed to be a gentle society, rich in tradition and culture” (cf. Sooi Beng, 1992:298).

These restrictions are not only limited to live performances or “heavy metal”. When the Malay hip-hop group, KRU did a remake of an earlier track made famous by P. Ramlee, by singing a digitalized duet with him, government nearly banned it due to pressure from the religious authorities who contended that the soul of a dead man was

⁵⁰ For example, Sahara Yacoob’s album “Ustazah Blues” was banned because of the contradiction between the image of an Ustazah and a nightclub singer (the assumption being that a good Muslim should not be singing the blues, especially not at a nightclub).

⁵¹ Mahathir contended that “[R]ock music is not the culture of Malaysia...The audience acts as though they have lost their minds [hilang akal]...this does not reflect the code of ethics of the people of Malaysia...The time has come for us to ban matters that are nonsensical ...” (Sooi Beng, 1992:298).

being disturbed!⁵² However, when the group launched the KRUmania Mega Tour '97 - billed as one of Malaysia's most extravagant at a cost of RM 7 million (US \$ 2,8 million) - objections from groups like the Islamic opposition party PAS and the *dakwah*, ABIM, ensured that KRU was banned in three states⁵³. Although religious authorities are often cast as the "party spoilers", it also helps deflect attention from the state's political interest in such bans.

Despite these political restrictions, many in the Malaysian music industry - especially fringe singers and composers - continue to resist and reveal limitations to freedom of expression. In 1988 a number of musicians compiled an album entitled "Suara" (Voices) to commemorate the 40th anniversary of the United Nations Universal Declaration of Human Rights (1948-1988):

Kalau mau dibebaskan	If you want to be free
dari segala cengkaman	from all forms of repression
jangan dikeretalembukan	don't be left behind
terus teguhkan keinsanan	stand up for your humanity ⁵⁴

Arguing that it was "lacking in commercial value" four major recording companies turned down the album until it was finally released by a small independent production house. Thus, just as the apartheid state imposed indirect censorship through radio and television air time restrictions, and thus fundamentally deterred record companies from signing contracts with artists unlikely to enjoy much air time, the Malaysian state has also been able to quench the "counter-hegemonic" potential of the music industry.

Rather than allow international music to flood the local market in order to negate the influence of a rock subculture which challenges the dominant political and social norms defined by both the state and Islamic authorities (which could be construed as counter-nationalist), the state either sponsors or simply does not impose as many restrictions upon artists who do not challenge the status quo. Hence, Sheila Majid, exemplifying George Benson style guitar rhythms, has become Malaysia's first and most popular international star, penetrating the Indonesian and Japanese markets (Ibrahim, 1995:24).

⁵² Although Anwar was able to dissuade government officials from imposing a ban - arguing that it illustrated Malays' technological capability - ultimately a *fatwa* from the Islamic Centre was required to clear it for distribution.

⁵³ ABIM justified the ban on the basis of sponsorship by Peter Stuyvesant Travel. Although a ban on tobacco advertising prevents Peter Stuyvesant from operating, they argued that KRU sponsorship nevertheless tacitly encourages smoking. The Chief minister of the Islamic stronghold of Kedah contended that the term "mania" is "closely related to maniacal action or madness. We don't want to encourage something that means mad". Others, in Selangor and Perlis, feared that the concerts would be held near mosques and therefore create disturbances (*FEER*, June 19, 1997).

⁵⁴ Chorus of "Kekebasan"; album: "Suara"; produced by Jiwa; distributed by Warnada (cf. Sooi Beng, 1992:302).

The Islamic pop group Raihan (which means a sense of paradise) enjoys tremendous popularity because it epitomizes the image of Malaysia as a modern Muslim society. With lyrics like “God is great”, Raihan is even a hit with the Islamic fundamentalist PAS party. Indeed, after stealing the show at the last Malaysian music industry awards, their albums “went on to sell a record number of copies in both Malaysia and Singapore” and they “are now preparing to record their first United States album”. The all-male Raihan has been joined by the female group, Huda, with band members “chosen for their air of spiritual serenity” and, since they are all mothers, their ostensible promotion of family values⁵⁵.

Given the restricted potential of the music and motion picture industry to project Malaysia in these Western dominated industries, however sport has become far more appealing to state elites to enhance Malaysia’s marketing power.

Sport and the XIV Commonwealth Games

Malaysia hosted the largest Commonwealth Games in history, from September 11 to 21, 1998. Fifty countries, 15 sports and 6000 athletes were represented: nearly double the 3,430 athletes who participated in the 1994 Commonwealth Games in Victoria, Canada. The cost? More than RM 2 billion (US \$ 555 million), for stadiums, the organization of the Games and the training of local athletes, amidst one of the most severe economic crises in the region and the most dire in Malaysian history. The Malaysians splurged: Thailand, host of the 1998 Asian Games with more than 10,000 athletes for example, spent only US \$ 42,3 million or 50 percent of what Malaysia budgeted for just over half as many participants. The cost of the new state-of-the-art stadium at Bukit Jalil alone ran to RM 1,2 billion, and another RM 300 million was required to upgrade existing facilities around the capital (*FEER*, April 30, 1998). Indeed, as one British observer noted, Kuala Lumpur made the Victoria Games resemble a village fete by comparison (Ingram, 1999: 29).

The 1998 Commonwealth Games were of great significance: not only was it the first Games ever to be held in Asia, but it was only the second to be presented by a developing country. And for Malaysians, “KL ‘98” represented the biggest, the best and the most lavish showcase they had ever staged. Yet it is not solely financial expense which made Malaysia’s decision to stage the Games so remarkable. The fact is, apart from a number of notable victories in badminton, Malaysians do not really consider themselves to be a sporting nation. Nor does the country exude much of a sports culture.

In order to “unpack the puzzle” and grasp the motivations for hosting such an extraordinary event, the significance of the Games needs to be assessed according to three complementary levels of analysis. Firstly, awarding the Games to Malaysia had as

⁵⁵ “Islamic pop storms Malaysia”. [Http://news.bbc.co.uk/hi/english/w...a-pacific/newsid-347000/347165.stm](http://news.bbc.co.uk/hi/english/w...a-pacific/newsid-347000/347165.stm). Accessed: 19 May, 1999.

much to do with Kuala Lumpur's desire for a showcase opportunity as it did with resolving and deflecting a growing frustration within the Commonwealth about the future of the Games. The second, and most obvious purpose, was to appropriate the Games as a way of enhancing Malaysia's marketing power. As an ethnically divided society, experiencing the profound process of transformation towards a competition state, the 1998 Commonwealth Games was Malaysia's most ambitious "hallmark event" ever. The third motivation, overlapping with those mentioned above, is the degree to which "KL 98" indicated how closely sport was becoming part and parcel of Malaysian foreign policy. However, these points cannot be illuminated without starting at the beginning: the story of Malaysia's bid.

The International Politics of the Commonwealth Games

The Malaysian decision to enter the bidding for the Games was prompted by growing concern, particularly amongst developing countries, that the right to host the Commonwealth Games remained the exclusive preserve of the first British dominions: New Zealand, Canada, Australia and Britain herself. Between 1930 and 1994, for example, New Zealand and Australia each hosted the Games three times, Britain four times and Canada five times⁵⁶.

By the 1990s, the Games were losing their appeal as a major sports festival within the English-speaking world, with the continued participation level overwhelmingly dominated by the Commonwealth's four "super powers", New Zealand, Australia, Canada and Britain. The North-South divide in the global economy was also reflected in the Commonwealth, with the large number of member states and the vast distances which separated them, making it prohibitively expensive for most of the developing countries to host a Games.

Although the "four superpowers" had participated in each Games, the sheer cost of merely attending the Games remained a major deterrent to a truly representative ensemble of athletes from all corners of the Commonwealth. At the 1970 Games in Christchurch, New Zealand for example, only 18 countries participated with a total of 1,349 athletes and officials. For the 1978 Edmonton Games, the number more than doubled to 48 countries. Yet the total number of athletes and officials was still a mere 1,979, an increase of about 30 percent. Most, if not all the additional 30 countries sent only token teams of about 20 athletes and officials (Sieh Kok Chi, 1998:2).

To make matters worse, these meetings represented the better attended Commonwealth Games. At the 1986 Games in Edinburgh, Scotland, for example, over half the member organizations from the developing world boycotted the Games to underscore Africa's and Asia's solidarity in opposing contact with apartheid South

⁵⁶ On the history of the Commonwealth Games, see Houlihan (1994).

Africa. The “South African issue” was not only a constant source of division *vis-a-vis* sports, but reverberated throughout the entire Commonwealth, its related organs and activities. Edinburgh however demonstrated in very tangible terms, the real extent to which the Games were dominated by the “four super powers”. Although the number of participating countries was only 26, the total number of participants was 2,123 in contrast to the better attended Brisbane Games four years earlier, where 2,154 athletes and officials participated, yet representing more than 45 countries. The Games, in other words, had become almost totally dependent on four to six member countries from the developed world within the Commonwealth, who had hosted the Games before. Indeed, the participation of the 40 to 60 members from Asia, Africa, the Caribbean and the Pacific Islands, “was quite irrelevant, as they made very little difference to the overall total number of participants or to the results of the competitions” (Sieh Kok Chi, 1998:2; McIntyre & Hillmer, 1998:58).

A closer analysis of the participation level of the XIV Commonwealth Games in Auckland in 1990 confirm these patterns. At those Games, out of a total of 2,862 athletes and officials from 54 countries, 5 countries or 10 percent sent a total of 1,550 athletes and officials constituting 53 percent of participating athletes and officials. On the other hand, 28 developing countries or 50 percent sent a total of 286 or 10 percent of the athletes and officials, with an average of 10 participants per country (Sieh Kok Chi, 1998:2). Though the Commonwealth had assiduously sought to oppose apartheid by excluding South Africa, that did not prevent the Commonwealth from falling prey to the apartheid generated by the global economy and sustaining the North/South fault line which threatened to envelop it. Instead of bringing people together through sports, “it was having the opposite effect of dividing the Commonwealth, by providing the developing countries with less and less stakes in the Games” (Sieh Kok Chi, 1998:2).

These divisions and their particular legacy heightened questions about the practical sustainability of the Games. Considering that the Commonwealth Games was the third largest international event of its kind - after the Olympics and soccer World Cup - audience size was disproportionately low, and sagging. Apart from being popular with television audiences in Australia, New Zealand, Canada and Britain, elsewhere the Games registered relatively mediocre audience interest. Moreover, this was clearly being reflected in the lack of sponsorship and the weakening marketing potential of the Games, which was slowly being overtaken by other regional and continental sports festivals.

However, with the election of a new Chairperson from Asia at the General Assembly of the Commonwealth Games Federation (CGF) in Auckland, in January 1990, indications were that things were about to change (Sieh Kok Chi, 1998:2). During the 1989 Commonwealth Heads of Government Meeting (CHOGM) in Kuala Lumpur, concern was expressed that Commonwealth ties needed to be strengthened by

diversifying the hosting of the Games to all regions of the Commonwealth, a position reaffirmed at the 1991 CHOGM in Harare, Zimbabwe.

Making the Bid

The Malaysian decision to bid for the 1998 Commonwealth Games was preceded by the 15th Southeast Asian Games held in Kuala Lumpur from 19 to 31 August 1989. Not only was the event a huge success from a marketing point of view - corporate sponsors contributed to a surplus of over RM4,0 million - but the Southeast Asian Games seemed also to attract the attention and support of Malaysians from all walks of life and across the traditional ethnic divides. Moreover, Malaysian athletes won 67 gold medals, the highest number of gold medals ever won by Malaysian athletes in a Games (Sieh Kok Chi, 1998:1).

At the 1990 Auckland meeting of the Commonwealth Games Federation, the Malaysian Olympic Council, with the blessings of Kuala Lumpur, announced its intent to bid for the Games. The bid was officially launched through the Olympic Council of Malaysia at the 1991 General Assembly of the Commonwealth Games Federation in Malta on April 12. With its campaign theme, "Share it with Malaysia", the appeal was aimed directly at the need to have the next Games in a developing country. The Malaysians, contended that Australia, the only other bidder, had already hosted the Games on three previous occasions.

Not unlike the Malaysian strategy, South Africa also emphasised the fact that the Olympic Games had never been held on the African continent. However, the South African strategy to sell the Cape Town Olympics as an "African bid" and thus secure Africa's support, was ultimately stifled by domestic political problems (see the following chapter). In contrast, the success with which Malaysia effectively scuppered Australia's bid owes much to an acute sensitivity to the particular political currents flowing within the Commonwealth and therefore requires closer analysis.

Strategic Bidding

Malaysians pursued two distinctive sets of strategies in order to drive home their bid. Firstly, Malaysian officials emphasised a number of issues which were not particularly novel, but were nonetheless essential to the overall campaign. Secondly, the bidding team proposed various organizational innovations.

The bid was well publicised⁵⁷, highlighting the country's capacity to stage an event of this magnitude - both in terms of organisation as well as existing and planned infrastructural developments - whilst carefully selecting suitable dates during an otherwise extraordinarily busy sports year⁵⁸. Malaysia had to pay particular attention to these issues in order to gain the support of as many as possible within the Commonwealth Games Assembly, since the country was not perceived as being "used to the corridors of the international sporting powers", nor had it hosted a major international sporting event on the scale of the Commonwealth Games⁵⁹ (Musa, 1998:214). Hence, during the All Africa Games in Egypt, Malaysia used the opportunity to lobby for the votes of the 16 African members of the Commonwealth. In December 1991, Kuala Lumpur invited - all expenses paid - the National Olympic Council of Commonwealth countries, including the CGF Executive Committee, to visit the country for a tour of the existing facilities in the capital city (including the new 80 000 capacity football stadium which was under construction at Shah Alam and the site of the proposed Games Village at Bukit Jalil and other facilities) (Musa, 1998:214-5).

