Financialisation in South Africa: capital flows and the role of the State.

(First draft- Please do not quote)

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1- Introduction

The past five years have been marked by the biggest world recession since the Great Depression of the 1930s. The world economy has been going through a long period of economic crisis and financial turmoil. Having begun in 2007 with the rise of subprime defaults in the US, this crisis reached its pinnacle with the bankruptcy of the American investment bank Lehman Brothers in September of 2008, causing an international financial panic and subsequent collapse in international trade. Economic growth plummeted and unemployment rose around the world.

Going back to the 1990s, a stream of research has been produced on the rise of the financial sphere and its implications for job creation, income distribution and increased economic instability. Attention was devoted not only to the inner mechanisms and impacts of finance, but also to its profound implications for the functioning of the economy and related transformations in social life, from labour relations — under the pressure of demands for shareholder value — to the new financially mediated access to essential goods such as housing or retirement pensions (Plihon, 2001). This new financial hegemony has been identified in political economy as “financialisation”.

Given its presentation as a structural transformation of contemporary capitalism itself, research on financialisation in geographical settings that lie outside the international financial centres is of paramount importance to establish its specificities and variations. More generally, the attention devoted by Marxist political economy to the historical and social character of economic processes raises the question of the specificities of financialisation in different national settings. Only through the comparative study of specific national settings, which are prone to have their own “theoretical generative properties” (Peck and Theodore, 2007), can new theoretical contributions be made to research on financialisation. Hence, given South Africa’s particular history and integration into the international economy, does financialisation carry any explanatory power with regard to the country’s path during recent years? The answer to such question carries important public policy implications as, for instance, what should be the role of the State in process of economic development for semi-peripheral countries such as South Africa.

In this paper, I briefly overview the financialisation debates, taking particular attention into what is its content for non-core capitalist countries. Although the content of financialisation largely exceeds liberalisation and the role of international capital flows, these have been pointed as a structural feature of financialisation processes in developing countries. Attention will be thus devoted to how these flows have transformed the South African economic landscape in the second section. In third section, the role and evolution of post-apartheid economic policy will be mapped, pointing to how public policy shaped the South African financialisation process. Finally, in the light of current policy debates in South Africa, I conclude with the discussion on the possibility of a developmental state in South Africa and the limits posed by financialisation.

1- Financialisation everywhere?

The concept of financialisation has proved elusive. Gerald Epstein (2006) argued that it is difficult to have a narrow concept of financialisation, since the term is used in quite diverse ways: the ascendancy of shareholder value in corporate governance; the dominance of capital-based financial markets over bank-based ones; the explosion of financial trading; a new pattern of accumulation where financial profits dominate; the rise of a rentier class, etc. Epstein offered a broad definition, which has since proven recurrent in academic research: "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (2006: 3). In another popular definition, Gretta Krippner described financialisation as a "pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production" (2005: 174).

While these definitions are easy enough to accept, in their breadth they leave the mechanisms behind the emergence of financialisation largely unspecified. They are compatible with various interpretations of the roots and meaning of this new capitalist phase. The operational use of financialisation as a concept seems to be lost at this degree of generality—the rising importance of the financial sector—which even raises the question of whether the use of this concept to describe the dominant configuration of contemporary capitalism is justified. After all, financial hegemony is far from being new in the history of capitalism (Arrighi, 1994).

Contemplating the most recent theoretical contributions, produced in the wake of the current international financial crisis—which, given its scope, necessarily changed the way financialisation is to be understood—recent efforts in Marxist political economy, as presented by Lapavitsas (2009, 2012) and Dos Santos (2009) deserve particular attention. Put briefly, on this account, financialisation is the result of major non-financial corporations' increasing degree of direct access to money and capital markets in their search for funding. It is contended that banks reinvented their operations, directing their operations to financial mediation between corporations and financial markets (a reinforcement of investment banking activities) and redirecting credit to households (where new information technologies would play a crucial role in creating the trust and confidence necessary for the banks' expansion into this new market). These transformations are possible only thanks to the neoliberal processes of liberalisation, deregulation and privatisation that swept capitalist, economies during the last decades.

Nonetheless, given the stress put on the weight of the financial sector, attention in financialisation studies has been devoted mainly to the most developed countries, where the financial sector is more mature. Moreover, despite being affected by the related collapse of international trade, a number of large middle-income economies—such as the so-called BRICS:

Brazil, Russia, India, China and, depending on the account, South Africa—have been acknowledged as having enhanced their resilience to external shocks in recent years (Rodrik, 2011). These countries have even been presented as emerging economic powers, capable of replacing the traditional economic centers as the powerhouses of the world economy and thus not subjected to the volatility and stagnation imposed by financialisation.

But developing countries' integration in world financial markets is far from being a recent phenomenon. The various historical debt cycles through which these countries went through were long ago identified –an initial expansion of foreign credits is followed by payment stress and/or default and ends with debt settlement agreements between debtor countries and their creditors. Such cycles were usually followed by structural adjustment programs imposed by international institutions such as the IMF and World Bank which, with their liberalising agendas, brought developing countries into the ranks of those fully integrated in international capital markets. If not by direct political means, the internationalisation of production and the endemic need of capital forced developing nations to fully participate in the global financial arena. These countries have thus been forced to participate in the global finance arena, adopt floating exchange rates and liberalise capital flows.

