

## **A developmental state for South Africa?**

*Discussion paper for the 2005 Central Committee*

The concept of the “developmental state” has again surfaced in Alliance discussions on economic policy. Often, however, the term is used without much investigation of its intellectual origins or significance in international development theory.

In any case, the South African state cannot simply be shaped to match some ideal type. Rather, the concept of the developmental state points to weaknesses in the state as critical to shortcomings in the economy substantially since 1994. From this standpoint, core issues are

- The failure rigorously to prioritise economic development and to mobilise capital and civil society around it by ensuring broad-based benefits from growth.
- The narrow export orientation of industrial policy, without adequate orientation toward diversification and the protection of the domestic market as the basis for new industries.
- The inability to direct resources systematically to new industries.

This paper first reviews the theoretical discourse around the concept of the developmental state, and then explores some learnings for South Africa. The final section reviews the evolution of central co-ordinating institutions since 1994, since this type of institution is crucial for industrial strategy.

### **1 The origins of the “developmental state”**

In South Africa, the concept of the “developmental state” is generally used to mean a state that drives development, in contrast to a free-market approach. The concept arose, however, from a much more specific effort to generalise about the industrialising states of Asia, especially Japan and Korea.

The model of the developmental state originated with a U.S. Asian studies scholar named Chalmers Johnson. For him, the critical element of the developmental state was not its economic policy, but its ability to mobilise the nation around economic development within the capitalist system. In effect, these states endorsed a revolutionary project – although, in his view, “What distinguishes these revolutionaries from those in the Leninist states is the insight that the market is a better mechanism for achieving their objectives than central planning.” (Johnson 1999, p 53)

The absolute prioritisation of industrialisation by the developmental state differed from the norm in, amongst others, Latin America (and indeed much of Africa), which can be described as pursuing a

“...’showcase modernity,’ aimed not at self-sustaining development but at reaching a set of elite consumption patterns appropriate for developed countries. This leads to the following mutually reinforcing aspects: a

consistent pattern of exuberant consumption, heavily skewed in favour of urban elite groups at the expense of the rural and lower-income majorities; industrial sectors oriented primarily toward the domestic market; the insertion of national economies into the international system via trade in natural resources; and the dubious leadership role played by either the state or national industry.” (Woo Cumings 1999, p 22)

From this standpoint, the developmental state was defined by both its class structure and its economic policy.

1. In class terms, the developmental state was closely allied to business but able to maintain the autonomy needed to drive development of new industries. It maintained mass support through a combination of nationalist propaganda, substantial improvements in living standards for workers and small businesspeople associated with rapidly increasing employment, and paternalistic labour relations in larger companies.
2. In terms of economic policy, the state intervened vigorously to develop new industries, using a combination of massive amounts of subsidised credit, strong tariff protection, substantial training and infrastructure development. Historically, South Korea and Taiwan essentially copied Japan in establishing

“...light-industrial exporting under multiyear plans, guided by strong state ministries (if less so in Taiwan than Korea). This gave all three economies a highly neomercantilist, nationalist tendency; in Japan and Korea especially, it meant strong state involvement with and promotion of big economic conglomerates.” (Woo-Cumings 1999, p xi-xii)

Both these roles point to the importance of a clear vision of the structural changes that could diversify the economy and ensure broad growth. (Kim 1998, p 32; Chang 1999, p 194)

Most authors see close, even corrupt links to business as central to the developmental state. But the ability to establish and maintain legitimacy and equality seems an equally important lesson. As Joao Campos and Hilton Root demonstrate at length, the successful Asian states undertook substantial efforts to ensure more equitable ownership and opportunities through the 1950s. They emphasised land reform, relevant education and training, support for small enterprise and provision of housing and infrastructure. (See Campos and Root 1996) Improvements in social protection focused on measures that would reduce the cost of employment and raise productivity. (See Clark and Chan 1998)

At the same time, support for light industry meant that employment rose rapidly, laying the basis for rising living standards without much increase in pure welfare spending. Growing employment was backed by limitations on retrenchment and high spending on skills development. In Singapore, Taiwan, Malaysia and Indonesia, dismissal is relatively easy for poor performance, but the minimum retrenchment package is one month's pay per year of service. The skills levy is around 5% in both South Korea and Singapore. (Agrawal et al. 2000, pp 99 ff)

