The Business Government Relationship: What Has Gone Wrong?

A dysfunctional relationship between business and government – both very far from being unified entities with coherent world views and policies – is one of the reasons why South Africa's economy continues to perform sub-optimally. South Africa's history, most notably apartheid and race, have ensured that the kind of cultural homogeneity and shared world views and goals, which have underpinned other successful societies, have never characterised the government/business relationship in South Africa. Clearly relationships have ebbed and flowed over time for a variety of reasons and I propose to analyse and trace the relationship over the past 30 years and to highlight the themes still relevant today.

Michael Spicer has a long and distinguished career in both business and business organisations, including being the former CEO of Business Leadership South Africa. He holds an MA degree in History from Rhodes University. Before entering business, he was attached to the Royal Institute of International Affairs (Chatham House), and the South African Institute of International Relations (Jan Smuts House).

I have divided the analysis into five eras that correspond with major ebbs and flows in the relationship:

1 The apartheid era and specifically the late 1980s
2 The 1990 – 1994 transitional era
3 The first decade of democracy: the Mandela and first Mbeki presidency
4 The second Mbeki term, 2004 – 2009
5 The Zuma era
6 The commodities bust, declining growth and the 9/12 crisis

1 The apartheid era

For most of the apartheid era the National Party government was dominated by farmers, lawyers, doctors, teachers and dominees. Apartheid as an ideology – essentially feudal but with national socialist overtones – was suspicious of and hostile to business, particularly English speaking capital (Hoggenheimer, Britain and the Empire), but also including Afrikaans capital. National Party cabinets contained no business people until the 1980s and even then, they remained a tiny minority. Emblematic of the frigid relationship between business and government then, was the fact that the most powerful man in business in South Africa, Harry Oppenheimer, did not meet the prime ministers and state president of the country from 1955, when he left parliament, until 1981.

As apartheid became increasingly dysfunctional for a modernising and industrialising country, and sanctions and isolation increasingly cut off the South African economy from international trade, investment and financial flows, business criticism of National Party policies became stronger and more coherent.

Then, the structure of business facilitated coherence – the economy was dominated by a handful of conglomerates with clear leadership amongst both the English and Afrikaans community – Harry Oppenheimer and Anglo American, and Anton Rupert and Rembrandt, respectively.

The release of Nelson Mandela and the unbanning of the ANC ushered in a period of much closer interaction between the business community, the National Party government and the returning exile movements.

Nevertheless, beyond reformist moves such as the launching of the Urban Foundation, there were differences of approach which manifested in such cases as Gavin Relly's seminal visit to Lusaka in September 1985, the establishment of the tricameral parliament, the activities of the Consultative Business Movement (CBM) and the political changes required to reintegrate into the global economy. Most business people shared the National Party government's concerns about the ANC's ties with Moscow, Marxist ideology and commitment to violence, but the more conservative were unwilling to engage with the UDF and the ANC.

2 The Transition years

The release of Nelson Mandela and the unbanning of the ANC ushered in a period of much closer interaction between the business community, the National Party government and the returning exile movements. Just as the fall of the Berlin Wall and disintegration of the Soviet Union played a key role in the National Party leadership's preparedness to change, so too did those developments help grow the confidence of the business community that any new government in South Africa would be less likely to pursue policies that had been so comprehensively discredited elsewhere. The prospect of releasing business from the constraining manacles of sanctions and an isolated hothouse economy was also a strong galvanising factor for business proactivity.

Consider the case of the ANC's commitment to the policy of nationalisation. The Freedom Charter of 1955, a document capable of wide interpretation, formally committed the party to nationalising the 'commanding heights' including centrally the mines. This was the posture defended by Mandela when he addressed the first joint ANC/business conference on economic policy convened by the CBM in May 1990. Yet following numerous discussions culminating in meetings he had with Chinese and Vietnamese political leaders and leading international businessmen at the World Economic Forum in Davos in 1992, Mandela persuaded the ANC to drop the policy of nationalisation. However, a significant part of the Tripartite Alliance remained committed to a fundamentalist adherence to the Freedom Charter position on nationalisation, and the issue returned at various points over the next 20-odd years.

In any event, the leadership of the small major conglomerates had concluded that a proactive role for business was required to ensure that the transition produced a stable democracy that enabled the pursuit of long-term investment and growth.