While they have benefited from growing inflows of capital, these processes have often taken the form of short-term flows that benefit small parts of their economy and entail collective costs as, for instance, the accumulation of foreign reserves in order to stabilize domestic currencies and ease domestic capital flight. Painceira (2009, 2011) identifies the increasing capital flows from and to these countries as proof of middle-income economies' financialisation. Growing capital flows, coupled with the financial instability of the late nineties (both currency and banking crises affecting regions such as Asia and countries such as Argentina, Russia, Turkey, and Mexico) forced these countries into a peculiar insertion in the global financial markets throughout the last 10 years. They have accumulated large current account surpluses and vast amounts of foreign reserves (where the dollar, as quasi-world money, naturally dominates) in order to prevent any disruptive effects of capital flows volatility. Developing countries have to pay a levy on their participation in international capital markets in the form of low return reserve accumulation (which could be reinvested in their domestic economies).

The hegemonic power traditionally acted as the lender of funds, exporting capital to new profitable accumulation outlets and creating a relationship of dependency between the core and the periphery. Yet, a reversal of such flows is now found. A number of developing nations (such as China, South Africa, Brazil, South Korea, etc.) act as lenders to the hegemonic power, the US. But,as pointed out by Panitch and Gindin (2005), such reversal should not be understood as the declining role of the US in the world economy. Capital inflows are rather a result of its financial strength. The strong liquidity and relative safety of American assets, with treasury bills acting as world monetary reserves (in the absence of gold), strengthen the role of the dollar as quasi-world money.

This structural power coming from the center of the world economy should not, however, be taken as an immediate and simple mechanism. The insertion of middle-income countries into the international economy and financial sphere varies, depending on the domestic interests, state apparatus and historical path of each national setting. The specificity of middle-income countries in the present international financial architecture has been shown, for instance, by the Jaeger and Becker (2011). The authors distinguish two types of financialisation according to different stages of economic development. Financialisation as the expansion of fictitious capital (which, being claims on the surplus of productive activities, are here understood generally as financial securities) is to be prevalent in developed countries. This financialisation configuration is illustrated by the emergence of strong capital and money markets. The financialisation of developed economies is viewed through a general Marxist political approach as a temporary fix for problems of over-accumulation of “productive” capital (implicitly assuming its declining profitability) and not a transformation of the accumulation process, entailing profound transformations of the accumulation of capital in the whole economy. More interestingly, middle-income countries would exhibit their own variety of financialisation, characterized by the expansion of interest-bearing capital and large interest rates spreads. In the absence of mature securities and equity markets, the banks of these countries are thus the pivotal institution around which the whole financial sector flourishes. Financialisation is here introduced by the growing dependence of international capital flows in the interest of extraverted domestic elites. Such dependence would, on the other hand, force overvalued exchange rates and high interest rates in order to attract hard currency funding, seen as essential for participation in the world economy. This would result in the eroding of productive capacity and increasing vulnerability and financial volatility.

This brief literature on the financialisation of developing middle-income countries shows that general assertions on financialisation should be taken with caution since experiences vary widely among different countries. International capital flows remain one of the common features of this process, but they should not lead us to take financialisation of developing nations as a homogeneous course. The research on financial systems, and particularly financialisation, must recognize the international hierarchical underpinnings of this process whereby the same constraints imposed by international constraints are matched by national economic restructurings with interactive transformations among the state, firms, financial institutions and households. The interdependence between the international arena and its global processes of capital accumulation and the individual cases of national/regional trajectories concerning international capital flows should thus be part of the research agenda for financialisation in developing countries.

2- Financialised South Africa? The role of capital flows

2.1 Capital flows in post-apartheid South Africa

International capital flows have been taken as a popular indicator to assess financialisation in middle-income countries. South Africa confirms the general trend of rising international capital flows, identified for other countries (for Brazil and South Korea, see Painceira, 2009), and has gained an international strategic relevance. It accounts for more than 50 % of all capital flows coming to sub-Saharan Africa (World Bank, 2006).

With the end of Apartheid in 1994, the liberalisation of international capital flows was understood as a vital instrument to promote the deepening of financial markets and thus foster foreign direct investment into the South African economy. Indeed, capital inflows skyrocketed with the end of apartheid (Figure 1). According to the South African Reserve Bank financial account statistics, capital movement changes in South African liabilities (inflows) went from 2.14 % in 1994 to 10.29 % of GDP in 1999, benefiting both from the liquidity that characterized international financial markets at the time and the perception of South Africa as an “safe haven” in the awake of the Asian financial crisis (Mohamed, 2006).

However, this capital flood took mainly the form of Portfolio Investment – through the acquisition of equity and domestic bonds – in search of short-term financial gain. The dependency from short term capital inflows resulted in higher volatility in periods of financial stress, notably during the 2001 currency crisis.

Foreign Direct Investment (FDI) remained relatively contained throughout the 1994-2010 period, attaining its record in 2006 (3,4% of GDP). These financial investments did not have the expected consequences that the South African State had laid down (FDI as 4% of GDP) and it was considerably mitigated by South African capital outflows in the same period (Figure 2). Finally, other investment – which accounts mainly for foreign loans – played a considerably minor role during the 1990s.