In this context, the dominant companies adopted labour relations characterised by job security, strong career paths for men, and paternalism. According to T.J. Pempel, in Japan the combination of shutting unions out of national policy development while establishing “plant-level corporatism”

“...resulted in the kind of plant-level harmonisation of worker and business interests that involved workers showing up fifteen minutes early, singing the company song in the parking lot and then working doubly hard to ‘embarrass management into granting our demands.’” (Pempel 1999a, p 41; see also Atul 1999, p 134)

State action never takes place in a vacuum. The success of the developmental state in Japan, Korea and Taiwan resulted as much from peculiar international and national circumstances as from good policies. (See Moon and Prasad 1998) In particular,

- The U.S. and Europe saw these three countries as the frontline against communism. As a result, all three received substantial foreign aid, preferential access for exports, and indirect support through U.S. military spending in the region. They were able to undertake substantial state intervention in the economy, including very extensive control of the financial sector, without much opposition from multilateral institutions and the industrial states. (see Pempel 1999b, p 174 ff)
- Capital in all three countries was disorganised after World War II, with the traditional order undermined by war and land reform. This reduced pressure to retain resource-based production, existing industries and traditional forms of inequality and subordination. (See Pempel 1999b, p 164) More generally, capital was not rooted in large-scale mining or agriculture, making it easier to support a new industrial focus. (Johnson xx) In other words, a successful developmental state requires that capital as a class supports development and is willing to sacrifice some fractions of capital in order to achieve that aim.

“For Marx, autonomy from the industrial class was neither necessary nor possible for the state. The capitalist state is by necessity developmental; it must simultaneously understand the needs of capital – not fractions of capital, but capital as a whole – and be able to act against particular capitals in the interest of capital as a whole. The successful developmental state, with historical irony, is one able to function as if it were the executive committee of the bourgeoisie. The question then may be more under what conditions we get a developmental *business class* than why we get a developmental state that will give capital its head – the original Marxist formula for success.” (Herring 1999, p 331)

The concept of the developmental state is distinguished from both right and left views of the ideal state as well as from the realities of most developing countries.

On the right, the Washington Consensus argued that the state should not intervene to direct the structure of production or ownership. Rather, as the 2005 *World Development Report* emphasises, it should seek to enhance overall competitiveness, then let business

determine the direction of investment. It can increase competitiveness principally through investment in infrastructure, education and training and xx. But it should avoid structural measures – which the World Bank calls “targeted” policies – that seek to promote particular sectors or types of ownership such as small enterprise. And of course, it should not own large sectors of the economy or direct credit to desirable activities. (World Bank 2005xx)

In contrast, leftwing observers have generally welcomed the perception that successful states in the South must intervene extensively in business decisions in order to restructure the economy. But they are troubled by the narrow focus on industrialisation, rather than on social or human development. Moreover, they reject the bias toward capital rather than labour or other mass-based groups. The effective repression of unions is especially troubling. (See Kim 2000; others?)

Finally, the concept of the developmental state implicitly (or in some cases explicitly (see amongst others Schneider 1999; Evans 1995)) suggests a critique of Third World states in Latin America, Africa and India. It points to the failure of most states to prioritise economic development and compel co-operation from business. Instead, at best, these states focus on maintaining existing economic activities, even when they are no longer viable (see Schafer 1994) or on fiscal redistribution to raise living standards through welfare, rather than employment creation. (Schneider 1999, p. 288) At worst, individual officials and leaders use state power to enrich themselves at the cost of society as a whole. In extreme cases, this type of “kleptocracy” can ruin the economy altogether. (Schneider 1999, p. 303)

In sum, the concept of developmental state does not simply mean that the government actively directs economic development. Instead, it has a peculiar intellectual history, which derives primarily from the experience of industrialisation in Japan, Korea and Taiwan. It emphasises the ability of the state to drive development by guiding capital toward new activities while maintaining broad-based support, including from workers.