Following wide consultation⁶⁰, the Malaysian bidding team proposed a number of innovations for the XVI Commonwealth Games. Firstly, the Constitution of the CGF provides for only a minimum travel subsidy to be provided by the Host City for the participating teams of the member organizations. For a large section of developing countries, these minimal subsidies were insufficient to send a full national team. Given this constraint and the need to enhance developing country participation, the Malaysian bidding team decided to provide additional travel subsidies in the form of 1,500 return air tickets for the CGF to distribute amongst its members (Sieh Kok Chi, 1998a:3).

Secondly, in order to make the Games more attractive and not an imitation or a "second division" Olympic Games, team sports such as cricket, (field)hockey, netball and rugby were incorporated into the 1998 programme. Previous Commonwealth Games were focussed upon individual sports such as swimming, cycling, gymnastics and lawn bowls, which were not exactly the premier sports of the South. The inclusion of team sports was a very successful strategic move. Not only did it emphasise the

⁵⁷ The Malaysian Bid Committee organised presentations and hosted receptions at the 9th South Pacific Games in Port Moresby, Papua New Guinea in early September 1991; the 5th All Africa Games in Cairo on 21 September 1991 and the South Asian Games in Colombo on 20 December 1991.

⁵⁸ The following were all scheduled for 1998: the Nagano Olympic Winter Games (February); the Football World Cup in Paris (July) and the Asian Games in Bangkok (December).

⁵⁹ Malaysia for example, had not even hosted the premier regional sports event, the Asian Games, although it had hosted the Southeast Asian Games twice.

⁶⁰ In preparation of the Bid Document a questionnaire was sent to all the member organizations of the CGF in mid-1991 to elicit their views on possible improvements to the sports programme, the inclusion of team sports, possible dates for the Games, the requirements of the Games Village and the like (Sieh Kok Chi, 1998a:3).

attraction of the Games to the international television networks, but it also heightened interest amongst those participating countries who had strong teams in these sports, but had never featured prominently on previous programmes.

Yet the decision to include these team sports was also driven by the dynamics of international politics. A large number of developing countries were very strong in some team sports but weak in individual sports. For example, hockey would provide better medal prospects for teams from India and Pakistan, whilst the Caribbean, Sri Lanka, Pakistan, India and South Africa would have strong cricket teams participating. With good netball teams from the Caribbean and Oceania, competition would be more equal with those from the developed countries; whilst rugby would enhance the prospects for Fiji, South Africa, Tonga and Western Samoa (Sieh Kok Chi, 1998a:3).

In its third proposal, Malaysia also doubled the number of allowable team officials and coaches for the XVIth Games. The original technical rules only made provision for a very small number of officials and coaches to be an accredited part of a member country's contingent. For "KL'98" additional personnel were permitted, for whom board and lodging within the Games Village would be charged. Again, in order to accommodate the smaller teams from developing countries' wish to have more officials, the Malaysian bid committee decided to follow Olympic Games rules which were more generous in this respect (Sieh Kok Chi, 1998a:4).

Finally, to mitigate concerns about Malaysia's extreme humidity and hot climate, the Bid Committee was also prepared to provide the maximum allowable 25 days of free board and lodging to all participating athletes in order to provide ample time for them to acclimatise to Kuala Lumpur's tropical weather (Sieh Kok Chi, 1998a:3).

Campaigning for the Games

Not surprisingly, these proposals were well received throughout the Commonwealth and particularly amongst developing countries. Although these initiatives strengthened the Malaysian case considerably, it hardly meant that Malaysian victory was assured. Two issues in particular threatened to upstage Kuala Lumpur's well-crafted game plan.

Of crucial political importance to the overall success of the Malaysian bid, was the representation of the contest between Adelaide and Kuala Lumpur as symbolic of the North/South dichotomy which had become such a salient feature of the Games. The unexpected withdrawal of support from key parts of the developing world, as well as the possibility of New Delhi joining the bidding for the XIV Commonwealth Games, would clearly upset and stymie this tactic. Hence, on their way back from Havana in early August 1991, the Hon. Dato Annuar Musa, Malaysian Minister of Youth and Sports and Tan Sri Hamzah, President of the Malaysian Olympic Committee and IOC Member, visited New Delhi for discussions with the Minister of Development and

Resources of India and the President of the India Olympic Association, culminating in India's decision not to bid for the Games and to support the Malaysian candidature instead (Sieh Kok Chi, 1998:4).

Similarly, two days before the final vote, it became apparent that member organizations of the CGF in Africa would not support Kuala Lumpur due to allegations that the President of the OCM (Olympic Committee of Malaysia), Tan Sri Hamzah in his other capacity as President of the Asian Football Confederation and FIFA Vice-President, had voted for France and not Morocco, as host for the 1998 World Cup Football Championships. After intensive lobbying and assurances that Hamzah had in fact voted for Morocco, the loss of 16 crucial African votes was narrowly averted (Sieh Kok Chi, 1998:6).

Another looming set of issues emerged as a consequence of the direct rivalry between Kuala Lumpur and Adelaide. In terms of the CGF Constitution, campaigning after the submission of the Bid Document was not allowed. Nevertheless, it was discovered that the Adelaide Bid Committee continued campaigning and planned a second round of visits to the member organizations, even after the CGF Inspection Team declared that the XIV Commonwealth Games could be successfully staged in Malaysia. To match its rival, the Kuala Lumpur Bid Committee commenced a second round of campaigning by visiting African countries and attending the General Assembly of the Oceania National Olympic Committees held in the Cook Islands in May 1992 and the General Assembly of the Pan American Sports Organization in Acapulco in June 1992 (Sieh Kok Chi, 1998:6).

In addition, the CGF permitted the Adelaide Bid Committee to amend its Bid Document in June 1992 to introduce a more attractive travel subsidy of 1,600 free air tickets, despite the fact that CGF rules prohibit any alterations to the Bid Document after the closing date for submissions. Following strong protests from Kuala Lumpur, the CGF - rather than disqualifying the amendment to the Adelaide Bid - permitted the Kuala Lumpur Bid Committee to increase its travel subsidy from 1,500 air tickets to 2,000 air tickets (Sieh Kok Chi, 1998:6).

These concerns as well as a complaint that Adelaide's offer for travel subsidy - which would have excluded 6 member organizations (those from the Commonwealth's North?) - was arbitrary, was submitted to the Executive Board of the CGF on 19 July 1992, two days before the official announcement on July 22, 1992. The Adelaide Bid Committee was requested to amend its travel subsidy to be consistent with that offered by the Kuala Lumpur Bid Committee, which Adelaide refused to do. On July 22, the General Assembly of the CGF voted "by an overwhelming majority that any cash or in kind, given or offered by a bidding or promoting city to CGA's [Commonwealth Games Associations] shall be distributed equally" (Sieh Kok Chi, 1998:7). By passing this motion, Adelaide was directly defeated, since its travel subsidy was deemed to be

discriminatory and unacceptable. Consequently, Kuala Lumpur won the bid by 40 votes against 25 votes for Adelaide (Sieh Kok Chi, 1998:7).

This did not mean that the ongoing tiff between Malaysia and Australia had come to an end. For in mid-1997, Mr Arthur Turnstall, Secretary-General of the Australian Commonwealth Games Association and the CGF vice-president for Oceania argued that Malaysia won the bid “through the power of money” adding that

I’ve got a fair idea of what went on but I am not prepared to talk how much money or anything else was given but yes, it was more than a T-shirt (cf. Musa, 1998:219).

Although he acknowledged that Malaysia did nothing wrong, since “all cities do it” the implicit reference - that the country’s infamous use of “money politics” had now even transcended its national frontiers - was not taken kindly in Kuala Lumpur. Pressured by the Malaysian Government through the OCM to seek clarification from Turnstall, the president of the Australian Commonwealth Games Association assured Kuala Lumpur that it strongly disapproved of Turnstall’s statements and “supported Malaysia in every way” (Musa, 1998:219). Reportedly acting under instructions from the Australian prime minister, John Howard, the chairman of the Melbourne Bid Committee for the 2006 Commonwealth Games also indicated that Turnstall’s remarks “were not that of the Australian people but a personal view of an individual”. Australia’s real fear was that “Malaysia would use its influence on some countries not to vote for Melbourne to host the 2006 Games” (Musa, 1998:219).

Marketing Power

The most outstanding feature of the XIV Commonwealth Games is the extent to which, for state elites at least, it enhanced and boosted Malaysia’s marketing power. To display Malaysia’s sporting prowess in and of itself was entirely a secondary concern, at best merely coincidental. Even sports administrators conceded that Malaysia generally lacked a sports culture and in relation to the Commonwealth Games specifically, the country had only sent token teams to participate in the past⁶¹. Although the government had spared no cost in providing foreign coaches to prepare its own athletes with the hope that Malaysians could possibly score on their home turf, their remarkable achievements left everyone - including the most enthusiastic sports officials - dumbfounded.

Analysing the Games as a hallmark event, however, clearly reveals that political considerations were the primary motivation behind the pursuit of the Games. Not unlike the 1964 Olympics in Japan or Seoul in 1988, which were symbolic of these countries’ international ascendance, the Commonwealth Games signalled Malaysia’s imminent graduation to NIC status. Following more than seven years of unrivalled levels of

⁶¹ Interview, Secretary Malaysian Olympic Committee, Kuala Lumpur, 13 June 1998.

economic growth, the purpose of the Games was “to put Kuala Lumpur on the map” as sports promoter Alex Lee proclaimed (*FEER*, April 30, 1998). For Mahathir in particular, the Games would signal that Malaysia was well on its way to become the 20th member of the OECD in 2020, an event which would accordingly be celebrated by hosting the mother of all hallmark events, the Olympic Games. Nonetheless, great stock was put in the Commonwealth Games.

For apart from the 1966 Games in Jamaica, the event had never been held anywhere else in the developing world nor in Asia for that matter. Moreover, as this chapter has illustrated, of the various sources of marketing power - music, movies, and other international events - sport is one of the few arena's of society in which the state can forcefully both design and shape the idea of Malaysia as the model modern, sophisticated Islamic society, both multicultural and at the cutting edge of the next “Asian century”.

Apart from signalling, one of the most distinctive features of hallmark events is the belief - particularly amongst elites in government, media and business - that such events cultivate a greater awareness, if not attraction, to the host country and/ or city by stimulating domestic, but primarily international tourism. Malaysia has become acutely aware of its tourist appeal as the annual but different “Visit Malaysia” themes clearly suggest. Thus following the successful 1990 “Visit Malaysia Year” which recorded 7,4 million visitors and earned RM 4,8 billion in foreign exchange (Musa, 1998:223), the Sports and Recreation Year of '98 was anchored around the Commonwealth Games. And with estimates of between 60,000 to 70,000 foreign tourists visiting Malaysia during the Games, the expectation that they would spend an average of RM 1,500 per day constituted a major incentive to host the Games (*FEER*, April 30, 1998).

Indeed, since the Games, Malaysia has increasingly tied sports events to the development of its tourist industry. The fourth “Le Tour de Langkawi” during early February 1999, was not only to group together some of the world's best cyclists, but “invitations would only go to teams whose countries can contribute to Malaysian tourism”. Named after the spectacular, world renowned tropical island of Langkawi, the cycle tour, restricted to 25 teams of six riders each, crisscrosses Peninsular Malaysia over more than 2 000 kilometres. Noted the chairman of First Cartel, Wan Lokman Wan Ibrahim, the main corporate sponsor, “[T]he whole purpose of staging the tour is to help promote the country abroad....[C]ycling is just a means of promoting the country”⁶². The “Visit Malaysia Year” increased tourism revenue by 190 percent, making the industry Malaysia's second most important foreign exchange earner after manufacturing (Musa, 1998:223). Moreover, unlike South Africa, Malaysia's relatively low crime rate, constitutes a considerable competitive advantage to maximize the

⁶² *New Straits Times*, October 22, 1998.

[http://www.nstp.com.my/nstpi/nst/s...a\\$D77482566a500006a167?OpenDocument](http://www.nstp.com.my/nstpi/nst/s...a$D77482566a500006a167?OpenDocument). Accessed: 22 October 1998.

country's tourist appeal.

With extensive capital controls remaining at the time of writing, it is more than likely that tourism's value as a source of foreign exchange will become even more pronounced. Announcing the 1999 budget amidst the political storms following his sacking of former deputy prime minister Anwar Ibrahim (see chapter 5), Mahathir for example proposed one Saturday a month to be designated as a public holiday to encourage domestic tourism and announced additional tax incentives for car and motorcycle racing, given that Malaysia is to host a Formula One race in 1999 as well as the 1999 World Cup of Golf (*Financial Times Weekend*, October 25-26, 1998; *South China Morning Post*, November 22, 1996).

Indeed, Asia's burgeoning middle class has turned the promotion of Asian sport into big business. With multinationals eager to cash in on the potential for brand promotion, sponsorship has left sports clubs and administrators awash with funds, creating the necessary capacity for the construction of stadiums, and investment in talent development programmes (*FEER*, January 16, 1997). However, in Malaysia objections from the ulama's against Carlsberg beer being a major corporate sponsor of the Commonwealth Games, forced the state to cancel the agreement with Carlsberg. What is significant about this instance, is that it also reflects the degree to which marketing power engenders a triangular bargaining process amongst civil society, the state and firms.