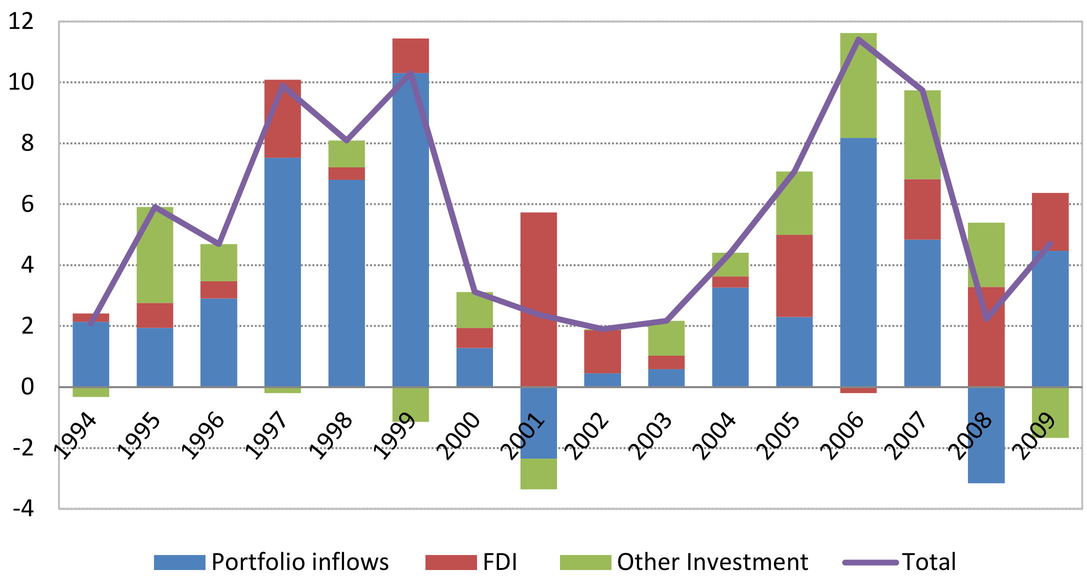

Figure 1. Capital Movements: Change in Liabilities (% of GDP).

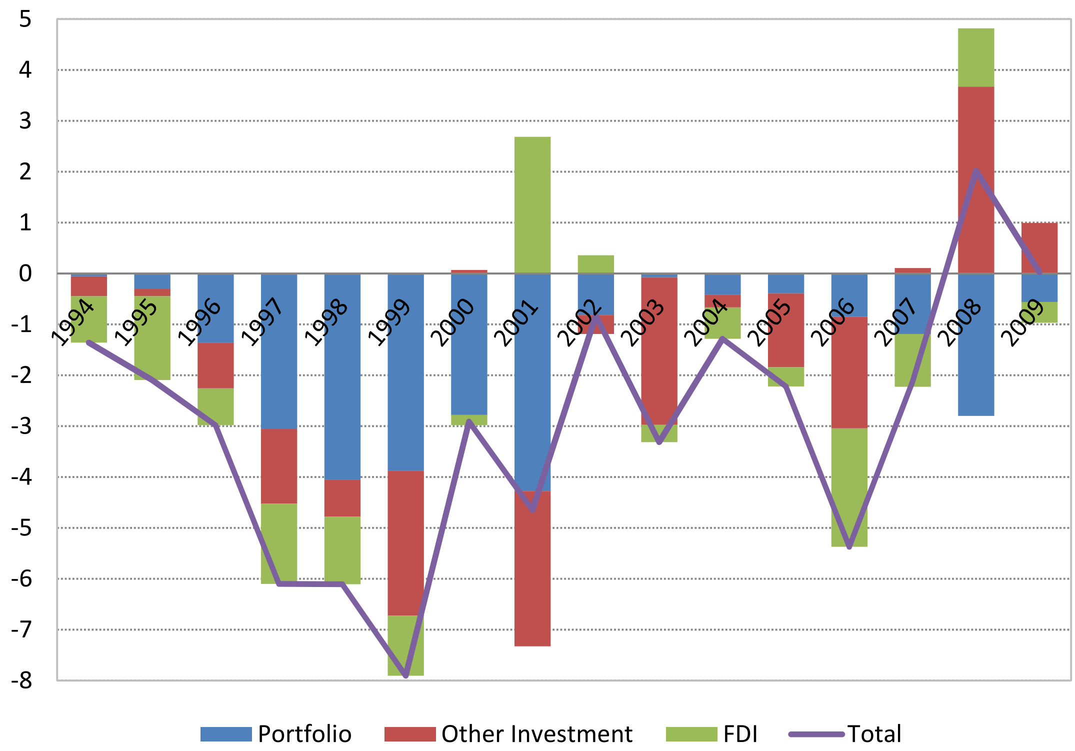

Figure 2. Capital Movements: Change in Assets (% of GDP).

This trend of rising inflows and outflows of capital with paltry net results was reversed during the later years of the 2000s that preceded the international financial crisis (Figure 3). With international abundance of liquidity in financial markets and the good performance of South African exports due to rising commodity prices, the new record heights of capital inflows (11.4 % of GDP in 2006) had a more nuance equivalence in capital outflows. However, the composition of these inflows changed little, continuing to be largely short-term flows that tried to profit from the booming stock market, currency stability and relatively high interest rates when compared to the rest of the world.