We now turn to the question of how this concept can assist in understanding the state and development in South Africa.

## **2 Does the concept help?**

In applying the concept of the developmental state, the fundamental question is whether we can learn from the success of selected Asian countries. After all, these states succeeded in specific historical circumstances, both at home and abroad, which we cannot recreate.

In addition, observers disagree about which factors were most important in their overall success. Thus, just in terms of economic policy, different authors argue that the success of the Asian economies arose because

- They undertook strong measures to enhance equality of ownership, skills and incomes through the 1950s.
- They repressed labour and generally had authoritarian governance structures, letting

them mobilise and discipline stakeholders around developmental strategies.

- They maintained stable macroeconomic conditions and ensured overall competitiveness. In this view, adopted strongly by the World Bank, their economic growth resulted despite, not because, of industrialisation policies.
- They had strict merit-based promotions in the public service, ensuring high-quality governance and autonomy.
- They successfully supported new industries by combining incentives and discipline for local business, especially through cheap credit, tariffs and export promotion.

Fundamentally, the problem is that the experience of other countries does not prove any general truths that must be slavishly adopted. Rather, they give us ideas about possible causes of failure and solutions. But any analysis or proposal must still be tested rigorously to see if it will solve the problems we confront. Even if relevant, it must invariably be modified to fit our circumstances.

To start with, we need to define the main challenges facing South Africa. The Presidency's *Toward a Ten-Year Review* and COSATU's Secretariat reports generally agree that

- South Africa has made great progress in consolidating democracy and redirecting government spending toward the poor.
- The main failures have been on the economic front. On the one hand, unemployment and massive inequalities in ownership persist. On the other, investment and growth remain low by world standards.

In these circumstances, substantial dualism remains, with most of the population effectively marginalised from the formal sector. This dualism emerges spatially, with the former homeland areas in particular left out of economic growth. Even in the formal sector, pay and conditions remain unacceptably low for many, especially in the services, on the farms and in light industry.<sup>1</sup>

If we use the concept of the developmental state to suggest explanations for the failure to ensure more rapid and equitable growth, the main arguments appear to be:

1. The dominant economic groups were based in mining and the related financial activities, rather than manufacturing and trade.
2. The government has not rigorously prioritised equitable, employment-creating growth in either social-protection or economic programmes.
3. Economic policy has adopted an export orientation, but has not ensured a basis for

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<sup>1</sup> The government has taken to referring to the formal sector as the "first economy," and the marginalised groups – the unemployed, the homeland areas, and the informal economy in the cities – as the "second economy."

local production in an increasingly equitable, prosperous and protected domestic market. Meanwhile, monetary policy targeted inflation rather than maintaining an undervalued rand, which undermined the export strategy.

4. Government did not ensure direct benefits to workers and communities from economic growth. This has led to persistent conflict in the workplace and the community.

We here briefly examine each of these arguments in turn.

The **structure of capital** in South Africa was shaped above all by mining. Financial institutions, parastatals and even agriculture were established largely to ensure that mining succeeded. Afrikaner nationalists tried from at least the turn of the 19<sup>th</sup> Century to get mining interests to support manufacturing. Their success was considerable compared to the rest of the economy. Still, industry remained largely geared toward consumer goods for the high-income group, based heavily on imported inputs and capital equipment.

Mining continued as the single most important export. If refined metals are included, the share of minerals in total exports has remained remarkably steady at about 40% for the last two decades, although iron and platinum have to some extent replaced gold mining.

This situation had two implications.

First, where the developmental states of Asia faced national capital groups that saw industrial growth as their main road to profit, key sectors of South African capital saw their future in mineral investments abroad. The mines and major financial institutions were the only sectors of the economy that remained largely foreign owned until the 1980s. When the economy opened after the end of apartheid, they rapidly re-integrated into global markets. As the South African mines declined, they shifted their activities to mining and financial markets in other parts of the world.

Second, this analysis suggests the need for a deeper understanding of how economic systems, from taxation to tariffs to energy prices, were historically structured to support mining. A new growth path based in other industries would require consistent efforts to reshape these structures. (See Schaffer xx)

The dependence on mining does not mean the South African state was powerless. But it does suggest that it would face greater resistance to industrialisation than found in the successful Asian economies.