More often than not, the powerful draw of tourism and its associated benefits justifies the huge expense of infrastructural outlay which hallmark events require. In the case of the XIV Commonwealth Games, this included two 100,000 capacity stadiums within 16 kilometres of each other as well as a velodrome, pools, national centres for hockey, rugby and cricket; a new RM 80,0 million state-of-the-art shooting range in Langkawi; and an IOC accredited drug testing laboratory at the University Sains Malaysia in Penang (*Globe & Mail*, September 22, 1998; Sieh Kok Chi, 1998b).

Despite the cost, the Games would serve as a catalyst for sports development in Malaysia and leave behind a "legacy" for future generations (Sieh Kok Chi, 1998:3). As in South Africa, proponents contended that the construction industry would be given a tremendous boost. The Games thus coincided with the opening of the biggest new airport in Asia (at RM 9 billion), an overhead rail transit system and light rail system. And the number of hotel rooms - at 16 021 in June 1996 - would increase to 20 000 between 1995 and 2000, not including three star and other budget level hotels already in existence (Musa 1998:222).

The organization of the Games and the basis for awarding the numerous contracts associated with them, was not without distinctive Malaysian twists (on the significance of patronage, see chapter 5). Renong, the financial conglomerate/investment arm of UMNO, would stand to make "a small profit" from construction projects

associated with the Games (*South China Morning Post*, December 17, 1998). The constituted company in charge of organizing and managing the Games, Sukom 98 Bhd., was headed by Mahathir's brother-in-law, the retired former Chief of the Malaysian Armed Forces, Tan Sri Hashim Modh Ali, after the two initial nominees, Daim Zanuddin, well-known financial czar and Tunku Ahmad Yahay, chief executive officer of Sime Darby declined the appointments (Musa, 1998:217).

Nonetheless, *having reinvigorated the Games with more than 500 million television viewers, the ruling BN coalition had taken more advantage of the Commonwealth Games as a second-order hallmark event to extend Malaysia's marketing power than many had thought possible.* As the executive chairman of Sukom 98 noted in his address during the closing ceremony, Malaysians had delivered "The Olympics of the Commonwealth" (Bernama, September 21, 1998)⁶³.

Celebrating Malaysian Identity

International attraction and signalling, however, constitute only one dimension of marketing power. Successful projection of marketing power is also reflected in the degree to which state elites either reconstruct or celebrate notions of national identity as a means of shoring up their own political legitimacy. Malaysia's multiculturalism and unique modernist take on Islamic values in and of itself, makes the country attractive both in the Islamic and Western worlds. As one Malaysian diplomat noted:

Although the cost of hosting the Games are considerable, these are far outweighed by the benefits of 10 days of global free publicity. Looked at in this light, the visual images of Malaysia as portrayed on countless television screens will provide the viewers with a vivid perspective of Malaysia's multicultural character (Musa, 1998:223)

The opening ceremony of the Commonwealth Games is therefore particularly instructive in this regard, for no other instance during the entire Games so clearly reveals the way in which states elites sought to both project Malaysia's multiculturalism to a global audience and at the same time celebrate its multicultural identity with some added Islamic spice. The extravagant show sought to portray the development of the Malaysian nation through an array of lavish dance displays choreographed according to four historical periods. The pre-colonial era as well as the period of colonialism depicted how Malaysia overcame internal division and triumphed over foreign powers (symbolised by dragons) who sought to eradicate a nascent Malaysian identity.

The subsequent period of independence was demonstrated through a mass gymnastic display of "happy faces" between Malays, Indians and Chinese Malaysians dressed in the colours of the Malaysian flag. The final and most elaborate stage saw

⁶³ www.yahoo.com.sg/headlines/...ames.906413940-sp2109_120.txt.html. Accessed: September 22, 1998.

dancers using balls and rings in an abstract dance depicting the development of the Malaysian economy in futuristic regalia. Thirteen segmented dances (representing the 13 federal states) coming together to form one globe and one nation symbolized a united nation amidst globalization. As this globe flashed laserbeams, a mass gymnastic display highlighted the words, "Multimedia SuperCorridor" in the background, a clear reference to Mahathir's project to upstage Singapore as regional information technology centre as well as his "Vision 2020".

In contrast to the South African attempt to host the 2004 Olympic Games where the celebration of national identity was considered to be as important as international projection and signalling, the more politically consolidated position of UMNO through the BN, made it a somewhat lesser concern⁶⁴. Indeed, it was even argued that "[T]he Commonwealth Games will give the nation an ideal opportunity to put the national language on the world stage and showcase its role as a unifying factor in building a national identity" (*The Sun*, June 16, 1998).

Given the predominance of the state-owned media, the greatness of the Malaysian nation - exemplified through the Games - was well and easily extolled:

But one commonality weaving the events, good or bad, in these trying times is the unity of the people. The resounding cry of Malaysia Boleh in many national endeavours from the Mt. Everest climbing expedition to the Commonwealth Games stemmed from the belief that as long as we are united we can stand tall and achieve anything.

When this rallying cry was first uttered by Dr Mahathir, it stirred the national soul and it roused the latent spark in each of us which blaze as part of the patriotic flame. The success of the recent Games reflects the depth of our unity - one which evolves as a result of shared joys and sorrows through generations. *It is a unity that refuses to be dismantled by the pressures brought about by the currency crisis and the subsequent economic downturn* (Emphasis added, *New Straits Times*, November 23, 1998)⁶⁵.

The latter sentence is significant. For as the unanticipated economic crisis increasingly ruptured the social fabric with a looming intra-UMNO split and growing disaffection towards Mahathir (see chapter 5), the potential value of the Games as a means of resounding "unity and nationhood" in order to enhance the legitimacy of the ruling order became equally important. Anwar Ibrahim's arrest on September 20, 1998, a day before the closing ceremony of the Games, sought to make the most of the state's sudden popularity so as to mitigate the likely political unrest to follow Anwar's incarceration. Unsurprisingly, Mahathir proclaimed at a press conference the same day that despite the widespread sympathy for Anwar, he "might win hands down" if a general election was held right away (*The Straits Times*, September 21, 1998).

⁶⁴ This point was also confirmed during an interview conducted at the Malaysian High Commission in Pretoria, South Africa, July 1998.

⁶⁵ <http://www.nstp.com.my/nstpi/nsunt...0fee64825668c00087156?OpenDocument>. Accessed: 23 November 1998.

However, the marketing power which Mahathir had so desperately sought for Malaysia and which had become such a salient feature of his tenure, became the object or terrain of contestation between both the state and dissidents during the showdown precipitated by Anwar's arrest. For in as much as Mahathir used the Games to celebrate the Malaysian sense of *gemeinschaft*, the opposition wanted to use the publicity of the Games to highlight Anwar's plight to reveal that Malaysia was *not* as stable as the official pretence would have it. Indeed, their aim was to use the closing ceremony of the Games as a means to direct attention to the growing authoritarianism of the Mahathir regime and thus emphasize its *loss* of legitimacy. On 21 September, hours after Queen Elizabeth arrived in the country to close the Games, Anwar led 30 000 demonstrators to the National Mosque. Held shoulder high, he called for Mahathir's resignation (Ingram, 1999:11). The announcement that Monday, September 28 had been declared a public holiday "as a tribute to the nation and the people for the success of the games" may therefore have more to do with minimizing the potential for political mobilization amongst Anwar sympathizers (Bernama, 21 September, 1998).⁶⁶

Sport : an Instrument of Official Foreign Policy?

Whereas it is more difficult to pinpoint the degree to which South Africa's bid to host the 2004 Olympic Games relates directly to its foreign policy, it is much more apparent in Malaysia's quest to host the XIV Commonwealth Games. Not only is the attempt to expand its marketing power in this fashion entirely consistent with an established pattern of foreign policy initiatives Mahathir had undertaken to establish Malaysia's credentials as the "new voice" for the Third World, but the high level of direct state involvement suggests that the Commonwealth Games could be seen as a direct extension of Malaysian foreign policy .

At first glance, sponsoring a Commonwealth Games of such magnitude sits uneasily with Malaysia's earlier dismissive orientation towards the Commonwealth. In terms of Kuala Lumpur's list of foreign policy priorities, upon Mahathir's accession to the Prime Ministership, the Commonwealth came last, after ASEAN, the Islamic World, and the Non-Aligned Movement respectively. In fact, Mahathir had been so frustrated by the organization that he set his advisers the task of considering whether Malaysia should at one extreme either quit the association or take the lead within it (McIntyre & Hillmer, 1999:60). Announcing Malaysia's interest in hosting the 1989 CHOGM Summit during the 1987 CHOGM in Vancouver therefore came as a considerable surprise, given that Malaysia had boycotted the CHOGM in Melbourne in 1981 and New Delhi in 1983, arguing that the organisation did little to assist or heed the views of the non-White ex-British colonies (Khoo, 1995:75). Explaining the sudden shift,

⁶⁶ http://www.yahoo.com.sg/headlines/...ames/906415440-sp2109_121.txt,html

Mahathir contended that hosting the summit is

one way of getting your country known to others. We couldn't host a United Nations or a World Bank conference because the Israelis would want to come. But the Commonwealth has nobody that we've no relations with. So it gives us an opportunity. It's going to cost us money but it'll also put us on the map" (Khoo, 1995:99).

The decision to bid for the Games therefore was a natural outflow from Kuala Lumpur's attempts to enhance its marketing power beginning with the successful hosting of the 1989 CHOGM⁶⁷. Having the most spectacular Games in Kuala Lumpur would mark a symbolic change within the Commonwealth, whose "senior members" failed to realize that "it was no longer a club for nations founded by migrants from Europe" (Khoo, 1995:75). At the same time, the Games would represent a logical extension of Malaysia's South-South cooperation initiatives and its overall drive to have its economic programmes serve as a model worthy of emulation across the developing world (at least until the Asian crisis of mid-1997).

The close interface between government and sports officials is reflected in the degree to which government from the level of the prime minister on down, presided directly over both the bidding and ultimate organization of the Games. Apart from those directing the bidding company, Sukom 98 as described above, a Government Committee tasked to oversee the entire project was headed by the Prime Minister. In addition, following complaints by the Minister of Youth and Sports that the executive of Sukom '98 had exerted mediocre efforts to increase international publicity for the Games, a new line of authority was established according to which the Sports Minister effectively became in charge of preparations for the Games (Musa, 1998:220).

Indeed, Mahathir conceded that it was "the first Games to receive unprecedented government support at every level" (*New Straits Times*, September 13 1998). Accordingly, despite Australia's attempt to persuade Malaysia to host the Games in 2002, Kuala Lumpur insisted that it was a "now or never bid" since Malaysia could not reasonably foresee the possibility of financing the Games later (Musa, 1998:216).

Being essentially a state-sponsored Games also was not without symbolic significance. For Mahathir, the segmentation of the world between the poor commodity manufacturers and rich manufacturing countries reflected Malaysia's internal ethnic division of labour (Khoo, 1995:123). Being able to snatch the Games from a Commonwealth in which there is nothing "common about its wealth" on behalf of the

⁶⁷ It also coincided with a number of initiatives as part of a new drive towards extending Malaysia's influence within the Commonwealth, namely funding the Malaysian Commonwealth Study Centre at Cambridge University; increased bilateral assistance to developing countries through the Malaysian Technical Cooperation Programme; the annual Langkawi Dialogue and a Commonwealth University in the state of Perak to attract students from the Commonwealth as well as the Commonwealth Partnership for Technology Management (Musa, 1998:214).

developing members, or the Bumiputera countries of the world, represented the Malay state writ large across the globe. Similarly, South Africa's notion of an African Renaissance (see chapter 7) clearly accords with the attempt to project South African leadership and the quest for a seat in a reformed UN Security Council in particular.

Conclusion

The tensions of a deeply divided society in Malaysia as much as in South Africa are mitigated by celebrating a multicultural national identity. Indeed, the attractiveness of this multicultural diversity is often made very explicit and thus provides a competitive advantage to expand marketing power. For Malaysia in particular, the difficulty of negotiating the discrepancy between a secular modernity on the one hand, and an Islamic traditionalism on the other, has prompted a decided attempt to project an international image of Malaysia as a model, modern Islamic state. Insofar as such an approach has helped to overcome these contradictions, it also defines the parameters within which Malaysia can attempt to expand its marketing power. Given the ever-present danger of Islamic revivalism, imposing restrictions on creative expression especially in the film and music industries is often a convenient way for the regime to prove its Islamic credentials. Apart from facing the same difficulties with which many in the developing world's film and music industry have to contend, censorship and other restrictions make it exceedingly difficult to market Malaysia either through films or music.

Sport escapes many of these difficulties. Although the costs of hosting a major international sporting event is considerable, these are once-off costs, and given the level of publicity the country can expect to enjoy, more cost-effective than providing financial aid to the music or film industry. Moreover, for Malaysia, the success of the Commonwealth Games has proved to be a valuable stepping stone towards hosting the 2008 Olympics and even more marketing power.

At the heart of this success story, was the realisation - singularly lost in the South African case - that the kind of hallmark event embarked upon should be proportionate to the the state's ability to host it. Malaysian state elites had taken more advantage of the Commonwealth Games as a second-order hallmark event to extend Malaysia's marketing power than many would have thought possible. As a developing country, the expansion of South African marketing power through film and music runs into similar obstacles as in the Malaysian case, with sport emerging as the most prominent means for South African signalling. The following chapter therefore examines the problems and prospects of expanding the marketing power of the "Rainbow Nation".

9

Africa's Little America or America's Little Africa? Marketing the "Rainbow Nation"

"Winning a Games offers singular political benefits: South Africa avoids becoming "free but forgotten"; a focus for nation-building and unity is offered on a plate - and we have the example of the Rugby World Cup as a practical demonstration: and being in the international spotlight encourages better behaviour by government".
- Bell (1995a).