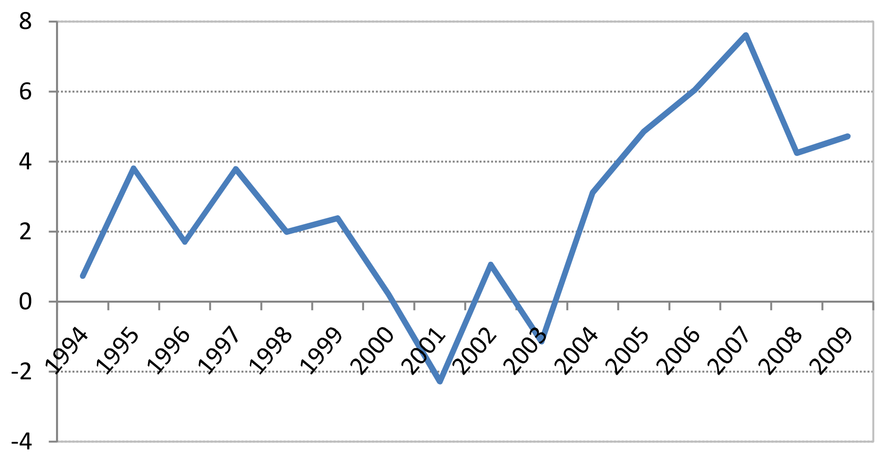

Figure 3. Net capital flows (% GDP).

2.2 Capital flows absorption and the reorganization of the South African Economy

Financial sector

It was within the domestic financial sector that this surge of net inflows represented its biggest success. Whilst the liberalisation and deregulation movement started in the 1980s, it was the rising capital inflows of the 1990sthat provided the momentum for converting the financial system into the most dynamic sector of the South African economy, with strong capital markets, large internationalised banks and big insurance companies (Hawkings, 2004). Its weight in the economy has evolved along the same lines as in the countries at the forefront of the financialisation process – 21.4 % of GDP in 2009, from 15.3 % in 1994 is today accounted for the financial services sector in South Africa. The Johannesburg stock market exchange - capitalisation of over 200% of GDP in 2010) - has been buoyant with its main index (JSE all share index) going from around 2000 points in 2000 to 25 000 in 2010, with a small decline in 2007 and 2008 (FSR, 2005 and 2010). Resources sectors are the bulk of market. In the end of 2010, eight of the top 20 listed companies by market capitalization were mining companies, with the financial sector (insurance and banking) coming in second with five companies (JSE review series, 2010), showing their increasing relevance in comparison with the historical mining giants.

Within the financial sector, it is the banking business that has most profited from the capital account liberalization. These flows have taken mainly the form of rising international short-term loans during the 2004-2007 period, due to financial stability and relative high interest rates that allowed South Africa to be one of the most popular recipient of the international exchange carry trade – where international financial agents fund themselves in “low interest currencies” such as the yen and lend to countries with high real interest rates such as South Africa (Gallati et al, 2004). Moreover, the South African banking sector has benefited from fresh inflows of equity capital – accounted as FDI– into two of South Africa’s biggest banks (ABSA in 2005 and Standard Bank in 2007). Such scale of direct inflows explain the intense growing of this sector in the past fifteen years, with total assets increasing from around 60% of GDP in 1994 to over 120 % of GDP in 2008. Such expansion of bank’s balance sheets allowed an extraordinary growth of lending operations to households, particularly in the mortgage market, leading to rising levels of household indebtedness (Figure 4), thus following a similar path to the one observed in the most financialised countries, such as the UK and the US (Lapavitsas, 2009).

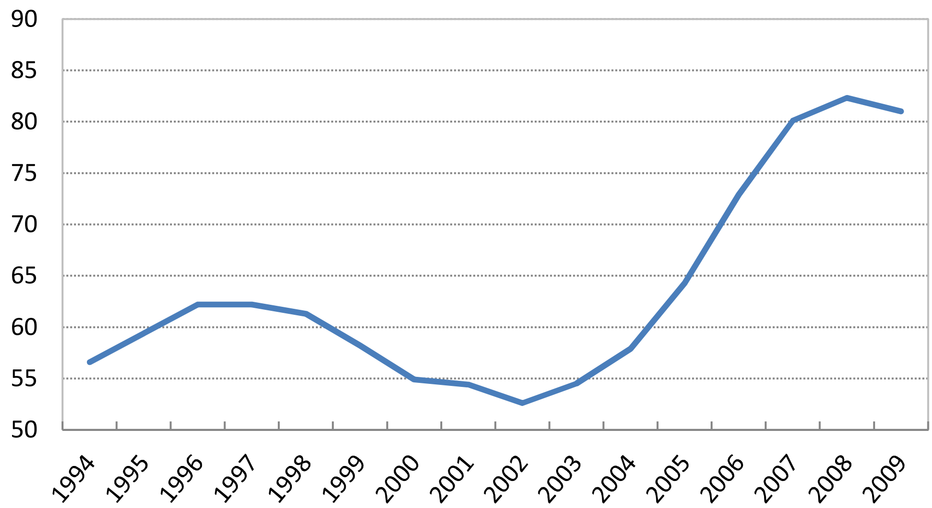

Figure 4 Ratio of household debt to disposable income (%).

Corporate sector

The absorption of financial inflows also benefitted and transformed the private non-banking sector. Taking advantage of the restructuring of the South African conglomerates during the nineties, large amounts of portfolio investment and FDI began to pour into South Africa. Financial liberalisation and opening to capital account enabled South African industrial conglomerates to create separate "financial holdings" in order to unbundle their operations, focusing on their core activities and selling other assets (Chabane et al, 2006). A process followed by the foreign listing of major companies and a boom of mergers and acquisitions. Foreign capital inflows, either strategic or not, were thus instrumental in this reorganization of South African capitalism, allowing an abundance of capital that enabled the refocus of conglomerates on their core areas of the mineral-energy complex which still dominates the South African economy and the integration of a new small black elite (leveraged by the new booming financial markets). These corporations transformed themselves into transnational corporations with direct access to the core international capital and consumer markets.