The **failure to prioritise economic development** emerged in both economic and social programmes.

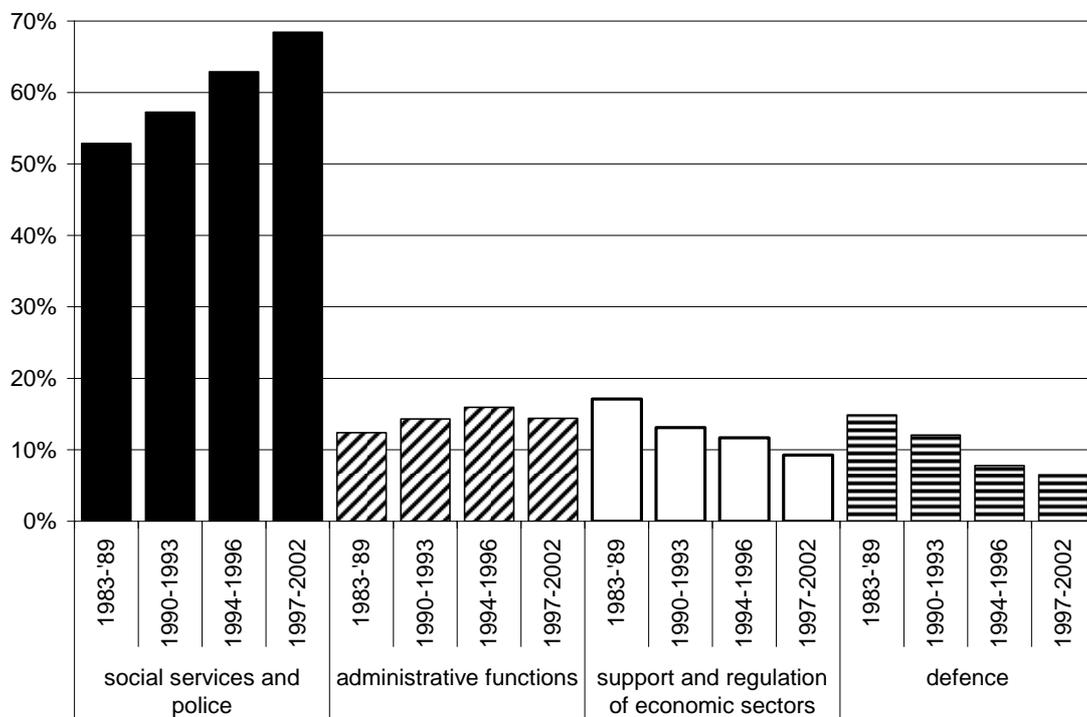
On the one hand, the economic departments lacked a clear mandate to restructure the economy toward employment-creating growth. Their main documents focused on enhancing competitiveness, with little reference to equity or jobs. As a result, they generally did not focus strongly on restructuring the economy.

In addition, policies adopted by the Treasury and the Reserve Bank repeatedly throttled

overall growth. In the late 1990s, cuts in government spending had a contractionary impact. In the mid-2000s, the overvaluation of the rand, largely as a result of relatively high real interest rates, had a devastating impact on both the mines and manufacturing. In December 2004, in real terms, the interest rate was 7,6%,<sup>2</sup> down from the average of 12% in 1996-2000, but still higher than in the early 1990s and the 1980s. (Calculated from, SARB 2005a)

The failure to focus on economic restructuring emerged from the structure of government spending. As the following chart shows, the share of economic services in the budget declined steadily in the ten years of democracy, while social services and administration increased.

### Government spending by major functions, 1983 to 2002



Source: Calculated from, SARB, long-term data series on public expenditure, downloaded from [www.resbank.gov.za](http://www.resbank.gov.za) in December 2004.

The reluctance to prioritise equitable growth also emerges if we contrast engagements on sector strategies with the implementation of BEE. In the 2000s, virtually every government policy adopted some reference to BEE. Government departments drove the BEE charters in key sectors. In contrast, it was difficult to ensure government commitment to sector strategies that sought to ensure employment creation and more

<sup>2</sup> Deflated using CPI.

equitable ownership.