What made the South African issue consistently loom large on the contemporary international agenda was not only the fact that it constituted probably the deepest aberration of one the most fundamental of international norms, namely justice and human equality, but that the rogue was, at least until the Second World War, an eminent part of the Anglo-Saxon world. After all, South Africa was one of the old dominion powers, a founding member of the League of Nations; and its Prime Minister, Jan Smuts, was not only a leading member of the War Cabinet, but also a key drafter of the UN Charter, the very organization which would be instrumental in mobilizing international support for South Africa's isolation. Being a part of the English-speaking world provides an immense competitive advantage, incorporating access to the world's *lingua franca* of business, science, technology and of course, the global telecommunications and entertainment industry. Because of its ethnic melee, South African English

has a flavour all its own. From British nobs in Constantia to Indians in Durban to Afrikaners in Bloemfontein to Pedis on the Zimbabwe border, its many accents are as diverse as a bunch of drawls found from Noo Yawk to Louisiana Cajun to American Samoan...and its vocabulary, mixing words from Dutch, Malay and several African languages, is different from that of any former jewel of the British Empire (*Globe & Mail*, November 23, 1996).

Such vibrance is significant. For example, standard Canadian English "is inclined to lack the spicy goulash of the South African, Australian, Indian and Caribbean varieties". Moreover, although some French expressions have been drawn in, "Canadian English is in no way comparable to South African English, which has sucked huge numbers of Afrikaans words into common use" (*Globe & Mail*, November 21, 1996). Most important of all, however, is the fact that, even at the height of Afrikaner Nationalist hegemony, English retained its status as an official language. In Malaysia, in contrast, the erosion of English linguistic primacy in favour of *Bahasa Malay* since the 1970s has considerably compromised Malaysia's competitiveness in this regard.

If strong British links ensured that South Africa gained a greater degree of international prominence than it would have had otherwise, the decline of British hegemony and the post-war rise of the United States of America in no way diminished South African

reknown. As two frontier colonies notorious for racial injustice, one with a black majority of approximately 38 million, the other a black minority of near equal size, South Africans and Americans have produced, what Rob Nixon (1994:2-3) calls “refracted images” of one another. Whereas black Americans called the Bronx “New York’s Johannesburg” and Chicago “Joburg by the Lake”, black South Africans dubbed the Johannesburg suburb of Sophiatown, “the Chicago of South Africa” and “Little Harlem”. As David Copland (1985) has noted:

Black American performance culture figures importantly in this account not only for its comparative value but also because of its powerful influence on black South African culture. Black American music and dance, and the very ambience of communities like New York’s Harlem, communicated through travelling performers and educators, print media, recordings, and films, have constituted a challenge, a model and a resource for black South Africans for more than a century. The blending of American influence into black South African culture represents neither slavish imitation of a glamorous but foreign popular culture nor the unthinking rejection of a subjugated but precious African heritage. It is rather the result of a creative syncretism in which innovative performers combine materials from cultures in contact into qualitatively new forms in response to changing conditions, needs, self-images and aspirations. In South Africa, stylistic elements from many sources have been recomposed into new frameworks of meaning, reflecting changing moral relations, systems of identity and value, and realities of power.

The ideational inspiration was not restricted to black South Africans, but increasingly for white South Africans (including urbanised upwardly mobile Afrikaners) the United States became *the* model to emulate. As I shall argue, despite being culturally a very vibrant society with the potential to use its popular culture as a means to project South Africa outward, the lack of a clear sense of identity has severely constrained such ambitions. Rather, in the absence of an unambiguous sense of national self, the general cultural orientation of Black and white South Africans has been towards the United States. With South Africa being neither entirely African, nor European, America has, maybe unwittingly, become the needed compromise model through which South Africans have created an “imagined community”. In short, without a coherent national identity, *the idea* of America became the South African identity deferred.

Although elites in the apartheid state assiduously sought to expand South Africa’s marketing power through extensive intervention in the popular music and film industries, the lack of a genuine South African identity effectively stymied such efforts. Nowhere else is the fractured nature of the South African “self” as visible as in sports, where apartheid not only prohibited racially integrated teams, but inculcated a public culture whereby “whites play rugby and blacks play soccer”. Nonetheless, a common sporting culture is widely perceived to be one of the most significant means with which to weave together a tighter South African tapestry.

In this chapter, I therefore focus on South Africa's attempt to host the 2004 Olympic Games as one of the most exemplary endeavours to enhance the marketing power of the "Rainbow Nation". As in Malaysia, sport is the most accessible medium to both celebrate national identity and project the country internationally. In the South African case, the significance of sports as a vehicle for the expansion of marketing power is also given added impetus because - unlike music and film - South African sport has evolved beyond the long shadow of American culture.

Marabi, Mbaqanga and all that Jazz

One of the most comprehensive accounts of 'world music' describes South Africa as "distinguished by the most complex musical history, the greatest profusion of styles and the most intensely developed recording industry anywhere in Africa" (Allingham, 1994:373). Significantly, it highlights the fact that "[L]ittle of this huge range owes much to influences from other African countries" (1994:371). Rather, a most important catalyst for the development of music was urbanization.

American musicians visited Cape Town in the 1840's and Johannesburg in the 1880s following the discovery of gold, with African American minstrels, vaudevillians and ragtime piano players visiting in the run-up to the First World War (Allingham, 1994:374). Over time, the attraction to America and American culture increased. Singers like Dolly Rathebe and Zimbabwean Dorothy Masuka, the Manhattan Brothers, the African Inkspots and Woody Woodpeckers modelled their style on American stars like Ella Fitzgerald and Sarah Vaughan but sang South African style *marabi*¹ melodies in the 1950s. Both *marabi* and jazz were more than just music. In the face of the tribalism, traditionalism and ruralism of apartheid, the sophistication of the African-American lifestyle, reflected in jazz, provided the means to transcend racial divides. As Nixon (1994:12) has noted:

As the apartheid regime refined its scheme for racial labelling, American clothes and records spoke with the fine arrogance of other styles of being. Giant finned cars became voguish, as did movie slang, Woodrow hats, Florsheim shoes, and clothes labelled Palm Beach, Palm Dale and Magregor, Dorothy Dandridge, Sidney Poitier, Humprey Bogart, James Cagney and Richard Widmark all became idols.

From the early 1960's -with heavier rhythm and an electric bass - the new style of *mbaqanga*² was blended from American jazz, *marabi* and the *kwela*. It represented an increasingly Africanised rendition, with inspirational roots from African-American models and vocal groups such as the Skylarks with Miriam Makeba, Abigail Kubheka and Mary Rabotapa (Gwangwa & van Aurich, 1989:151). In the aftermath of the Sharpeville massacre

¹ Allingham (1994:372) defines *marabi* as "South African three chord-township music of the 1930s-1960s, which evolved into African Jazz".

² Literally meaning "dumpling" or "homemade", *mbaqanga* refers to "a mixture of traditional and urban styles which came to be characterized by heavy bass, clipped guitars and choral vocals" (Allingham, 1994:372).

of 1960, the musical connections between South African and American musicians were reinforced with many artists seeking refuge in the United States. Dollar Brand (later Abdullah Ibrahim) fled to Europe in 1962 and ultimately New York; Miriam Makeba had already left South Africa in 1959. Thanks to Harry Belafonte, she was admitted into the United States where she married Stokeley Carmichael, one of the leaders of the Black Panthers, and began calling for the increased isolation of Pretoria. Hugh Masekela, who had played with Jonas Gwangwa in "the only African high school jazz band ever formed in South Africa", was sent a trumpet from Louis Armstrong and won a scholarship in the United States set up by Belafonte (Gwangwa & van Aurich 1989:149; Andersson, 1981:120). The Manhattan Brothers, Letta Mbulu, Dudu Pukwana, Louis Moholo and Julian Bahula are just a few of the many who made up a growing South African cultural diaspora - both black and white - who ultimately infused South African music onto the world circuit via the United States³.

State control of the airwaves also fundamentally shaped the character of the music industry. When it was finally decided to create a radio service for black South Africans, "Bantu Radio" went on air in 1962 primarily as an apartheid propaganda tool to foster greater adherence to "separate development". In the cities monolingual programming was supposed to encourage ethnic identity, whereas radio would act as the voice of an incipient nationhood in the state created rural homelands. These stations which were collectively known as Radio Bantu until 1979, broadcast in Tswana, Zulu, Xhosa, South and North Sotho, Venda and Tsonga, featuring the traditional music of their regions exclusively in order to encourage ethnic separatism (Andersson, 1981:84; Allingham, 1994:377). Not unlike Malaysia, Radio Bantu rigorously censored any music with an explicit reference to sex, the more depressing aspects of urban African existence or other sociopolitical issues (Copland, 1985:194).

In a 1977 report the South African Broadcasting Corporation (SABC) claimed to have broadcast a total of 996 original works in the seven services. However, nearly two-thirds of these works were praise songs and tribal legends set in the homelands. To reinforce discrete homeland/tribal identities, lyric sheets had to be submitted for prior approval with every record to be considered for airtime by either a Nguni (Zulu and Xhosa), Sotho or English committee at the SABC. Tracks with a mixed vernacular invited dismissal, whilst these restrictions by implication determined with which artists and type of music the record companies would be prepared to do business. To quote one independent producer:

Anything that was politically centred, which strove to capture the feelings and images of our own microcosms, anything with relevance could be called 'alternative'. It was that, which a State which could not tolerate criticism of itself, would have had to crush and condemn. As it was, Radio did it for them. The record companies would not record music which could not be played on the radio (they still don't). One who places unnecessary obstacles on the road to

³ Andersson (1981) presents an entire chapter listing some of South Africa's most famous musicians who chose a life in exile in the 1960s and 1970s.

success is surely foolish. South African popular artists in their desire for mainstream success, chose to ignore political content in their music. As a result the archive of resistance songwriting is very thin (Sony, 1991:115).

As in Malaysia, self-censorship by default therefore became the inevitable result of those aspiring to be recorded. Consequently, nearly all the *mbaqanga* music was incredibly “clean”, restricted as it was to religious themes, tribal customs, spiritual ancestry and a general tone of “be careful of the big bad city” (Andersson, 1981:87). Gospel music, in particular, prospered and groups like *Amadodana Ase Wesile*, a Methodist choir, *Pure Gold*, the *Holy Brothers* and *Hosana Hosana* became the favourites of the South African recording industry. But even incredibly talented groups such as *Ladysmith Black Mambazo* - who would become famous by teaming up with Paul Simon - had to restrict their repertoire to such spell-binding tracks as “Ikhaya Likababa” (My Father’s House) and “Izinkomo Zikababa” (My Father’s Cows) (Allingham, 1994:381; Andersson, 1981:87).

Radio apartheid not only deprived black listeners from developing a truly South African sound. Johnny Clegg and Sipho Mccunu, founders of the band Juluka (later Savuka), one of the first multiracial, crossover bands to play to great acclaim in Europe by blending Zulu music and dance with familiar Western beats, were refused airtime on Radio Bantu because Clegg - a white, English speaking anthropologist by training - was regarded by the station to be “an insult to the Zulu and their culture” (Copland, 1985:198).

Despite its vibrancy, South African musical exports - as well as many other cultural endeavours - were stifled by both domestic obstacles and external constraints, notably the cultural boycott⁴. *In effect since 1969, the cultural boycott was precisely designed to isolate and deny apartheid South Africa the opportunity to expand its marketing power.*⁵

Nevertheless, if American musicians spearheaded the cultural boycott, they were also the first to question the non-discriminatory isolation of all South African creative pursuits. It was after Paul Simon’s successful *Graceland* tour and his work with the then unknown Ladysmith Black Mambazo, that momentum gathered towards a more selective cultural boycott in the late 1980s⁶.

⁴ On the cultural and sports boycott, see Crawford & Klotz (1999), Nixon (1994); Black & Nauright (1998) and Geldenhuys (1990)

⁵ A classic example in this regard, was the London performance of the South African musical group “Ipi Tombi”. It caused a considerable outcry as it was not merely seen to be a particular cultural “export” but rather romanticized tribalism and hence, regarded as an attempt to justify the ethnic homelands which underpinned so-called “grand” apartheid.

⁶ For a more detailed analysis of the significance of the *Graceland* album and Ladysmith Black Mambazo as an example of both ‘world music’ and post-modern cultural production, see Veit Erlmann, (1994).

After a number of noteworthy international conferences (Amsterdam 1987, Athens 1988, Victoria Falls, 1989) it was decided that the cultural boycott would be targeted "against the apartheid culture of South Africa" and it was acknowledged that some cultural contacts could undermine apartheid (Geldenhuys, 1990:645). With progressive organizations like the South African Musicians' Alliance and the Congress of South African Writers clamouring for its repeal and that the cultural boycott risked leaving a debilitating legacy upon a post-apartheid cultural community, and had outlived its usefulness, the boycott was finally revoked in 1991 (Nixon, 1990:171).

Despite all these odds, South African musicians were finally being acknowledged. Ladysmith Black Mambazo won a Grammy Award in 1987; Johnny Clegg and Savuka spent the same year performing to capacity crowds throughout Europe; Jonas Gwangwa, trombonist and bandleader of the ANC's cultural group Amandla, was nominated for an Oscar for his soundtrack on Richard Attenborough's film *Cry Freedom*. And other South African artists such as Spho Mabuse and Lucky Dube as well as the musical contingent in exile were being signed up with record companies abroad.

As the 1980s wore on, these successes proved to be shortlived. By the early 1990s, local music sales dropped sharply: from a third of total sales in 1990 to no more than 17 percent in 1994 (*Financial Mail*, September 11, 1998). Yet, by 1997 according to all indications, the South African music industry was again thriving. What caused the sudden turn-around?