The currency of trust gained in the late 1980s via the CBM led to it being appointed as the secretariat of the constitutional negotiating forum CODESA. Business's role was even broader, for example, leading together with civil society the rescue process of the National Peace Accord when the constitutional talks got into serious difficulty. This was followed by business facilitation of Inkatha's late, but critical, re-entry into the election process. Business was also heavily involved in creating and supporting institutions to support voter education and the actual conduct of the 1994 election itself.

Business too engaged intensively with all the parties in a myriad of consultations, conferences and seminars on prospective economic policy and, indeed, a wide range of other policy matters. A number of scenario planning exercises were carried out building on the Anglo American scenarios of the mid/late 1980s which had helped shape thinking of some elites (including senior National Party leaders) about the need for a negotiated future and an economy that was geared to the changing world environment.

The major point to make about this transitional period was that leading businesses invested heavily in influencing the transition because they believed it was necessary for their short, medium and long term interests. Organised business was populated by senior representatives of the leading companies who employed a significant range of specialists in the fields of public affairs, labour relations, economics and social investment. The relative coherence of corporate South Africa was therefore mirrored in organised business institutions.

The political imperative to create opportunities for black South Africans to enter the economic mainstream underscored these pressures, and a process of unbundling of non-core assets of the main groups and a more general restructuring began.

3 The first decade of democracy

Any honeymoon in relationships between business and the new ANC government was relatively short-lived. Though President Mandela regularly convened the so-called Brenthurst Group of the dozen or so most senior business people and this kept the lines open with senior business leaders, economic policy within the Tripartite Alliance remained heavily contested and unclear. The Reconstruction and Development Programme (RDP), launched soon after the 1994 election, was perceived by business as an idealistic and impractical approach to development when the economy was weak and suffering significant post-apartheid fiscal and structural headaches. Also Deputy President Mbeki, who was delegated the practical running of the economy by Mandela, quickly distanced himself from the existing, relatively close, relationship with business.

At the same time, the focus of leading businesses on societal issues changed as the country reintegrated into the global economy. Firstly, this reintegration immediately put pressure on the corporate sector to restructure away from a conglomerate approach, which had been functional during apartheid isolation, into a more focused structure that would be competitive in global markets and attractive to global investment. The political imperative to create opportunities for black South Africans to enter the economic mainstream underscored these pressures, and a process of unbundling of non-core assets of the main groups and a more general restructuring began. As companies streamlined and pursued the pent-up demand of several decades to trade and invest internationally, their focus on the intensive involvement in broad South African society began to diminish. Indeed, many took the attitude that South African had a legitimate government and, even if they did not like many of its policies, it was no longer desirable, appropriate or convenient with so much going on elsewhere for them to intervene in the same way as in the 1980s and early 1990s.

The shift was gradual but by no means slowed down by the constant rebuffs by government of initiatives that the business community did take. Concerned by the vacuum of economic policy in 1995 and 1996 and a debilitated economy and weakening currency, the South African Foundation produced a document entitled 'Growth for All' that advocated market friendly but inclusive policies. The document elicited a furious response from many in government, partly because it was perceived as untransformed business lecturing a legitimate democratic government, but partly also because it underscored the tensions and differences within the Tripartite Alliance.

The concept of the BT in brief was to recognise that the implementation of GEAR would temporarily delay the addressing of many of society's developmental needs and postpone pent-up expectations while the economy was stabilised.

A core of officials under President Mbeki had already concluded that much of the thrust of Growth For All was required to stabilise and restructure the economy if an IMF/World Bank restructuring intervention was to be avoided. The Growth, Employment and Redistribution policy (GEAR) unveiled a couple of months later was essentially a self-imposed restructural programme. The plan was imposed over strong resistance from the Tripartite Alliance partners and no doubt its similarity to Growth for All did not make things easier for the Mbeki administration.

Though Deputy President Mbeki and his close ANC supporters had adopted a market friendly approach and believed that globalisation was a reality that required engagement rather than rejection, they still strongly distrusted the overwhelmingly white business community. This was reflected, inter alia, in Mbeki for several years resisting pressure from business to create his own version of the now moribund Brenthurst Group in order to carry forward a structured dialogue with business.