Moreover, even in the BEE Charters, community, labour and even business representatives have usually had to promote commitments to serve the majority and enhance investment, with little encouragement from government. These initiatives were undermined when the first draft of guidelines for the charters from the government, in 2005, emphasised almost exclusively ownership, control and HRD, practically cutting out developmental initiatives.

While the economic departments faced unclear mandates, the social service departments – health, education, policing, housing and household infrastructure – had very clear aims: to shift government services toward black communities. But they were not bound to ensure that these services supported broader economic engagement. As a result, while their interventions undoubtedly raised living standards, they did less than hoped to support equitable economic growth.

Some examples demonstrate the difference between a dedication to alleviating poverty and a developmental approach. In housing, the new settlements were located far from economic centres and jobs, making it more difficult and costly for residents to become economically active. In education, access improved, but ten years after independence most black schools still lacked the maths, science, computer and cultural studies needed to open economic opportunities. In health, delays in rolling out anti-retroviral treatment increased the burden of AIDS on families and workplaces.

The reluctance to develop the **domestic and regional market** emerged clearly from policy documents. (See DTI [IMS xx] Government consistently cut tariffs and subsidies to industry through the independence decade. This contrasted with the very high tariffs and substantial financial support provided to new industries in the fast-growing Asian economies. Moreover, the Asian economies consistently sought to hold down the value of their currencies in order to limit imports and spur exports.

Certainly the growing power of the WTO and the lack of a special relationship with the U.S. made it harder for the South African state to protect and subsidise infant industries. Nonetheless, the government made remarkably little effort to push the envelope in this regard. The only exceptions were the auto and clothing industries, which enjoyed substantial tariff rebates. Even these sectors, however, did not enjoy the sort of comprehensive, corporatist programmes found in Korea and Japan in the initial phases of industrialisation. Other sectors saw substantial cuts in tariffs combined, from 2002, with a high rand, and were largely left to sink or swim on their own.

Finally, **shared growth** remained an elusive objective in South Africa. The government used the budget to redistribute resources to the poor. But the primary division of income – that is, income earned from employment and ownership – remained highly inequitable. Indeed, from 1993 to 2002, the share of profits increased while compensation of employees declined, with a shift in the trend only in 2003. In contrast, the phases of early industrialisation in East Asia saw rapid improvements in workers' pay in real terms, admittedly off a very low base. (Campos and Root xx)

## Remuneration and profits, 1983 to 2003



*Source:* Calculated from, Reserve Bank, long-term data series on national accounts. Downloaded from [www.reservebank.gov.za](http://www.reservebank.gov.za) in February 2005.

Generally, popular analyses of the Asian economies focus more on low pay in dollar terms than on shared growth. To understand the economic and political dynamic, however, we need to compare living standards, not just wages.

From this standpoint, a critical factor was the ability of the industrialising Asian states to hold down the cost of living for workers. The state generally subsidised skills development, education, housing and transport. Food remained relatively cheap. Moreover, undervaluing the currency reduced pay in foreign terms, but did not raise the cost of living since tariffs and non-tariff obstacles largely blocked imported goods.

In contrast, in South Africa, apartheid settlement patterns and concentrated farming and retail systems tended to increase the cost of basic necessities. Moreover, with high unemployment, workers often had to support many dependents, making it impossible to work for lower pay. From 1994, the rapid increase in tariffs for household services, education and health further increased the cost of living.

Given stagnant living standards, insecure jobs and the history of apartheid, the labour-relations system in South Africa remained largely hostile and hierarchical. Workers' prospects depended largely on their race, gender and formal qualifications. Inequalities in opportunity undermined social mobilisation around economic growth. It largely ruled out

the kinds of collaboration found in earlier stages of industrialisation in East Asia.

### **3 National co-ordinating institutions since 1994**

This section briefly outlines the development of national planning agencies, which are critical for a true developmental state, since 1994. By national planning agencies, were mean centralised technical support agencies for political leadership. We are not including Cabinet itself.