After South Africa's first democratic election, conditions changed considerably. With broadcasting regulation no longer under state control, but through an arms length statutory agency, successful lobbying by musicians convinced the Independent Broadcasting Authority (IBA) to compel radio stations to air at least 20 percent South African content with an ultimate target of 40% by 2000. In addition, commercial stations have to play local content between 5 am and 11 pm, preventing them from shoving local music to early hours when barely anyone is awake - as was the case in Australia (*Drum*, 1995: 131; *M&G*, 5-11 December 1997). According to preliminary estimates local industry output and sales increased by about 65 per cent by 1997 (*M&G*, December 5-11, 1997). With broadcasting deregulation, South Africa also became awash with a multitude of commercial radio stations - no less than seven made their debut in 1997 - resuscitating an ailing industry⁸. As competition forced these stations to secure a distinctive niche audience, musicians boasting similarly diverse talents have been afforded greater access to the

⁷ Proceedings of the Amsterdam conference have been published as Willem Campschreur & Joost Divendal (eds.) *Culture in Another South Africa* (London: Zed Books, 1989).

⁸ For example, against all expectations, Yfm (Youth FM) which based its licence application upon strong support for local music, has become one of the fastest growing radio stations in the country, playing as much as 40 percent local content to its 600 000 strong young Soweto audience (*Music Africa*, 1998:25). With a similar target market, the established SABC station, 5FM broadcasting to approximately 1,2 million 16 to 35 year olds, also shifted its local content from a mere 3,05 per cent in 1995 to 24,19 per cent in 1997 (*M&G*, 28 November - 4 December 1997).

airwaves.

Considering that it has been black musicians who have been at the forefront of South African music in recent years, the steady growth of black incomes - and the emergence of a black middle class in particular (see chapter 7) - have helped to create an expanding domestic music market. In 1988 black consumers already accounted for 65 percent of all sales, with this figure expected to increase significantly over the next decade (*Financial Mail*, November 11, 1988). Accounting for more than half of all South African music sold, *kwaito*⁹ is often seen to mirror American gang and crime culture and continues to reflect the long-standing influence of American music on South African creations. Whereas apartheid radio and state bureaucracy either censored productions directly or ensured that the market would do it for them, a democratic South Africa has not only meant a far greater degree of freedom of expression, but also removed much of the pungent political subject matter which used to permeate creative work¹⁰ Relieved from these pressures, artists have been afforded the opportunity to come into their own. At the same time, record companies no longer have to weigh commercial success against political risk. Moreover, considering the degree to which South African music has been popularised by the state - through high-profile pop concerts to celebrate Mandela's presidential inauguration, his eightieth birthday or national Heritage Day celebrations for example - the attempt to both project and redefine a clear sense of national identity stands in stark contrast to the ambiguity which characterised the apartheid-based national consciousness.

With consumers' growing appetite for local sounds, record companies have also been forced to reevaluate their disinclination to invest relatively little in the marketing and production of South African music in favour of international product. More airtime and rising sales have therefore brought along more resources and incentives to produce better music (*Financial Mail*, September 11, 1998). Whereas South African music has always drawn upon the United States in synthesising and thereafter developing a uniquely South African musical style, the South African film industry has failed to do the same.

⁹ Kwaito is defined as "a sassed-up mixture of street level vocal, slow-tempo beats and plenty of funky, rhythmic grooves" (*Music Africa*, 1998:28). Notwithstanding the vast difference in style, kwaito does have some association with the Sophiatown music of the 1950s as it refers to an exuberant and fashionable Sophiatown gang called "Ama-kwaito" derived from the Afrikaans word, "kwaai" (angry). First appearing in 1992, kwaito developed when local producers started mixing international rhythm & blues and local rhythms in "underground" street parties and clubs in Johannesburg and Soweto where American rap and British house music was played (*Sunday Times*, 8 November, 1998).

¹⁰ As Arthur Mafokate, a leading *kwaito* exponent emphasised:

The kids are sick of listening to people who sing about trees and war. They're fed up with the serious stuff the oldtimers play. They just want to have some fun and they're not going to have much fun listening to heavy politics and poetry (*Sunday Times*, 8 November 1998).

Towards "Hollyveld"

Although all countries are to a greater or lesser degree subject to American dominance in the international film market, in South Africa, the development of an indigenous cinematic tradition was not only stifled by American dominance, but also governmental attempts to make film subservient to ideological manipulation.

Justifying generous state subsidies to film producers, the South African Board of Trade and Industry in 1976 noted that films "can entertain relatively large numbers at a relatively low cost while at the same time projecting an image of the country to the outside world" (Tomaselli, 1989:31). Hence, by the mid-1980's, at the time that the apartheid state had entered its most severe political crisis (chapter 4), South Africa had suddenly become *the* place to make movies!

With continued generous government subsidies and tax concessions, foreign film producers were flocking to South Africa, and Johannesburg in the Transvaal Highveld in particular. At the height of the boom in August 1988, 22 feature films were being shot by both South African and foreign directors in what had become known as "Hollyveld" (Tilly, 1992:10).

It all began with the Cannon-backed Avi Lerner's film, *King Solomon's Mines* (1985). The state subsidy system offered film investors as much as a 70% return on box-office takings over R100 000. Yet the problem was the same as it was elsewhere in the film-industry: the difficulty of identifying a global box office hit. The allure came in the form of a loophole in the Income Tax Act. Aimed at stimulating exports, the act allowed an exporter to deduct marketing expenses against tax and thereafter deduct between 50 and 100% of those expenses again. In other words, a double deduction. While the act did not specifically identify movies, it did not exclude them either. Keen to have its image abroad enhanced, the South African government did not clarify the ambiguity and film production became big business (Silber, 1992:120-121).

Encouraged by the eagerness of South African investors following his share offer in *King Solomon's Mines*, Lerner began shooting the sequel, *Allan Quatermain* (1985), promising a 35% return. Other producers were promising as much as 185% return and by 1987 the industry could no longer support 80 films a year, most of them simply produced in order to benefit from highly advantageous incentive structures with little or no concern for cinematographic distinction.

Sold on the idea that movies - with their universal and sensory appeal - held the potential to cultivate tourist appeal and enhance South Africa's image (at a time when it had reached an all-time low), tax losses on *King Solomon's Mines* were justified on the assumption that it was shot in South Africa and seen by 200 million people around the world (Silber, 1992:127). However, this attempt to enhance South Africa's marketing power ultimately boomeranged. Given the prevailing political conditions at the time, Cannon was not particularly "keen to promote the movie's location as a holiday paradise"

(Silber,1992:127). Thus, to the majority of the world, it was portrayed as a Zimbabwean production with South Africa's role conspicuously uncredited.

A further impediment to the development of a vigorous film industry was apartheid's insistence upon a bifurcation of cinema into "white" and "black" films. Although both major distributors of "white" films have from 1975 to 1985 continuously applied to government for multiracial exemption, it was refused. As with popular music, "black" films were also expected to reinforce state ideology. Consistent with "grand apartheid" a persistent theme in black film was the degree to which the African identity was fundamentally tied to a "homeland". Time and time again, these films would show how, once back from the big, bad city, ex-migrant workers would readapt to their tribal life and truly feel at home¹¹. Some of these films were developed by film companies acting as front organizations for the Department of Information which sought to counter-act Africans' increasing identification with American films and the portrayal of African-American heroes and anti-heroes therein. This influence was to be reversed through films in which the creation of tribalist superheroes was set against an ethnic background (Tomaselli, 1989:72).

With a small domestic market, South African movie-producers remained heavily dependent on state subsidies. Accordingly, the expectation was that if "white" films sought to justify the established order whilst enhancing South Africa's image abroad, "black" film was more concerned about fostering state sanctioned conceptions of national identity.

Despite extensive state largesse, the lack of a clear sense of national identity or at least one which would be marketed with pride, failed to stimulate a prodigious film industry. This has placed producers and script-writers in an unenviable predicament. When producers chose a serious-political subject, distributors would not distribute it at all, or only agree to a limited release on the assumption that such a subject was not commercially viable. Distributors contended that "audiences do not want to go to the movies to be reminded of apartheid and all its evils" (Blignaut, 1992a:101). Today, South African film-directors, aspiring to produce a quality film, often find that they still cannot escape the heavy hand of the past. Reflects award-winning director, Manie van Rensburg:

There is a unique pressure when one considers making a film in South Africa. It is never prescribed, yet there is an unseen and unwritten pressure to make films about South Africa's dilemma. The subject of South Africa, the inequalities, the injustices, the oppression, the existence of apartheid and its dramatic effects, all lend themselves to high drama. But the subtle pressure is to exclude all other possibilities. It somehow seems ridiculous to make a film of *King Lear* while the black townships are burning. It seems like sacrilege to ignore the suffering, of especially the black people, in any film one makes about South Africa (Blignaut 1992a:102).

¹¹ For example, *Maloyi* (Witchdoctor, 1978) relates the tale of a sophisticated city-born woman who is bewitched by a tribal sorcerer. She is won over by the mysticism of tribal life and discards her Western lifestyle. *Vuma* (1978) claims to depict "the ceremonial procedures of love life...in an authentic way". Sam Williams' *Inkunzi* (1976) propagates the economic promise of life in the homelands through a plot in which personal and financial success comes to a Transkeian man who returns to his homeland and begins his own retail business.

In the absence of a clearly conceived identity in film such as the Australians have achieved, South African productions “latch onto foreign, mainly American, symbols and identity in order to find something to relate to” (Blignaut, 1992a:109). Thus, in this realm of popular culture too, America becomes the South African identity deferred.

The ironic result has been that internationally acclaimed productions which did reflect a South African identity, such as Richard Attenborough’s *Cry Freedom*; Chris Menges’ *A World Apart*; Euzhan Palcy’s *A Dry White Season*; even the Whoopi Goldberg featuring *Sarafina* were all foreign directed productions.

Finances aside, government control and direct censorship - as in Malaysia - made it impossible for South African filmmakers to produce such movies, leaving the industry in a position where it attempted to emulate Hollywood style themes and subjects which ultimately simply did not sell. This is so despite attempts by both Afrikaans and English producers to make films critical of the social order¹².

Cinema was seen as a key resource in expanding South Africa’s marketing power by justifying apartheid and thereby improving a shameful international image, whilst reinforcing state sanctioned notions of national identity. Ironically, state control through the provision of subsidies, the nature of film distribution networks, censorship, ethnically defined audiences as well as indirect censorship exercised through the consumer market, have all worked against the development of a truly independent movie industry capable of both reflecting upon itself and its people and telling those stories to the world. It is the South African identity (or lack thereof), more than anything else, which effectively stymied the development of cinema as a form of marketing power.

In contrast to South African music, which has always been a much more vibrant cultural industry, it is too premature to determine the degree to which the new democratic order has unbound the film industry from the shackles of the past.

Sport and the Allure of the 2004 Olympic Games

In the absence of an inclusive South African identity, the American identity came to strongly influence both South African popular music and film production. However, in the realm of international sport, the United States played a very marginal role. This was firstly, due to a lack of mutual interest in mass spectator sports such as soccer, cricket and rugby on the South African side and baseball, football or basketball in the United States. Secondly, sporting events are organized on an entirely different basis in the two countries. Whereas climactic events in the United States tend to be contested on an interclub basis, the apex of South African mass spectator sports is directed outward. Without the US casting as tall a

¹² In fact, many critical films were produced. Those by Jans Rautenbach explicitly questioned Afrikaner Nationalism, whilst Sven Persson’s *Land Apart* (1974), predicting the political upheaval of 1976, was first banned, then censored and released two years later. But due to poor distribution and state intimidation, the film barely qualified for a state subsidy. It was, for example, rejected by the chairman of the Sanlam controlled distributors before he had even seen it (Tomaselli, 1989:91).

shadow as it does on the film and music industry, for South Africa, as for most other small countries, sports events remain one of the most accessible means to expand their marketing power. Moreover, the fact that America therefore could not *in the realm of sport* constitute the South African identity deferred, added to the significance of high profile sports events becoming celebrations of national-identity.

Apart from the 1995 World Rugby Cup (Black & Nauright, 1998), few international endeavours better reflect the attempt to enhance post-apartheid South Africa's marketing power, than the bid to host the 2004 Olympic Games. Yet, as the following case study demonstrates, it was exactly because of the potential power the Olympic Games promised to confer, that the bid became highly contested politically.

The Politics of Cape Town's Olympic Bid

For a developing country marred by decades of social strife, poverty, unemployment, and huge income inequalities, spending exorbitant amounts of money in order to host "the greatest show on earth" needed considerable political justification. Indeed, very few public projects were lavished with such political significance as the opportunity to host the Olympics. As *The Cape Times* remarked on 25 January 1994:

It is also common cause that the next ten years, the period leading up to the 2004 Olympics will be crucial for determining whether South Africa becomes a major African success story or whether it declines into being yet another African tragedy. It is also common cause that to achieve the kind of economic success of which it is capable, South Africa urgently needs a social and political environment conducive to the growth of national unity, of peace, of confidence and of hope. It is the contribution that a bid for the Olympics can make to the creation of such an environment which constitutes the most fundamental reason for supporting a South African bid.

By late January 1994, following a domestic bid between South Africa's three largest cities, Johannesburg, Durban and Cape Town, the National Olympic Committee of South Africa declared the latter the winner, "almost solely for its potential to capture international tourism" (Bell, 1995:30). The bid was also widely touted to be "the first bid in the history of the Games which explicitly seeks to promote the ideal of human development". Describing its developmental approach, "the fourth pillar of Olympism" (after sport, culture and the environment), the fundamental aim of the Bid Plan was to "kick-start" development:

developing infrastructure projects that will promote public and private sector partnerships; providing a range of sports and recreational facilities; acting as a catalyst for economic development, creating sustainable jobs and boosting tax revenue; promoting small medium and micro enterprise development and labour intensive construction policies; applying the principles of integrated Environmental Management to projects; dispersing competition and training facilities into previously marginalised areas to act as nodes for development; and providing

affordable housing and facilities to promote inner-city reconstruction ("Strategic Environmental Assessment", Executive Summary, undated, p.i).