Frustrated by what they perceived a growing gulf between business and government, a number of business leaders, harking back to the days of the intensive discussions of the CBM with politicians and civil society in the late 1980s and early 1990s, began a consultative process with the office of Deputy President Mbeki and others. This was to result in 1998/9 in the establishment of the Business Trust (BT). The concept of the BT in brief was to recognise that the implementation of GEAR would temporarily delay the addressing of many of society's developmental needs and postpone pent-up expectations while the economy was stabilised. Business, therefore, had an interest in going well beyond existing CSI programmes to co-invest with government on a few selected issues, principally employment creation and education. It was the clear intention of the business architects of the Business Trust that the joint programme would build trust with the government and lead to a resumption of institutional dialogue.

Of course the BT also provided an alternative to proposals for reparations emanating from the Truth and Reconciliation Commission (TRC) which business disliked, not least because they would be interpreted as an admission of culpability for apartheid, a charge repeated by many critics within the Alliance and civil society.

The resumption of institutional dialogue did in fact materialise in 1999 with the establishment of the Big Business Working Group (BBWG) which broadened the base of the Brenthurst Group . However, quite quickly, the newly elected President Mbeki faced pressure from other interest groups and he decided to create a number of other Working Groups. Whilst this provided the requisite political cover, its elaborate nature and the time and resource demands imposed soon drove the direction of meetings to one of form over substance, a ritualised minuet where open and honest dialogue seldom took place.

Unpacking the unsatisfactory nature of the BBWG reveals a number of factors. Although some government ministers, particularly Finance Minister Trevor Manuel challenged business to be more honest and open, on the occasions when business essayed a more frank approach it was brutally rebuffed. President Mbeki's temperament and authoritarian style did not easily brook criticism and neither did many of his colleagues.

If there had been more cultural homogeneity and social capital between the interlocutors, the prickliness of politicians might have been alleviated though clearly an authoritarian style did not make for much listening. But a lack of these factors meant that both sides were predisposed to misunderstand each other. Given that meetings typically involved some 40 to 50 people (and well over 100 when all the Working Groups met jointly), government resorted to 'party postures' which did not allow easily for frank personal views. Some subjects such as HIV/Aids and Zimbabwe, notorious blind spots of President Mbeki, were simply off the agenda. Attempts to discuss them were not tolerated.

Business was extremely resistant to the idea of transferring or giving away assets and believed that BEE deals should be structured on essentially commercial terms, though inevitably there would need to be 'facilitation', a combinations of discounts, loans, vendor financing and other support mechanisms.

And from business's side, most white executives felt on the defensive as they were increasingly criticised and demonised by black counterparts in the Black Business Working Group for 'failing to transform', a perception often shared by government. (President Mbeki however used to complain in private that the Black Business Working Group was a one-note orchestra that was unwilling to move beyond its obsession with transformation to contribute to other pressing issues. Nevertheless, ever the politician, he found it convenient to play divide and rule.) Many established business leaders, and not only white ones, either resorted to saying not what they thought but what they thought their political interlocutors wanted to hear. Finally, captains of industry are notoriously egocentric, unwilling to accept a 'party whip' and were liable therefore to depart from a structured agenda to personal riffs on peripheral issues.

At the heart of the failure of the working group system to produce substantially better working relations was the fact that there were fundamental differences on key issues. Principle among these was the question of how the majority of the population was to be incorporated into the formal economy. Business had not been totally blind to the need to accelerate black involvement at all levels and from the very early 1990s a number of black economic empowerment (BEE) schemes had been established. The thinking amongst big business was that a rapidly growing economy should be the principle driver of broadening opportunities particularly combined with better education and skilling. But for political and symbolic as much as substantive reasons, black ownership and control of chunks of the economy would have to be accelerated through innovative mechanisms. Business was extremely resistant to the idea of transferring or giving away assets and believed that BEE deals should be structured on essentially commercial terms, though inevitably there would need to be 'facilitation', a combinations of discounts, loans, vendor financing and other support mechanisms.