#### **3.1 COSATU's claims**

In 1992, COSATU's Economic Policy Conference argued for:

- the promotion of worker control and involvement in strategic decision making at all levels of the economy;
- the reassertion of the central role of state ownership in providing for basic needs;
- attempts to bring about an element of planning and social regulation in relation to key areas of the economy.

In the available resolutions, there is no mention of a planning agency as such. However, the resolutions repeatedly emphasise the need for, in the words of the Inaugural CC in 1997, “An active, interventionist state .. to achieve our goals of economic development...” COSATU's submission on the Industrial Development Amendment Bill in 2001 argued that, “A basic strategic requirement for progressive industrial policy measures is for the state to play a planning, co-ordinating, and propelling role.”

The Social Equity document submitted to the Presidential Jobs Summit in 1998 argued for “a multi-year planning tool to ensure the effective development of the public service must be recognised and an alternative medium-term budget framework developed which directly incorporates employment creation.”

The RDP also called on the democratic state to play a “leading and enabling role” in reshaping the economy (para 4.2.3) It argued that the inherited state suffered from “Excessive departmentalism leading to uncoordinated, sometimes contradictory, decision-making by various state agencies.” (6.1.1.1) It called for RDP structures in every sphere of government:

- To overcome tendencies to fragmentation of different government departments, which would require real powers of coordination and an appropriate budget (6.3.2), and
- To ensure consultation, especially with representatives of workers and the poor. (6.3.6)

#### **3.2 Planning agencies since 1994**

Planning agencies worldwide are contested. They have to have sufficient status to tell other departments what to do, which often causes bitter resentment.

In 1994, the government inherited a tradition of departmental autonomy that had been tempered only by the state security council. Instead of giving a planning agency the power to control departments, the democratic government established a series of co-ordinating agencies with little power to require action by departments.

The power of the new co-ordinating agencies depended largely on the prestige of individual officials and the backing of the President himself. In these circumstances, the Treasury generally had greater power, through its control of the budget, to influence national priorities and programmes. Still, in the past few years the most recent reincarnation of a central co-ordinating body, the Presidential Co-ordination and Advisory Service (PCAS) has begun to exercise more influence over policy than its predecessors.

### *3.2.1 The RDP Office*

The RDP Office in the Presidency was established in 1994 and closed two years later. It was supposed to monitor government programmes and co-ordinate them around RDP objectives. But it had serious weaknesses.

- Although headed by a full Minister, the top-ranking official in the RDP Office was only a Deputy Director General, under the Director General in the Presidency. In contrast, the heads of departments were full Directors General. Given the hierarchical nature of public-service management, which the new government quickly made its own, this undermined the authority of the office.
- The office had its own budget comprising mostly aid funds, with projects worth on the order of R19 billion when it was closed down, or over 10% of the budget. It was supposed to use these funds to support RDP projects. But it lacked efficient systems for spending the funds, and had to rely on other government agencies to drive projects. This led to substantial delays in expenditure.
- Even more problematic, the RDP funds had a fairly narrow focus on construction projects, while virtually none supported economic reconstruction. When it was closed down, the RDP Office's projects centred on health services; nutrition programmes; community water supply and sanitation; bulk infrastructure; land redistribution; urban renewal; spatial development and the KwaZulu/Natal peace initiative.
- The capacity of the RDP Office remained very limited. The Office had four chief directors, of whom only one had economics training. In contrast, planning agencies in the developmental states of East Asia had hundreds of officials. The lack of personnel in the RDP Office necessarily limited its ability to co-ordinate and drive government programmes. But government at that time argued strongly for a "lean" administration, and would not consider expanding it.

The RDP Office's task of directing departments generated considerable resentment amongst Ministers and departmental officials. At the same time, its lack of capacity meant that its interventions were often neither appropriate nor effective. In these circumstances, it was soon closed down.

Despite the weaknesses of the RDP Office, its closure left a vacuum. The government ended up with virtually no centre for strategic oversight besides Cabinet itself. As a result, central co-ordination increasingly devolved to the National Treasury, which tended toward relatively finance-driven and conservative policies.