However, as early as South Africa's first democratic elections, the entire bidding process had become severely politicised. The African National Congress feared losing the Western Cape province to the ruling party of the *ancien regime*, the National Party (NP). The ANC warned that if the province remained an NP stronghold after the elections, Cape Town would not only lose Parliament, but that government (i.e. the ANC) would not endorse the bid (*Weekend Argus*, 9 April 1994). Because of the divisiveness of this strategy, not only amongst potential Western Cape voters but also amongst those within the ANC caucus favouring retention of Parliament in Cape Town, the issue died a quiet death. Nevertheless, the Western Cape remained under the control of the NP, and the bidding process gathered momentum, largely through the impetus of big business.

This left the ANC in a dilemma. Caught between the need to repair the damage of appearing to "punish" the Western Cape for going with the National Party in 1994 - as well as the need to be seen to be behind the bid, the "Olympics-for-Parliament" trade-off now threatened to boomerang against its initiators. Consequently, full and final Cabinet endorsement of the bid proved to be a rather protracted affair. Expected to be announced by April 1996, the announcement was not finally forthcoming until June 6, 1996. In fact, it was the very latest date by which financial guarantees could be given by Cabinet, in order for the bid company, Bidco to lodge the Bid Books by the IOC's 15 August deadline. In no other instance is the degree of political foot dragging by Cabinet as clearly revealed as the warning on 31 March 1996 by the "Lord of the Rings", Juan Antonio Samaranch himself, that the support of the South African government was crucial if Cape Town's bid for 2004 was to be successful (*Sunday Times*, 31 March 1996 cf. De Lange, 1998:196).

Yet, Government's hesitation was not only due to political considerations: budget figures played an equally significant role. Following the formation of a Cabinet sub-committee to examine the figures, two studies appeared. The first was written by the chartered accountants, KPMG and the second was compiled by the Chief Directorate Regional Development of the Central Advisory Service (CEAS). Before highlighting the differences between these reports, the similarities should first be emphasised. Both CEAS and KPMG calculated the effect of hosting the Games on Gross Geographical Product as an annual average of between R1,4 and R1,9 billion - the only difference being that KPMG projected it for the period 1995 to 2010 and CEAS for the period 1997 to 2008. In addition, both studies found that roughly 60% of the benefits would be generated outside the Western Cape (De Lange, 1998:181). The most significant divergence, however, related to the prospects for job creation. KPMG estimated a low of between 77 734 and a high of 143 804 jobs being created between 1995 to 2010. In contrast, CEAS estimated employment at between a low of 24 391 and a high of 32 740 (De Lange, 1998:182). CEAS also cautioned,

Cognizance must, however be taken thereof that these unemployment figures are not indicating that this number of jobs will be created permanently and continue to exist after the Games. The number of permanent working opportunities that could be created was not calculated in this study but could be assumed to be much lower"(cited in De Lange, 1998:181). In contrast to the CEAS estimates, the KPMG projections were on average 300 to 400 per cent higher and emphasised that "[T]he capital investment, operating and visitor spending, could have a total impact on the GDP of between R17 billion and R29,9 billion and could create an annual average of between 77 000 and 144 000 jobs.

It was the latter that did the trick. On June 6, 1996 *The Star* (Johannesburg) reported that "[T]he cabinet... decided yesterday to support Cape Town's bid for the 2004 Olympic Games...it would create more than 90 000 permanent jobs". Yet two rather incongruous developments remain a mystery. Firstly, the conservative CEAS study "for some reason disappeared into thin air or dusty cabinets and was never referred to or even acknowledged" (De Lange, 1998:181). Whether it was ever presented to Cabinet therefore remains uncertain. Similar concerns were echoed by the Development Action Group, who questioned why government apparently relied entirely on the contents of the KPMG-Development Bank report. When they asked for a copy of the report, they were informed that it was a confidential Cabinet document and could not be released to the public (*Mail & Guardian*, December 6, 1996). Secondly, whilst Bidco entered "90 000 person years" in its Bid Books to the IOC, to Cabinet and the rest of the South African public, the employment figures were heralded as an extremely unlikely 90 000 to 120 000 *permanent* jobs (De Lange, 1998:182)¹³.

Projections of 90 000 jobs, increased tax revenues to the tune of R8 billion up to 2006; an overall economic benefit of R30 billion and 0,9 percent increase in GDP from 1997 to 2006 (*Financial Mail*, December 13, 1996) must have resonated profoundly amongst a political elite which had just announced a major reassessment of economic policy based upon strong neo-liberal assumptions. Considering the political fall-out which the ANC's pursuit of its Growth, Employment and Redistribution (GEAR) strategy had evoked - particularly amongst labour, a key alliance partner - the Olympics emerged as a much needed window of opportunity to soften the blow of the newly embarked upon programme of fiscal and monetary discipline.

Meanwhile, public support continued to be mobilised behind the bid. Chairperson of the Bid Company, ex-banker Chris Ball, stressed that the 2004 Olympic Games: is quite simply the biggest economic opportunity that South Africa will ever have...The Games would change the view of the world towards South Africa. It would be a technical award made to South Africa which would say that the world believes we can in fact stage the Games. This in itself would *produce direct foreign investment* in South Africa and change the level of confidence in the country...I use the term transformational because the

¹³ According to international convention, one permanent job consists of 10 person years. In other words, 90 000 person years were in fact only 9000 permanent jobs (De Lange, 1998:182).

Games will impact on attitudes; *they will assist the process of nation-building; they will change the view of the world towards South Africa and they will have a major economic impact*”(M&G, July 21, 1995, emphasis added).

Although the expectation was that the Games would serve as a rallying point for national identity, the “for-or-against-the Olympics” debate increasingly disclosed a clear divide between South Africa’s ethnically defined “have’s” and “have not’s”. Numerous surveys indicated that the lower the income, the stronger support registered for the Olympic Bid. White respondents appeared most averse to the Bid, with only 47 per cent in favour; whilst 74 per cent of Africans, 75 percent of Asians and 63 per cent of people of mixed-race descent, supported the idea that government should fund the Games (*Cape Times*, 24 June 1997; *Business Day*, 24 June 1997; *Sowetan* 26 June 1997; *Sunday Times*, 22 June 1997).

When Cape Town was finally also nominated to the IOC short list on March 7, 1997, what was once fantasy began to look like reality. Unsurprisingly, central government’s initial hesitancy suddenly evaporated. Indeed, Cape Town’s Olympic Bid was increasingly flighted as an integral part of the African Renaissance: Mbeki even contended that “the time has come for the rest of the world to demonstrate its commitment to the African Renaissance by awarding the Games in the year 2004 to the African Continent” (cf. Vale & Maseko, 1998: 13). Moreover, after a local community paper revealed that only 21 per cent of Cape Town’s ratepayers were in favour of the bid, business increasingly rallied to the pro-bid lobby. The executive chairperson of Protea Hotels, Otto Stehlik, for example argued that

it was up to the present generation to prove to the world that something good could come out of Africa. Even more important, *we are talking about an opportunity to build our nation*, we are talking about the unity the Games can bring to South Africa and the pride, the self-respect, sense of responsibility and achievement that can be generated for so many previously disadvantaged people” (*Cape Times*, 19 June 1997, emphasis added).

Assessing the Viability of the Cape Town Bid

Domestic political point-scoring aside, the viability of hosting an Olympic Games in Cape Town was highly questionable, considering the capabilities of the four other rival cities, Stockholm, Buenos Aires, Rome and Athens. As far as geographic location is concerned, Cape Town would truly have been a long-haul international tourist destination indeed or otherwise dependent upon ticket sales from the rest of Africa or southern Africa. Considering the GDP of its contenders as well as the regions in which they were located, Cape Town’s relative isolation at the very tip of the African continent was a severe constraint (De Lange, 1998:212).

Amongst the five contending cities, Cape Town also required the most new sports venues (including an Olympic sized stadium). Another problem was the absence of a well-developed and efficient public transport network. Of all five finalists, Cape Town was the only city without an underground or tram system. A Barcelona size Olympic Games - in other words, three million entrance tickets - requires, at minimum, an airport interchange capable of managing 14 million passengers per year. Whereas this was well within the grasp of the other cities (averaging between 30 million passengers in Rome to 10 million in Buenos Aires), Cape Town averaged a mere 3,4 million passengers (De Lange, 1998:213). Similar problems emerged regarding accommodation. Despite planned extensions, Cape Town was still expected to be more than 71 500 rooms short in order to cope with the unprecedented tourist influx (De Lange, 1998:175).

The Post-Mortem

Remarkably, despite such obvious deficiencies, when the IOC voted in favour of Athens on September 5, 1997, Cape Town was only thrown out of the race after the fourth round! Considering, not only the immense domestic political wrangling the bid elicited, but the fact that South Africa had offered first class air tickets to the wives of African IOC members, Cape Town's performance, even after the scandal broke, remains quite extraordinary.

The Sunday Independent (7 September, 1997) remarked that "Cape Town never had a chance of winning, and its inclusion in the final five was more a gesture of encouragement by the IOC that the time may soon be right for an African Games". Awash with recriminations, many observers failed to grasp the significance of Cape Town's Olympic "tragedy". Even if South Africa's role in it merely served to enhance African representativity, the fact that it was only ousted irretrievably after the fourth round of votes constitutes a profound discrepancy in relation to the flawed nature of the South African bid. Politically, the Olympics remained highly contested terrain and reflected the fractured nature of a polity in transition. In as much as it proved a vehicle for an incipient national identity and the focus for popular mobilization, it also risked exacerbating divisions - not only along South Africa's ethnically drawn fault-lines separating the "have's" from the "have-not's", but between business and the state, between various levels of government, political parties and ultimately between deeply-involved personalities. Infrastructurally, Cape Town was also clearly unsuitable. Its bid planning was oblivious to a most fundamental inconsistency: Of the five cities, Cape Town needed to put most into the development of city infrastructure, the provision of transport and sporting facilities. Yet, according to one budget estimate, at US \$1,3 billion, it was the lowest of all candidate cities. Buenos Aires, with similar road and rail weaknesses, estimated that the Games would have cost it US \$2,8 billion (*Finance Week*, September 4-10, 1997). *In short, South Africa enjoyed a level of voting support way beyond that which could be justified by its actual capacity to host an*

Olympic Games.

Sentiment was clearly decisive, suggesting that South Africa had successfully prevailed upon its marketing power in order to retain a level of international prominence it would not have otherwise had. However, this also proved to be a double-edged sword, since it encouraged the bidding team to concentrate on the political significance of an “African” Games, due to South Africa’s obvious infrastructural inadequacy. At any rate, this strategy came to be overplayed, revealing at the same time the South African proclivity to overly rely on the stature of its President, Nelson Mandela, to achieve international reknown and with it a distinct attitude of “exceptionalism”¹⁴. Reflected Henry Adefope, an IOC member and retired Nigerian major-general

Possibly there was an impression of over-confidence given which harmed Cape Town. The other four cities did much more. We were getting literature on a regular basis. Faxes arrived each week to IOC members. Other cities sent top-class updates on video and attractively in print. You have to do all that can be done, and it was not done by Cape Town” (*M&G*, September 12-18, 1997).

Ironically, Athens’ failed attempt to host the 1996 Olympic Games was also attributed to over-confidence in its 1990 bid. Since Athens had been the venue for the 1896 Games, a popular expectation was that Greece would be awarded the centennial event simply because it was host to the modern derivation of the Games. Greece also made the fatal mistake of relying too much on its marketing power. By 1997, however, Athens could prove that it had provided the necessary infrastructure to host the greatest show on earth. This is where the South African strategy failed: Calling upon its marketing power, it clashed head-on with the marketing power which the Greeks had so tactfully employed. Relying on both sentiment as well as technical capability, the Greek bid proved to be all the more appealing¹⁵.

Ultimately, the significance of the South African bid became weighed down by its own political dimensions. It was not simply an Olympic Games, but would celebrate, the great political shift towards democratic governance in Africa [of] the past decade...It would count as a powerful gesture of confidence in a continent which desperately needs encouragement, and recognition of its own capabilities. It would provide a focal point for a unity of purpose in consolidating economic development, extending trade and sharing regional responsibilities in fields as diverse as medicine, the environment, security and tourism (*The Argus*, September 5, 1997).

¹⁴ As one disillusioned member of the South African contingent to Lausanne revealed, “but they measured us against *their* standards” (*Die Burger*, 13 September, 1997).

¹⁵ Greece had mustered considerable support during its earlier attempt to host the Games when it coincided with the centenary anniversary of the Games in 1996. However, as the Games were awarded to Atlanta, many were of the opinion that Athens should be given the opportunity to host the next Games. For a more detailed analysis, see Hill (1996, chapter 11).

The inevitable consequence was that the “Games had been structured essentially on a political platform, an argument of obligation to Africa” (Bell, 1997:18).

But if Africa had become disaffected, it was not solely due to the air plane tickets scandal. African members of the IOC also perceived the South African bid as patently lacking in leadership; that the National Olympic Committee of South Africa (NOCSA) had played a far too ineffectual and insignificant a role; and that direct lobbying of IOC members had been weak. Finally, government belatedly got involved; which, in any case proved to be too little and too late (*M&G*, 12-18 September, 1997). These very shortcomings, as they were perceived abroad, were the result of the overt domestic politicisation of Cape Town’s Olympic ambitions.