The problem with such an approach – aside from being a disincentive to entrepreneurial activity – is that it relied on a continuingly rising market together with considerable management skill and experience to ensure that dividends could pay off the financing of BEE companies. Inevitably both conditions fell short and though some deals endured and a few even prospered, many did not. Increasingly an impatient emerging black business elite lobbied a receptive political elite for state intervention to compel business to do more and much faster. As an aside, it is remarkable how little attention education and skills, as a pre-eminent condition for sustainable black economic advancement, received from the political elite. Though some attention was given to broadening BEE schemes this seemed to translate into unwieldy coalitions of politically connected women, youth and veterans. From the business side, what is also striking is how little attention was paid to the empowerment of employees as the first point of departure, though there were a few rather isolated attempts at share ownership schemes.

Hence there was an incentive for South African mining companies, still leaders in the world, both to unbundle and restructure to focus on their core mining business, and then to merge with and acquire others internationally as a way of surviving. This was not possible from behind a wall of exchange controls.

I will return to the central issue that was only in its early stages of emergence in the mid/late 1990s. More immediately another matter arose which was to bedevil business/government relations. While many South African companies had begun to expand internationally after 1990, they faced significant constraints principally in the form of substantial exchange controls. These controls were a legacy of the sanctions era. But aside from the practical question of the capital shortages during a period of economic restructuring, the prospect of lifting exchange controls even on a phased basis was controversial within the Tripartite Alliance. In the global economy a period of firm de-conglomerisation had taken place in the 1980s to which party South African companies were very late entrants, particularly in the mining industry. It was clear at the beginning of the 1990s that a process of consolidation through mergers and acquisitions would occur in the mining industry and that many companies save the largest would be threatened. Hence there was an incentive for South African mining companies, still leaders in the world, both to unbundle and restructure to focus on their core mining business, and then to merge with and acquire others internationally as a way of surviving. This was not possible from behind a wall of exchange controls.

Derek Keys, who was the first Finance Minister of the democratic South Africa in the mid-1990s, allowed Gencor a major mining company with which he had been associated, to acquire Royal Dutch Shell's mining interests and to list the resulting company, Billiton, in London. Deputy President Mbeki reluctantly accepted the logic of this move and accordingly approved a company restructuring of South Africa's leading company Anglo American which entailed moving its primary listing to London in 1999. A handful of other major South African companies followed suit.

Whilst these companies vehemently argued that their move to London did not represent a vote of no confidence in South Africa and would benefit the country through wider economic opportunities including inward flows of investment, the moves were deeply controversial. The listings were bitterly opposed by large sections of the Tripartite Alliance. That might be expected from its statist and non-market elements. But even those who were pro-market disliked the symbolism and were uneasy about the motives behind the moves. And there was reason: notwithstanding the commercial logic, many executives in the affected companies secretly, or not so secretly, saw this as a way of hedging their personal and company bets against a government which they did not altogether trust.

One of the long term effects of the London listings and corporate unbundling and restructuring in South Africa was to radically diminish the commitment to and resourcing of organised business in South Africa. However, for the moment involvement remained reasonably robust. Efforts were made through the 1990s and early millennium to restructure organised business to ensure that it better reflected the changing nature of the business community and society. In 1994 the CBM and Urban Foundation merged to create the National Business Initiative (NBI) a grouping of more progressive companies that innovated in the establishment of Business Against Crime (BAC) in 1995 and the Business Trust in 1998/9. The NBI worked also increasingly in the field of sustainability. Though the South African Foundation (SAF) remained behind the scenes as a body of the chief executives of big business, it was considered to be too 'old order' and tainted by its anti-sanctions stance during apartheid. Nevertheless, the ties between the NBI, SAF and other business organisations were blurred by cross-membership of companies and the leading role played by key individuals who sat in a number of, or even all, these bodies.

Because of its centrality to the economy during the apartheid era, its history of migratory labour and other health and safety issues, the Mining Charter received the most and earliest attention. The Charter discussions took place against the background of new mineral legislation that transferred mining rights from private to public ownership and set out a process of re-granting existing rights to the mining industry.