This situation facilitated the adoption of GEAR. This central strategy reflected the Treasury's narrow focus on ensuring fiscal stability, at the cost of broader developmental initiatives. Before the RDP Office was closed, it had been working on a broader Growth and Development Strategy, which the GEAR replaced.

### 3.2.2 PCAS

In 1998, the Presidential Review Commission (PRC) pointed to the lack of co-ordination through the Presidency as a major problem for overall governance. It apparently wanted a stronger Cabinet Office like that found in the U.K. Instead, the government established more independent policy capacity in the Presidency. In 1999, it set up the Co-ordination and Implementation Unit (CIU) in the Presidency, which was replaced with PCAS two years later.

The CIU had limited personnel and capacity. It was supposed to ensure greater co-ordination and monitoring, with an emphasis on social protection and crime prevention, rather than giving overall direction to development efforts. In the words of the Treasury's National Expenditure Survey for 1999, "The new Co-ordination and Implementation Unit (CIU) promotes the alignment of key policies, programmes and institutions of delivery. The Unit assists in co-ordinating poverty reduction efforts, public sector investment programmes and integration of justice and crime prevention, among other functions." (p 24)

At the same time, Cabinet set up clusters that were supposed to co-ordinate policy development and implementation within key sectors. The clusters were supported by committees of the relevant directors general. They covered the social sector, economic sector, investment and employment, international relations, the criminal justice and security sector and governance and administration. While Ministers and officials argued they helped considerably in ensuring co-ordination, it remained difficult to point to specific outputs such as interdepartmental programmes.

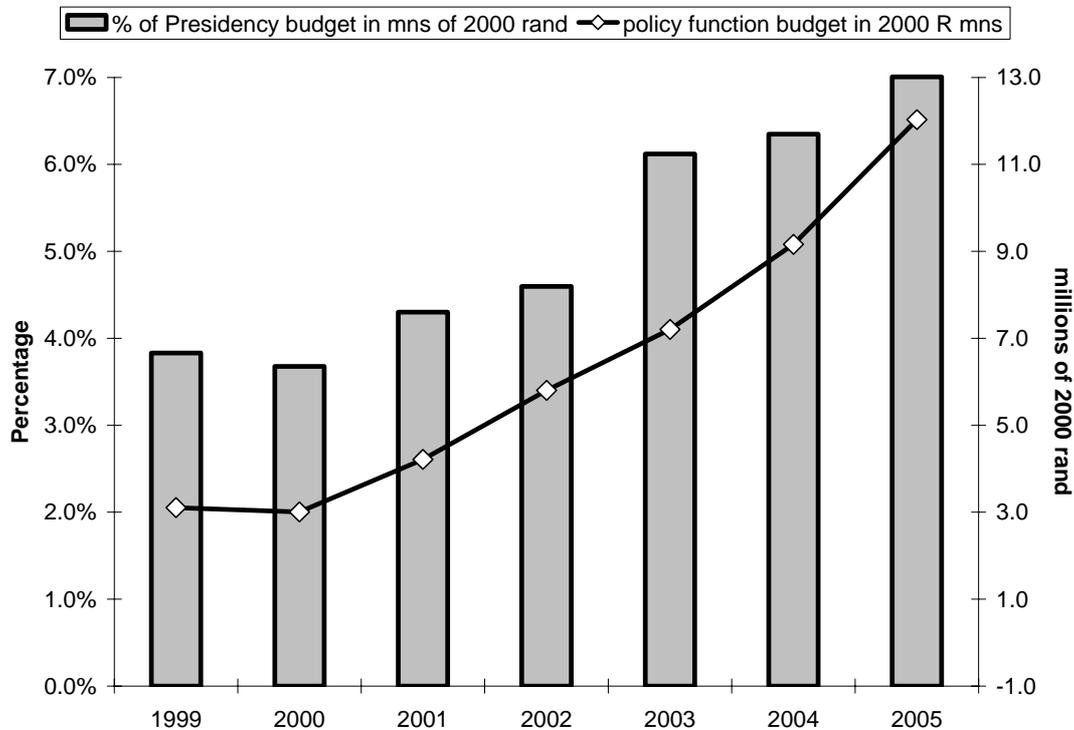
Since the early 2000s, the Presidency has steadily enhanced its policy co-ordination and guidance functions. In 2001, the establishment of PCAS saw a substantial increase in its resources for policy formulation and oversight.