Nevertheless many contended that despite Cape Town’s loss, South Africa gained a great deal of international exposure by merely participating in the bidding process. According to the president of NOCSA, “Cape Town is now one of the Fodor 100’s best destinations and the city appears on CNN’s temperature list” (*Die Burger*, 13 September 1997). According to the Western Cape minister for tourism, the city will be able to cash in on the “immense international awareness” created by the bid for the next few years. And Cape Town Tourism conceded that “[T]he shortlisting of Cape Town in March was the most intensive marketing campaign ever for the city as a brand” (*The Argus*, September 6-7, 1997).

What this case illustrates is not simply that South Africa had sought to expand its marketing power. More profoundly, it suggests that that kind of power was widely acknowledged to exist, which precisely explains why the entire process became so politicised. For the kind of power which South Africa stood to gain prompted different stake-holders to seek to appropriate it for different purposes. Big business saw in it all both big profits and huge marketing opportunities; politicians saw an immense occasion to confirm their political legitimacy and linkages to the global “business civilisation”. In fact, it was exactly the potential power which the Olympics promised to confer which lay at the heart of the rivalry between an NP-controlled Western Cape province and the nationally dominant ANC. What makes it all the more significant is Thabo Mbeki’s confirmation, at the ANC’s 50th National Conference in December 1997, that government remains interested in bidding for the 2008 Olympic Games.

Conclusion

Despite being a very vibrant society with the potential to use its popular culture to expand South Africa’s marketing power, apartheid prevented the development of a clear sense of national identity and thereby constrained such ambitions. State elites acknowledged the importance of films and music to enhance a shameful international image. As in Malaysia, state control either through the provision of subsidies or indirect censorship through the consumer market, all restricted the nation’s creative imagination. Ironically, by reinforcing

state sanctioned nations of separate ethnic identities, both Black and white South Africans, as a consequence, became attracted to *the idea* of America as a kind of substitute South African identity.

The fact that the United States could not really serve the same purpose in the realm of sport, partly explains why hosting high-profile international sports events has emerged as the most accessible means to celebrate the “Rainbow Nation” to the world beyond. South Africa’s decision to host the 2004 Olympic Games was widely touted to be its “coming out party”.

Although state elites proudly proclaimed that it would help consolidate a new found sense of national identity, the South African bid failed largely because it still reflected the politicised discourse of a society grappling with the challenges of transition. Hence, selling the Cape Town bid on the basis that it was an “African Bid” which would correct Africa’s historical absence from hosting an Olympic Games, belied the degree to which the South African bid effectively failed to mobilise African support. This approach stands in marked contrast to the Malaysian initiative, which effectively garnered considerable support for its bid throughout the South due to innovative, new proposals which would be more reflective of developing countries’ concerns and interests.

What Malaysia realised and South Africa singularly failed to acknowledge, was that the kind of hallmark event through which marketing power is to be projected, needs to be proportionate to the state’s ability to host it. However, the fact that South Africa summarily chose to host “the greatest show on earth” to signal its democratic birth rather than a more second order hallmark event as the Malaysians had done, reveals much about the differential nature of the two societies’ political economies.

Whereas the private sector initiated and largely drove South Africa’s bid for the 2004 Olympic Games, the XIV Commonwealth Games witnessed a very high level of direct state involvement throughout. Given the corporate nature of the South African bid, the possibility of hosting a Commonwealth Games was dismissed for its failure to generate the kind of profits and broadcasting revenue the Olympic Games could guarantee. In contrast, Malaysian state elites contended that “[A]lthough the costs of hosting the Games are considerable, these are far outweighed by the benefits of 10 days of global free publicity” (Musa, 1998:223). Accordingly, Malaysia’s state-led interest in the Commonwealth Games, reflects the degree to which it is more closely tied to Malaysian foreign policy objectives than was the case in South Africa.

10

Conclusion

By drawing heuristically on Cerny's competition state model, this study has sought to address two particular shortcomings in the globalization literatures generally and Esman's ERWG framework specifically. Firstly, despite the unprecedented growth of the globalization literatures, very little attention has been directed to the way in which states other than the NIC's or those in the advanced capitalist world adapt to the challenges of globalization. Secondly, given that Esman's framework is based on the assumption that extensive state intervention is required to pursue a strategy of ERWG, it does not indicate how the pursuit of ERWG unfolds in those societies attempting to either continue or pursue such a strategy at a time when globalization severely restricts the autonomy of the state. This is not to pretend, as the globalists do, that globalization is leading to the "withering away" of the state; nor to deny the fact that the integration of the world economy has caused profound power shifts across a variety of social, political, economic and cultural playing fields, as the skeptics are fond of doing. Globalization does not impose an "iron cage" upon an otherwise dynamic world society, but creates both opportunity as well as constraint.

Cerny's analytical model - highlighting how the state is both a *vehicle* of globalization and is itself *reconstituted* by it - directs attention to the state's degree of *adaptability* to these challenges. Cerny's competition state model does, however, tend to somewhat downplay the extent to which states' particular historical development and political cultures account for a considerable degree of differentiation in their responses as they are transformed along competition state lines. I have therefore attempted to emphasize how intermediation processes, state strategies and the state's location in the international political economy, could enable transformationalist approaches to look "from the inside out", thereby moving a step closer to overcoming the "Great Divide" between International Relations and Comparative Politics.

Using Malaysia and South Africa as comparative cases, three questions have guided this analysis. Firstly, how does the state respond to the challenge of pursuing a strategy of ERWG amidst globalization? Secondly, what kind of power could be acquired by small states attempting to make the most of their marginalised position in the world economy? And finally, does the Malaysian case provide any "lessons" to state elites in the 'new' South Africa? This concluding chapter is structured according to these three questions.

Ethnic Redistribution With Growth Meets Globalization

Corporatism and Patronage as Intermediation Processes

Being forced to adapt to the demands of the competition state model poses fundamental challenges to state elites in deeply divided societies where the provision of middle class opportunities to ethnic majorities requires the continued engagement of both the economically powerful minority and foreign stake holders. Given the lack of managerial skills, capital and other obstacles which have left the ethnic majority ill-equipped for success in a modern economy, the continued participation of the ethnic minority in key economic roles is tolerated. Since such an accommodative approach limits the possibilities of economic disruption, economic growth is sustained, producing the necessary revenue with which the state finances the ascendancy of the new middle class by easing access to higher education, the expansion of opportunities for state employment and the creation of a new business class.

Employing these measures early Malay and Afrikaner Nationalists successfully pursued ERWG, since the post-World War Two global economy - being driven by Fordist modes of production - continued to be fuelled by primary commodity exports from which the South African (with its minerals-energy complex) and Malaysian economies (with its supply of rubber, tin and oil) benefited immensely. However, with the emergence of a NIDL by the late 1970s, the disjuncture between these Fordist driven economies and the changing nature of the IPE forced a gradual adoption of and towards, the competition state model. Yet, how would this process of state transformation be negotiated in deeply divided societies in which incumbent state elites owed their very legitimacy to their perceived ability to advance an economically subordinate ethnic majority?

Unable to do so through state expansion and intervention - given the hegemony of neo-liberalism in the 1980s - state elites truly found themselves caught between the devil of international expectations and the deep blue sea of contradictory domestic demands. Consistent with transformationalist approaches to the study of globalization, I argue that the South African and Malaysian state have *adapted* to these challenges through societal corporatism and rentierist patron-client linkages respectively, as the necessary intermediation processes aimed at bridging these internal/external cross-pressures.

In the *Malaysian case*, failure to sustain the redistribution process through which a vast patron-client network was fed, risked internal political collapse. On the other hand, continued expansion of the state, and its unaffordable budget deficit, meant Malaysia failed to attract the foreign capital upon which the political/bureaucratic/business complex depends. Privatisation Malaysian style, providing for the politically connected to gain even more access to corporate assets, meant however that the state could sell off its assets to a select few, retaining - if not regaining - new political clients whilst ostensibly conforming to

neo-liberal expectations and the prospect of renewed access to international capital.

While the more *dirigiste* developmental state has afforded Malaysia a greater degree of relative autonomy to adapt to the competition state model in a protracted fashion, the coincidental emergence of a *post-apartheid South Africa* during the post-Cold War order, meant that within seven or eight years, a sense of “self-policed competitiveness” was imposed upon the new state elites. The relative lack of progressive policy-making capacity within the tripartite alliance, compounded by pressure from domestic big business, the international financial institutions as well as conservative factions within the alliance, caused the ANC to quite rapidly succumb to a decidedly more conservative economic outlook.

Labour and other constituencies sought to stem the move towards a competition state by making their political support conditional upon the ANC’s acceptance of the RDP as the basis for post-apartheid macroeconomic policy. Six months after the ANC’s handsome victory in South Africa’s first democratic elections under the banner of the RDP, however, the publication of the RDP White Paper marked a decided shift to the Right. Instead of being a strategy to hold the ANC as a government accountable, the RDP became an instrument to entrench the corporatist political culture of the new national order and consolidate the political power required to develop South Africa into a competition state. The subsequent depreciation of the rand in early 1996 increased pressure toward the adoption of the neo-liberal GEAR with an extraordinary high level of dependence on foreign investment as a means of sustaining even minimal growth.

Since globalization severely limits the degree to which the Malay and Afrikaner Nationalist programmes of ERWG can be emulated, the predominantly African nationalist state seeks to advance a black business class through *private sector initiatives*. Complementing macro corporatist processes (i.e. forums dealing with issues from housing, education, and electricity supply to labour in the form of the NEF and NEDLAC), black economic empowerment extends these corporatist practices. As a particular response of post-apartheid corporate South Africa to the challenges of globalization, black economic empowerment has been precipitated by the unbundling of South Africa’s most powerful conglomerates, of which many resemble the internationalisation of Afrikaner capital earlier. Whereas Malaysia pursued privatization as a means to extend opportunities for patronage, in South Africa the proliferation of union investment companies and employee stock ownership programmes, provide some of the essential services once provided directly by the national welfare state of the Keynesian/Fordist era. This process of micro corporatist intermediation between South African capital and black economic empowerment, acts as a much needed “shock absorber” whereby a variety of social forces have come to be insulated from the disruptive effects of South Africa’s transformation into a competition state.

It is tempting to equate Malaysia's competition state convergence through societal corporatism as in South Africa. Indeed, both the NECC - ostensibly instituted to formulate post-NEP economic policy - as well as Mahathir's call for a "Malaysia Inc." suggest a potential shift to corporatism rather than patron-client rentierism as the required intermediation process to negotiate the impact of globalization. However, given the emasculated position of the labour movement, the fact that "Malaysia Inc" was only limited to complying enterprises as well as the fact that the NECC was little more than a public relations tool, these developments cannot be regarded as a truly nationalist corporatist project. Though it could be argued that, as in the South African case, some corporatist practices prevail in the interstices of the Malaysian political economy, patronage continues to overshadow these interactions. Corporatist South Africa does not (yet?) evince the pervasive culture of patron-client rentierism which Case (1997: 410) for example observed:

During the 1993 UMNO party election, their [party delegates'] vote-buying had been plain, with envelopes of cash passed about visibly in the coffee shops of Kuala Lumpur's many luxury hotels. But confronted now with the prospect of bans and suspensions, candidates acted in 1996 with much greater caution, operating through personal intermediaries (termed "gurkas") or even their wives' social networks (called *politik dapur*, or "kitchen politics"). They also limited their transactions to a few key venues - the Concorde (i.e. the refurbished Merlin once owned by the Fleet Group), the Holiday Inn City Centre, and the Crystal Crown in Petaling Jaya (far removed from the closely monitored Pan-Pacific).

Besides the particular intermediation process through which state elites attempt to reconcile internal and external demands, the way in which the state and domestic capital mutually relate is similarly crucial to account for and deal with the impact of globalization upon deeply divided societies.

The Significance of the State-Capital Alliance

Why has corporatism emerged as such a salient feature in the South African case and patronage in the Malaysian case? Although more comparative research beyond these two cases is required, my comparative analysis suggests that the existence or absence of an alliance between the state (controlled by the less affluent ethnic majority) and the economically powerful minority, relates quite fundamentally to the way in which the state in deeply divided societies adapts to the challenges of globalization.

Whereas Malay Nationalists had a powerful political incentive to "by-pass" Chinese capital, Afrikaners - given their control over agriculture as the basis for capitalist accumulation - were in a far stronger position to bargain with English capital than were Malays. Three factors, early in this century, entrenched the symbiosis between the state and capital in South Africa: the concentration of capital around the minerals-energy complex; the concentration of political power in the hands of the Afrikaner minority and the existence of

a highly divided working class. Moreover, as a settler state South Africa enjoyed a greater degree of autonomy than the colony of Malaya. These conditions ensured that neither the state nor capital could dominate the other. Moreover, the early globalization of the South African economy was facilitated by “embedding” white workers into a kind of ethnic Keynesian state, passing the costs thereof to the majority of disenfranchised and subjugated African workers through the apartheid state’s labyrinth of political and economic controls.

As the crises of the 1960s, 1970s and 1980s exacerbated the contradictions of the apartheid state however, prompting foreign capital to leave, these conditions helped consolidate the alliance between the Afrikaner Nationalist state and English capital. Hence, despite *convergence* in the implementation of ERWG, the *consequences* thereof in the South African case differ from the Malaysian instance in at least two important respects. Firstly, the Malays could not pass the costs of embarking upon ERWG onto another subjugated group. Secondly, precisely because apartheid constituted a powerful system with which to repress African labour (making for a highly ‘competitive’ economy indeed), it also helped consolidate the alliance between capital and the state.