Finally, the limited effect of foreign capital flows on South African growth can't be dissociated from the endemic problem of both legal and illegal capital flight. Such phenomenon has been growing since the end of apartheid. Recent calculations by Newman (2010) put unrecorded capital flows, mainly through illegal mis-invoicing in the ores and metal sectors, at a record high of 20 % of GDP for 2007, with an average of 12 % of GDP between 2001 and 2007, which compares to an annual average of 5.4 % for the period between 1980-1993. This has clear negative effects on the whole of the economy through its direct impact on the balance of payments and the availability of capital for domestic investment. It crystallizes the uneven and combined development of the country.

Financialisation should be thus understood as being anchored in processes of international integration – where capital flows are pivotal - and domestic reorganization of production and redistribution of income, favouring the financial sector and the outward fractions of domestic capital.

3. South African state: from the promises of development to neoliberalism

3.1 The state as a pivotal institution in financialisation

The role of the state in the emergence of financialisation has been a common theme in the literature. Two different axes of state intervention are identified. The first, and most commonly pointed out, is the liberalisation and deregulation of the financial sector across the world, having the Ronald Reagan presidency in the US and Margaret Thatcher's government in the UK as the pioneer icons of the neoliberal movement (Helleiner, 1994). This movement, led by the two most important financial world powerhouses, put pressure on other developed countries, now incurring in the risk of (illegal or legal) capital flight to these booming financial centers, to follow the same path.

Albeit the popularity of the notion of state "retreat" from the economy, a second axis of state intervention consisted in structuring the emergent financial markets in the form of income redistribution– embodied, for example, in the Volcker shock in 1981 when the interest rates of federal funds grew from 11% to 19% in a year causing recession, unemployment and a fall of real wages (Henwood, 2003) – and in the creation of a public bond market where the state could sell their Treasury bonds, in what Chesnais (1997) calls the backbone of financial markets since such securities guarantee both positive real interest rates and strong liquidit. Finally the privatization of major public utilities companies during the last decades has led to the establishment of robust stock markets, essential for financial investment.

The neoliberal state and its role in the emergence of financialisation should not therefore be understood as the mere retreat that enables markets to bloom in an unfettered environment but as a reconfiguration of its functions in the economy. Following Karl Polanyi's contributions (2001:1947), the state is to be understood as of paramount importance on the planning of laissez faire capitalism. It embodies a successful ideological cluster that aims to reconfigure its action on social forces power that allow for the minimum social acceptance of policies aimed to subject governments to the creation and structuring of markets in new spheres of social relations.

This neoliberal intellectual hegemony and the constraints created with the arousal of international financial markets (in order to benefit from international capital flows, states had to comply with a number of restrictive policy options) were at the heart of the financialisation process in developing countries. Encapsulated in the "Washington consensus" policy framework promoted by the international financial institutions such as the International Monetary Fund and the World Bank), the liberalisation of capital accounts, domestic financial deregulation and privatization were central in their reforming agendas.

3.2 Post-apartheid South African state

The practice of the African National Congress (ANC) in the post-apartheid government is paradigmatic of the relevance of the ideological cluster that became the conventional hegemony worldwide. South Africa did not undergo the funding conditionality of structural adjustment programs but, instead, adhered voluntarily to this conventional wisdom.

The evolution of economic policy of post-apartheid South Africa has been determined by the ANC who has ruled the country since the first democratic elections. Its economic policy changed from the period it was still an illegal organization. The ANC's foundational Freedom Charter of 1955 stressed economic equality through nationalization as the ANC program: "The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole". A stance continued even in the final stages of apartheid. Driven by the strong popular mobilization of the 1980s, Nelson Mandela stated in 1990 that: "The nationalization of mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is inconceivable." (Marais, 2011, pp.)

During the early nineties, the ANC grasped for a coherent economic program to present, with its intellectual efforts to be embodied with its Department of Economic Policy Discussion document of 1990, followed by the creation of The Macroeconomic Research Group (MERG). This document and the latter group work stressed the need of an active state intervention in the economy through the restructuring of the financial sector, the dismantling of the major South African capital conglomerates and redistribution of income in order to boost domestic demand, diversify the economy and promote social progress.

Such stance was thus reminiscent of the later notion of a developmental state established theoretically by Peter Evans in his "Embedded Autonomy: States and Industrial Transformation" (1995), which aimed to answer the hegemonic neoliberal notion of state put forward notoriously by Deepak Lal's critique of state intervention in developing countries based on distorting effects in the economy. Put briefly, drawing mainly from the Asian experiences of economic development, Evans presents a typology of three different forms the State can take – Predatory, Intermediate and Developmental, with the later to embody the concept of embedded autonomy. In this case, the state is the result of different interests and networks of the civil society (embedded) and it remains autonomous from the capture of particular sectors in order to pursue long term economic development. With the rise of the ANC to power, supported by a vibrant and militant civil society, the autonomous rise of the democratic South African State focused on economic progress and income redistribution seemed a reasonable prospect.