In contrast to the RDP Office and the CIU, the PCAS is headed by a Director General rather than a Deputy Director General. The position was filled by Joel Netshitenze – an individual with considerable influence in the ANC in his own right. Its five chief directors work closely with the Cabinet clusters and their support committees of departmental Directors General.

As the following table shows, the Presidency's budget clearly reflected the expansion in its policy capacity. Between 1998 and 2005, the budget for the Presidency's policy

function climbed from under a million rand to R15 million. In real terms, it rose by 25% a year, while the budget as a whole increased 5% a year.

### Budget for the Presidency’s policy function, 1999 to 2005



*Source:* Calculated from relevant issues of Estimates of National Expenditure; figures for expenditure in 2000 rand deflated using CPI in March.

The growing influence of PCAS also emerged in changes in the description of its outputs. According to the estimates of national expenditure, in 2001 its main “service delivery indicator” was “The degree of policy co-ordination and negotiation between departments.” By 2005, its key output was “Policy integration across government” – a noticeably stronger formulation.

The main documents published by PCAS – *Toward a Ten-Year Review* in 1994 and the subsequent national Programme of Action – reflected its continued uneasy relationship with the departments. On the one hand, the PCAS was able to publish synthesis documents, improving oversight of government programmes and fostering a co-ordinated strategies. On the other hand, the specific proposals in its publications largely arose within departments, and remained poorly aligned and sometimes contradictory.

The Ten Year Review document included both presentations by departments that downplayed shortcomings, and a separate cross-cutting analysis, based on PCAS research, that underscored deep weaknesses in economic outcomes. Its key proposals reflected existing departmental programmes rather than the PCAS analysis.

The Programme of Action demonstrated similar weaknesses. For instance, while it argued unemployment was a core problem, it reflected the commitment of the Department of Trade and Industry to accelerating free trade, including with China – an approach that would lead to substantial job shedding.

The PCAS has had the greatest influence in

- gradually fostering departmental interest in new approaches, rather than dictating an overall strategy, and
- ensuring greater consultation, in line with the conclusions of the Ten Year Review that greater mobilisation of stakeholders was necessary.

Important innovations arising in the PCAS include the renewed emphasis on sector strategies; moves to develop a progressive approach to regulatory impact assessment; efforts to deal with import-parity pricing; and a renewed concern for small enterprise. The latter has been linked to criticism of the labour laws, although the PCAS argues it will base any concrete proposals in this regard to systematic research.

The influence of the PCAS should not, however, be overstated. It cannot infringe too openly on departmental prerogatives. Moreover, the Treasury is currently drafting the new growth strategy, which should be brought into consultation in June.

#### **4 Conclusions**

The concept of the developmental state effectively seeks to explain why the countries of East Asia have industrialised, while the rest of the South has largely remained trapped in poverty and resource dependency. It tends to neglect critical factors beyond the control of the state. Still, it points to areas where South African policies have been weak. Above all, it suggests the importance for economic development of:

1. Providing all government agencies and departments with an unambiguous mandate to prioritise equitable, employment-creating growth, and ensuring much more effective co-ordination of all programmes around these goals.
2. Understanding how the historic dependence on mining shaped economic systems and relationships in ways that block the emergence of other industries.
3. Building export industries based on development of the domestic market and other government support measures, rather than assuming they will emerge spontaneously from reintegration into world markets.
4. Ensuring real increases in living standards for workers in part by reducing the cost of basic necessities, including transport, and in part by holding down the value of the rand.
5. Developing genuinely broad-based BEE and employment equity, so that growth retains popular support by opening opportunities to workers and small enterprise.

This does not, of course, constitute a comprehensive development strategy. It leaves open some crucial questions. At the broadest level, these include:

- Is there a contradiction in the short run between the democratic state's welfare orientation and a rigorous prioritisation of economic development?
- Can COSATU support the kind of "plant-level corporatism" described in large Asian companies?
- What sort of co-ordination or planning would best support development while strengthening participatory democracy?

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