In Malaysia, the politically motivated tradition of by-passing local, mostly Chinese capital meant that Mahathir’s heavy industrialisation drive had to be financed by joint ventures with multinational corporations, and especially through yen-denominated loans. Yet, as the global recession of the 1980s stalled economic growth, Malaysia’s escalating levels of debt were exacerbated after the 1987 Plaza Accord appreciating the value of the yen, thus virtually doubling Malaysia’s foreign borrowings. As Malaysia moved up the ladder of value added and became more exposed to market volatility, it also became more vulnerable to policy initiatives advocated by the Bretton Woods institutions and the global economy as a whole, as the 1990s Asian crisis clearly suggests.

If the crises and contradictions of the apartheid state thus shaped an increasingly *inward* looking South African political economy, the sidelining of local capital in the Malaysian case had quite the *opposite* effect. Hence, the only alternative to regenerate growth after the mid-1980s recession was to lure international capital, reducing the role of the state and gradually moving away from the emphasis on redistribution in favour of growth.

Contested Hegemony and Authoritarian Response

Ethnic Redistribution with Growth is only sustainable as long as economic growth continues. Political instability and domestic economic decline, compounded by changes in the nature of the IPE, increases the degree of disjuncture between the national and global economy. When these tensions exacerbate divisions amongst the ruling elite however, state authoritarianism is often the response in order to regain political control.

Although a notable feature of the South African economy was its inward orientation whilst the Malaysian economy increasingly began looking outward, especially East, both

nevertheless experienced political instability.

Despite the apparent success with which state transformation has been facilitated by societal corporatism and patron-client rentierism as intermediation processes, one should not discount the considerable resistance within the ruling establishment towards this process of state adaptation. This is most evident in the Malaysian case, for as the spoils of patrimony declined during periods of insufficient growth, the legitimacy of the ruling coalition eroded accordingly. The severe economic crises of the mid-1980s and 1990s meant that the number of business opportunities to be distributed through the patronage network diminished, whilst divisions within UMNO increased. Each of these periods were characterized by very public displays of disaffection, the subsequent contestation of political hegemony, followed by an authoritarian response to reassert control.

Similar patterns also recurred in South Africa. In fact, during the so-called “golden age of apartheid”, following the banning of the ANC and other political organizations in the post-Sharpeville clampdown of the 1960s, South Africa enjoyed similar levels of economic growth as Malaysia did during the 1990s. Nevertheless, the struggle between the more *verligte* and *verkrampte* Nationalists became quite apparent. In fact, by 1969, the arch-reactionaries were expelled from the National Party, to form the ultra-right wing *Herstigste Nasionale Party* (Reformed National Party)¹⁶. And, as the economic crises of the 1980s wore on, and the NP gradually began to reduce the state’s role in the economy, particularly in the enforcement of petty apartheid, and shifted towards a more free market philosophy, it exacerbated growing class differences, ultimately leading to the breakaway of the ultra-right wing Conservative Party from the National Party in 1982. Not unlike the 1987 split within UMNO, and another incipient break-up of the party following Anwar’s dismissal in 1998, these cleavages were fundamentally driven by differences between proponents of a pro-growth versus a pro-redistributionist economic policy.

Expanding Malaysian & South African Marketing Power

Transformationalists do not account for the impact of globalization solely in economic or political terms, but in the realm of culture and society as well. Accordingly, my conceptualization of marketing power suggests that globalization opens space - albeit limited - for novel sources of power available to small states to overcome some of the new challenges imposed by globalization. As flip-sides of the same coin, or a two level game, the pursuit of marketing power fulfils both (i) a domestic role in helping state elites shore-up support for a sense of *gemeinschaftlich* commonality diluted in the process of transformation towards a competition state; whilst (ii) externally “marketing” the country as a complement to other policy initiatives.

This perspective runs counter to a great deal of literature dealing with the emergence of a “global popular culture” in which smaller states invariably tend to be depicted as the

¹⁶ Interestingly, a major reason for the creation of the HNP was also because of its opposition to the NP’s gradual acceptance of mixed-race sports, particularly in rugby.

hapless victims of cultural globalization, subject to the relentless penetration of MTV, Time-Warner and other “infotainment industries”. At the same time, it rejects the notion that “soft power” is at the disposal of a multitude of other international actors, arguing that the term masks the degree to which “soft power” is actually profoundly structural and therefore too top-down and hegemon centric to account for the ways in which other actors internationally project themselves.

Despite the fact that the multiculturalism which both Malaysia and South Africa *advance*, provides a potential competitive advantage enabling them to expand their marketing power, their distinct societal features and political cultures at the same time also *restrict* the scope for state elites to expand its marketing power. The brief remarks regarding Malaysia’s popular music and film industries suggest that, given a long tradition of censorship and the revival of Islamic activism - it is quite difficult to “put Malaysia on the world map” - at least through these Western dominated cultural industries.

In contrast, with the relative predominance of English as the *lingua franca* (more so than in Malaysia), South Africa can more readily participate in the global entertainment industry. Yet, despite being a very vibrant society with the potential to use its popular culture to expand South Africa’s marketing power, apartheid and the censorship as well as other restrictions that went along with it, prevented the development of a coherent sense of national identity and thus stifled such ambitions. Indeed, whereas Islamic revivalism is a major consideration in the Malaysian case, the South African tendency to revert to “the idea of America” as some kind of deferred South African identity, as a consequence of apartheid policies effectively retarded creative imaginations. Unsurprisingly, in both cases, sport events therefore became the most accessible medium for international signalling. This is not to pretend that other forms of both “high brow” and popular culture cannot serve similar purposes. However, given the scale of mass participation through high profile sports events, these remain one of the most decisive ways in which small states can extend their marketing power.

The short case studies, of the 16th Commonwealth Games and South Africa’s bid to host the 2004 Olympic Games illustrated how state elites appropriate these events in order to expand the state’s marketing power. For a country which generally lacks a sporting culture, a primary objective of hosting “KL ‘98” was to signal Malaysia’s imminent graduation to “NIC-dom” and “put the country on the world map”, as one sports promoter openly declared, to heighten Malaysia’s tourist appeal. At the same time, the Games provided a valuable opportunity to celebrate the national identity of an otherwise deeply divided society. The extravagant opening ceremony in particular exemplified the attempt to highlight the vibrancy of Malaysian multiculturalism.

Similarly, in South Africa, the 2004 Olympic Games was explicitly sold to the international media, the IOC and the South African public as an event which, like the 1995 World Rugby Cup, would demonstrate the multicultural unity of the “Rainbow Nation”.

Indeed, then vice-president Mbeki argued that “the time has come for the rest of the world to demonstrate its commitment to the African Renaissance by awarding the Games in the year 2004 to the African continent” (cf. Vale & Maseko, 1998:13). By itself, argued the head of the bidding company, the Olympic Games, “...would produce direct foreign investment in South Africa and change the level of confidence in the country” (*M&G*, July 21, 1995).

To appreciate the significance of marketing power as a complementary state strategy of particular import to the competition state, one need only to consider the growing importance of the tourism industry in the world economy. In Malaysia, tourism has become the second most important source of foreign exchange after manufacturing. And in South Africa, one of the very few options for significant job creation is the tourist industry. Hence during the “Job Summit” - an initiative of the labour movement to commit both the state and capital to an employment creation programme - big business proposed a programme whereby close to 450,000 jobs could be created through the tourist industry by 2005 (*The Star Business Report*, August 17, 1998). To even some of the most peripheral states in the world system, the tourist industry provides one of the very few post-industrial means with which to engage the knowledge-based, post-Fordist global economy.

Given the complexity of differentiating between what Bourdieu calls material and symbolic capital (see chapter 2), it is very difficult to determine whether the huge costs of hosting a major hallmark event is “objectively” justified by the degree of marketing power acquired. It is likely that over the short term these returns are fairly negligible but possibly over the longer term more promising. As most advertising and marketing executives might (confidentially) concede, is not whether marketing *really* works, but that decision-makers believe it does. Similarly, the fundamental attraction of marketing power as a competition state strategy is that state elites *believe* in its potential to enhance the state’s international projection whilst shoring up their own political legitimacy.

The quest for marketing power therefore throws up a multiplicity of complex dilemmas. For, in as much as it is sought after by state elites in deeply divided societies marked by the absence of a well-consolidated national identity, efforts to enhance the state’s marketing power are subject to considerable political contestation.

The Commonwealth Games illustrates this point particularly well, since its potency as a symbol of political power unexpectedly gained added significance amidst the Anwar-Mahathir debacle. Whilst Mahathir wanted to use the Games as a means of heightening the Malaysian sense of *gemeinschaft* - and by implication confirm his own sagging legitimacy - pro-Anwar dissidents wanted to use the closing ceremony presided over by Queen Elizabeth and a global television audience, as a focus of international attention to play up Mahathir’s *loss* of legitimacy.

In less dramatic fashion, the South African bid to host the 2004 Olympic Games clearly reveals how rapidly the entire process became highly politicised. Different stake

holders - be they central government, big business or provincial government - all sought to appropriate the marketing power which would be derived from the Olympics for their own purposes. Moreover, the fact that the "for-or-against the Olympics" debate increasingly disclosed a clear divide between South Africa's ethnically defined "have's" and "have-nots", suggests that efforts to expand marketing power may in fact *exacerbate* lingering differences. In short, marketing power represents a potential way whereby state elites can cope with the tensions between globalization and ERWG. Yet, like any other political strategy, it is not without risk.

The Malaysianization of South Africa?

A third, though by no means primary question which guided this analysis was whether the future of South Africa can be read against Malaysia's past. To be sure, besides the more general similarities, such as levels of social stratification, British colonial influences, federalist pretensions and anti-communist histories, there are quite a number of similarities between the ANC and UMNO. Firstly, with the ANC, like UMNO, presiding over a near two-thirds parliamentary majority, it is also, the most important political force in a *de facto* one party dominant state. Secondly, like UMNO in the Barisan Nasional coalition, the ANC is the hegemonic partner in the tripartite alliance. Both these characteristics make for a high degree of political stability. In Mbeki's South Africa, especially, it will enable the governing party to consolidate its power, hopefully reduce the crime rate and enhance conditions for higher sustained levels of direct foreign investment.

Given these similarities - bar the critical role of labour - three scenario's can be projected. The *first and most optimistic scenario* assumes that given the historic salience of the state-capitalist alliance, South Africa's corporatist political culture will continue to endure as long as labour succeeds in maintaining its programme of "strategic unionism". Since the centre holds, South Africa continues to attract the necessary level of foreign direct investment to either (i) earnestly relieve poverty and unemployment and/or (ii) continue to be *seen* as capable of delivering on these expectations by the vast majority of destitute "outsiders" to the current nationalist-corporatist project.

If the RDP was South Africa's answer to the NEP, the (predominantly) African Nationalist state dare not risk incurring the kind of deficits the global political economy at the time indulged both Malay and Afrikaner Nationalists in order to provide massive job opportunities in the public sector. *Hence, the scope for a replication of similar degrees of patronage declines accordingly.* Despite the fact that much of the public discourse continues to be marred by a sensationalist ethnic tone, an unspoken technocratic commitment to innovative policy options ensures that South Africa continues to prudently manage the impact of globalization.

The second and third scenarios arise *if corporatism fails* as an intermediation process and the centre cannot hold. Labour or any other coalition of counter-hegemonic

social forces (including a more conservative faction of the black business class) threaten to unravel the tripartite alliance. In order to avert an internal political collapse, an increasingly centralised party¹⁷ and bureaucratic machinery ensures that the emerging bureaucratic/business/political network provides the necessary rentierist incentives to stall the momentum of such a move, thereby gradually shifting from corporatism to patron-client linkages as the preponderant process whereby the South African state attempts to adapt to the challenges of globalization. As in Malaysia, considerable stability is ensured as long as the mass of unemployed remain disorganized politically and relatively promising rates of growth provide the necessary means to keep the patronage network going. For strategic reasons, much is made of a limited number of community upliftment projects.

If this process proceeds apace to such an extent that the nascent democratic culture degenerates excessively, the tripartite alliance with the ANC at the centre may come to increasingly resemble UMNO during the late 1990s. Regime opening in Malaysia is more likely to begin with UMNO's unravelling as Jesudason (cf. Case 1997) has argued. Indeed, Case (1997:409) contends:

But if the UMNO is better understood as purveying patronage than any serious ideology, the party will more likely come undone through its corruption - though not so much because of the dysfunctionality of corruption as the refusal of the party president to continue dispensing it widely. Put another way, corruption in Malaysia has perhaps created fewer distortions in the economy than it has brought stability to politics, satisfying the many claimants in the UMNO.

Alternatively, the third, more open-ended scenario suggests that labour or another social force activates a protracted *break-up of the alliance*. As the corporatist project collapses, the South African political economy is bifurcated between a more conservative faction led by the black business and middle class and the tiny white, coloured and Indian middle class on the one hand and a more broad-based, pro-redistributionist and populist movement on the other. If such a scenario does indeed materialise, both the Malay and Afrikaner Nationalist experience suggests that the temptation to reassert political hegemony through authoritarian means by the incumbent social force, remains a very real one.

The process of state evolution toward the competition state model is therefore not axiomatic. As intermediation processes and state strategies intersect with changes in the structure of the IPE, state adaptation is shaped by the dynamic between these three levels of analysis. Hence, this process may be reversed by other social forces or, through a process of accelerated adaptation, state elites may find their options even more restricted. All in all, the state can be both a *vehicle* of globalization, whilst being *reconstituted* by it at the same time. The competition state therefore remains as something of a prototype and evolution toward it, a very open ended process indeed.

¹⁷ On the increasing centralization of power within the ANC, see Southall (1998).

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