However, democratic South Africa had inherited and uneven economy, centered around the mining and energy sectors in what Fine and Rumstjee (1996) defined as Mineral-Energy Complex (MEC), being made of:

"mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to constitute the core site of accumulation in the South African economy. (…) contrary to the popular view that there has been a declining role for mining, the economy's dependence on this MEC core has in fact increased." (1996: 71)

In close collusion with the apartheid political power which provided cheap inputs through its major public corporations – for example, ISCOR in steel and ISCOM in electricity – the MEC was organized around industrial conglomerates whose activities, forced by the economic isolation of the seventies and eighties, reached most of the industrial and service sectors of the South African economy.

These capital conglomerates managed to remain influential in the designing of economic policy of democratic South Africa. The initial developmental efforts coming from the ANC were met with plethora of policy documents coming either from the private sector – Old Mutual's Prospect for a Successful Transition or the Sanlam's Platform for Investment – or from official international bodies as the World Bank or the IMF, aligned with the neoliberal Washington Consensus that focused on restrictive fiscal and monetary policies coupled with the liberalisation of the economy, particularly in the financial sphere (Bond, 2006).

This economic and intellectual hegemony tied with calls for negotiation and consensus for the post-apartheid era resulted in the short life of ANC's Reconstruction and Development Program (RDP), being quickly replaced by the market-oriented Growth, Employment and Redistribution (GEAR) plan in 1996. The new plan embraced inflation targetting, guaranteeing positive real interest rates, budget deficit discipline (to 3% of GDP by 2000) and capital controls liberalization. The rationale of the adoption of fiscal and monetary restrictive policies was found in the need to attract foreign direct investment to the country in order to boost the stagnant levels of savings and investment that had characterized the South African economy since the 1970s. In an environment of controlled inflation, the liberalisation of trade and capital accounts would enable foreign capital inflows:

"To contain inflationary pressures requires concerted implementation of complementary stabilisation measures: accelerated tariff liberalisation, sharper deficit reduction, tight monetary policy, and above all, productivity linked wage increases. (…)As a result of the reduction in government consumption expenditure relative to GDP, and the reversal of government dissaving, gross domestic saving is expected to rise from 18 % to 22 % of GDP. (…) Gross domestic investment is expected to increase from 20 % to nearly 26 % of GDP in the year 2000. This requires capital inflows equivalent to almost 4 % of GDP. The integrity of this growth strategy is therefore dependent on maintaining a favourable investment climate, in order to attract foreign investment." (GEAR, South African Treasury)

This market-oriented approach, where integration in the international economy was pivotal, was to be the cornerstone of public policy in South Africa throughout the whole post-apartheid era. The budget deficit was in fact reduced sharply in the 1990 from 4.9 % in 1996 to 1.9 % in 2000, with public debt to reach 44.4 % for the same year (Table 1).

Table 1. Public finances

	1995	1996	1997	1998	1999	2000	2001	2002
National Debt (GDP %)	50.4	49.1	48.9	48.7	48.1	44.4	45.3	38.8
Budget Deficit (GDP %)	-4.9	-4.9	-4.6	-3.3	-2.1	-1.9	-0.7	-0.7

	2003	2004	2005	2006	2007	2008	2009	2010

National Debt (GDP %)	39.3	36.7	34.7	32.5	26.9	23.9	26.8	33.5
Budget Deficit (GDP %)	-2.5	-2	-0.5	0.3	0.7	-0.4	-5	-4.8

3.3 Macroeconomic outcomes

However, as pointed by Weeks (1999), the years that followed had dismal results. Marked by extremely high interest rates (Figure 5) which prevented investment growth, strict fiscal policies that limited public intervention, and the continuing outflow of domestic capital meant economic stagnation for South Africa during the 1990s. Moreover, the Asian financial crisis at the end of the 1990s impacted the South African economy dearly with GDP growth to slow down to negative per capita rates (Figure 6). This period was marked by a domestic currency crisis when, following the turmoil of emerging financial markets, particularly in Asia. A sudden halt of short term capital movements led to speculation over the imminent devaluing of the rand, despite previous accumulation of foreign reserves. Such speculation eventually forced a 35 % depreciation of the rand (Mohamed, 2006).The rand depreciation that followed was met by the SARB with a raise of interest rates – to a record high of 13 % of real interest rates - in order to prevent further depreciation and inflation, causing the 1998 recession. The following currency crisis in 2001, again caused by the international turmoil of the time, had a more relaxed reaction from the monetary authority (Bhundia and Ricci, 2005), enabling the economy to adapt in a milder way.

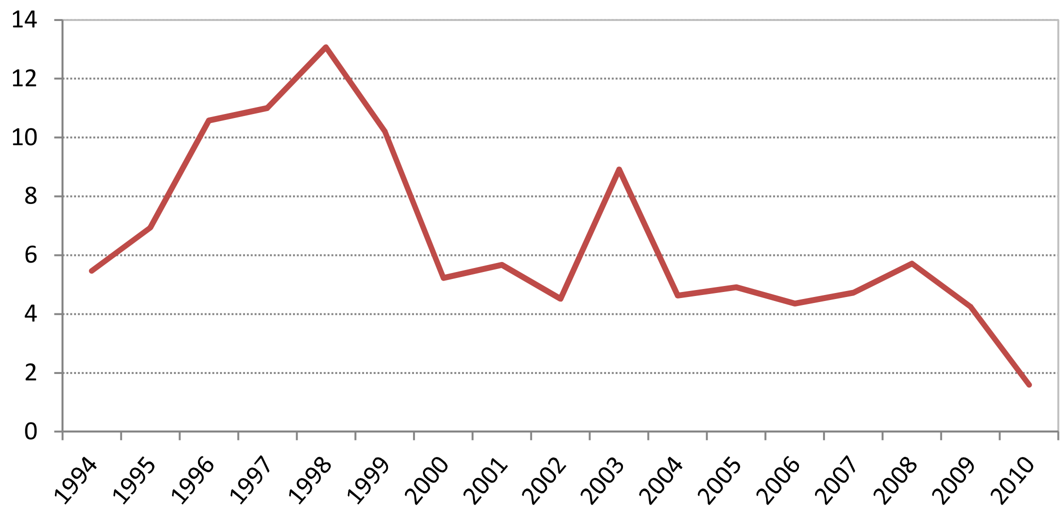

Figure 5 Real interest rate (%).

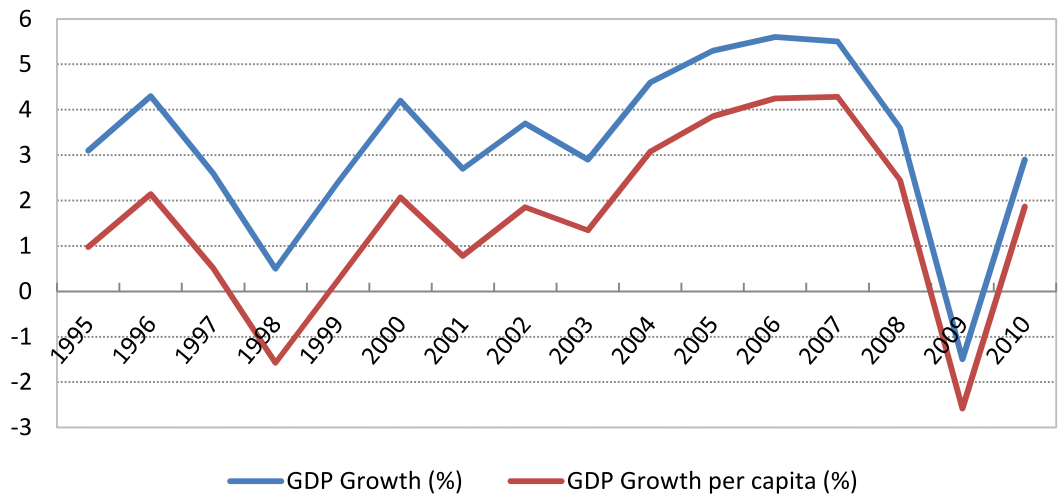

Figure 6. Economic Growth

Growth finally picked up in the middle of the 2000s with growth rates to reach between 4.6 % in 2004 and 5.5 % in 2007. This surge can be attributed to a conjugation of different factors. Being still an economy dependent on their mineral and energy sectors exports, South Africa benefited from the rise of commodities prices in the international markets. This was particularly the case for three of the major South African exports: gold (despite declining output), platinum and copper (SARB, 2008). Exports share in GDP was to surge from 26.4 to 35.6 % between 2004 and 2008, thus becoming one of main drivers of growth during the period. However, helped by the valuation of the South African rand between 2003-2005, imports grew at a faster pace than exports for the same period – 26.7 % to 38 % of GDP. These rising imports resulted from a combination of sustained consumer spending – fuelled by household credit extension in the 2000s and higher oil prices (SARB, 2007). The current account outcome was thus one of fast deterioration from the small deficits of the nineties (between 1% and 2% of GDP) and even surpluses in the beginning of 2000s, to large current account deficits of around 7% of GDP in 2007 and 2008.

The acceleration of growth seen in the 2000s was thus not totally dependent on export performance. This period saw a parallel growth of investment in the economy, growing from the low levels of 14% of GDP in the beginning of the 2000s to 21.4% in 2008. Nonetheless, this investment reflected the growing financialisation of the country. Investment growth was concentrated in the Finance, Insurance, and Real estate (FIRE) (Figure 7).

The greater influx of net capital flows during the 2000s enabled thus the growth of South Africa's financial sector and the credit extension to households, fuelling the housing market and consumer related sectors. It closely replicated the financialised pattern of countries such as the UK and the US where rising household defaults and falling housing prices produced the worst economic crisis since the Great Depression.

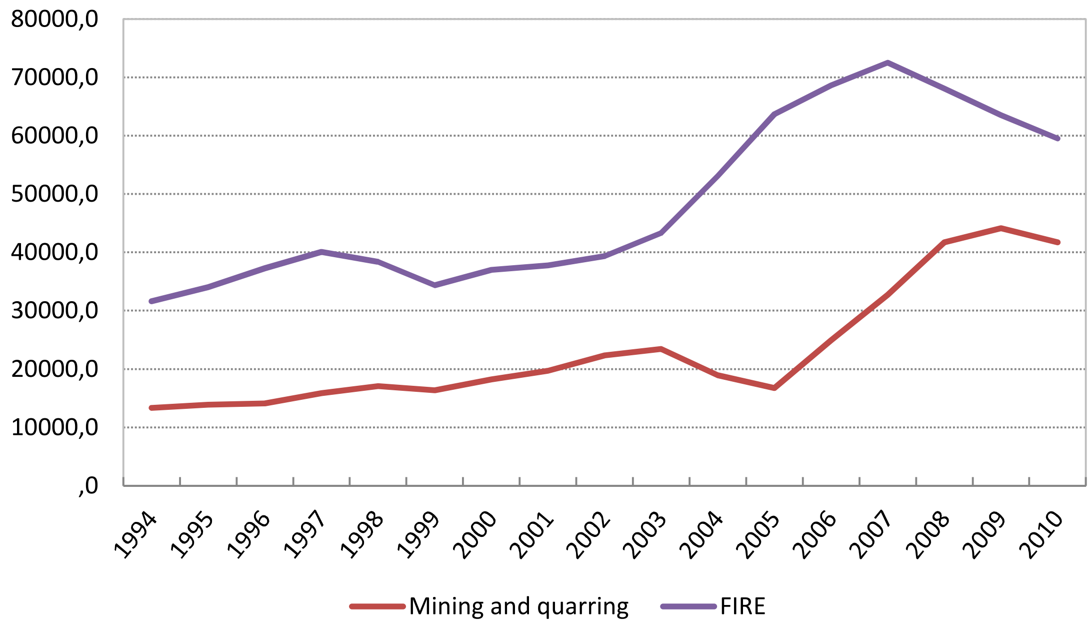

Figure 7 Investment – selected sectors (Mn rand).

In lieu of conclusion - Return to the developmental state?

Fostered by the dismal economic and social results until the mid-2000s and the more recent impact of the international crisis, a turn in the political discourse of the ANC from 2005 (Edigheji, 2010) seems to have arisen, promoting a new approach for the engagement of the State in the economy. With the Accelerated and Shared Growth South Africa (2006) strategy, the South African state embraced infra-structure and energy (capital intensive) investments, mainly through the "parastatals" ESKOM (energy) and Transnet (transport) (Marais, 2011). The positioning of the State, reinforced by the financial crisis of 2008 that highlighted the role of public policy in stabilizing the economy, has been incorporated in the (recovered) notion of a South African developmental state. This became one of the Strategic Priorities put forward by the South African Presidency in its Medium Term Strategic Framework:

"There is an appreciation on a global scale that the markets on their own are incapable of rectifying problems that their own rapacious license has generated in the first instance. The state has a critical role to play in rectifying these weaknesses, particularly in the financial sector, thereby ameliorating the effects of the crisis on the real economy and the conditions of life of especially the poor. (…) At the core of this should be efforts to build a developmental state with the strategic, political, administrative and technical capacity to give leadership to this process, and an active civil society."(Presidency, 2009).

Fostered by these political intentions, the academic debate around the possibility of a South African developmental state has since known a revival from the debates around economic development of the first half of the 1990s. However, converging with the perspective that given the current international economic architecture the developmental space is shrinking

(Wade, 2003), most accounts on South Africa remain skeptical. Southall (2006) points to the perils of replicating the Asian experiences in South Africa, given its current international insertion (highly dependent of resources exports) and an internal political economy that accommodates a “black controlled state, still mainly white owned industry, a black working class, an impoverished black informal sector and property less black rural population heavily dependent upon transfers from urban areas for their subsistence” (2010: xli), which hamper the needed embedded autonomy and capacity of the state to pursue long term inclusive development. This is a perspective shared by Terreblanche (2008) who additionally points, on the one hand, to the demobilization of social movements and the capture of black elites by the South African establishment - notoriously through the Black Economic Empowerment strategy -, and on the other hand, to the lack of state capacity and powerful economic interests - embodied domestically in local corporations and internationally through the hegemonic Washington consensus institutions (IMF, Word Bank) –, which create a power constellation where “Pretoria” is the weakest link.

Fine (2010) notes that such interventionist new stance seems to be a belated recognition of the MERG programme of the beginning of the 1990s, but such intentions are met with suspicion: “If South Africa has ever been a developmental state, it might be considered to have been more so in the past than now or in the most immediate future.” (2010: 174). For Fine, with South Africa being characterized by the historical influence of its Mineral-Energy Complex to the present day, where State and big conglomerates converged, puts the needed autonomy of the state into question. With post-apartheid liberalisation, internacionalisation and financialisation of the economy, the state remained incapable of coercing and directing domestic industrial investment and diversification at the expense of the new interest of conglomerates to export their resources. Indeed, the new political rhetoric, focused on infra-structure and energy investment, would be mainly to answer the MEC needs. The South African state would be thus unable to have the necessary autonomy from the core sector interests of its economy (Marais, 2011).

It is surprising, however, how the new role of the rising financial sector is commonly neglected in this developmental state debate both in the official statements and political economy accounts. Approaching finance should be here of paramount importance, given how public policy has been constrained and directed by the importance of capital inflows and outflows. Besides the internal constraints posed by the South African economy and society to any developmentalist strategy, particular attention should be devoted to the South African financial architecture and the domestic interests it represents.

As this paper has shown, liberalized capital accounts were of paramount importance in the reorganization of the South African economy which favour the traditional “conglomerate” interests, now reinvented as financial firms. The reversal of financial liberalisation should be thus pointed as the biggest challenge faced by South Africa in any developmentalist strategy. Only with strict capital controls that prevent capital flight (keeping domestic resources available) and allow for an autonomous monetary policy aimed at lower real interest rates, can the South African state promote a strategy of industrial investment and diversification. Such policy measures, coupled with strict financial regulation, would affect the center of power of the large South African conglomerates today organized around capital and credit markets.

Albeit not sufficient, the reorganisation of the financial sphere with its decoupling of international markets is conditional for a strategy that meets the needs of an economy plagued by informality and high levels of unemployment (around 25% throughout the democratic period).

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