Also in the 1990s, the two major established chamber movements representing commerce and industry merged to form Business South Africa (BSA). Leaders of BSA and the other major business bodies strongly felt that it would be desirable to create a non-racial business body and so began discussions early in the millennium with the Black Business Council (BBC) a body comprising leading black executives and professionals. The result was the creation of Business Unity South Africa (BUSA) in 2001. It was recognised by many, though not all, that this was an artificial construct which would need to evolve as existing business continued to transform and new black businesses were created. It was artificial because it put together 19 sectoral bodies representing established often large companies in mining, banking, industry, etc, all in varying stages of transformation with a smaller number of smaller black professional associations representing black individuals. The attempt to present this as an equal partnership was undermined by the gross imbalance of funding and economic power. This stored up the seeds of future discord.

The new millennium also saw the emergence of stronger government intervention in Black Economic Empowerment or transformation (a looser term rarely carefully defined). Following on pressure from black business and the so-called Ramaphosa Black Economic Empowerment Commission, government proposed that each sector of the economy establish a Charter setting our goals and targets for transformation. Because of its centrality to the economy during the apartheid era, its history of migratory labour and other health and safety issues, the Mining Charter received the most and earliest attention. The Charter discussions took place against the background of new mineral legislation that transferred mining rights from private to public ownership and set out a process of re-granting existing rights to the mining industry. Widespread concern in the industry locally and internationally, given that the changes represented a clear weakening of property rights which had seemed to be guaranteed by the Constitution, reached crisis point when it was leaked that government was intending to compel mining companies to transfer 50% of their assets to black ownership. When this led to the overnight loss of 25% of the market capitalisation of mining companies, government denied that this had been its intention. (Whether the 50% had ever been a firm proposal or a negotiating tactic intended to soften up the industry has never become clear.)

Though the Treasury has laboured throughout the period that tendering and procurement is conducted on, as transparent and commercial terms as possible, with strictly defined and limited BEE offsets, the universal risks attendant on licensing and procurement has provided too strong a set of incentives to create a patronage system that rewards politically affiliated business people and facilitates corruption.

The mining legislation and Charter negotiations severely damaged business confidence. The pattern of state intervention through legislation and regulation that promoted subjective, bureaucratic and frequently inefficient and costly processes has come to represent one of the central disputes between major businesses and government. As elsewhere in the world, business constantly articulates the requirement for stability, certainty and clarity of legislation and regulation in the interests of planning and sustaining business activity over the long term. Government, distrustful of what it perceives as enduring racial capital unwilling to transform, believes it must intervene and give itself the freedom to constantly change the rules in the face of business's perceived intransigence. Avoiding parliamentary and constitutional scrutiny by introducing change through regulation rather than legislation and discretionary, subjective powers rather than objective constitutionally testable legislation is a much easier and more convenient route, by no means unique in the world. But, as elsewhere, this approach continues to undermine business confidence and this in turn promotes sub-optimal outcomes.

One way for government to promote empowerment and black business formation is to require certain levels of company empowerment as a condition of government licensing and procurement. Though the Treasury has laboured throughout the period that tendering and procurement is conducted on, as transparent and commercial terms as possible, with strictly defined and limited BEE offsets, the universal risks attendant on licensing and procurement has provided too strong a set of incentives to create a patronage system that rewards politically affiliated business people and facilitates corruption.

4 The second Mbeki term

A seminal development in the government/business development was marked by the release of the Ten Year Review of democracy in 2004. This represented a major shift in government thinking away from the essentially open and relatively market friendly approach of the previous decade that included elements of liberalisation, deregulation and privatisation. The thesis put forward by the Review was that where the state had been in charge the country had flourished and where the private sector had been allowed free rein the country had failed. (This was a startling assertion almost entirely unsupported by evidence and certainly on the basis of wider empirical consideration highly contestable. What was remarkable – and it was a commentary on the growingly co-opted posture of business – was that business did not push back at all on this claim.) What was therefore needed, the Review asserted, and what was accordingly adumbrated, was the remarkably undefined concept of a developmental state. Such a state would lead the economy and society, playing an activist and interventionist role. The private sector was to be relegated to the role of a supporter and implementer of government initiatives.

Though President Mbeki continued to ruthlessly dominate Cosatu and SACP within government, the developmental state ideology allowed old statists like Trade and Industry Minister Rob Davies to elaborate a major new front of intervention, the Industrial Policy Action Plan. This borrowed selectively from the south-east Asian experience to set up a renewed import substitution model based on rolling back the liberalisation and opening policies of the 1990s in the interests of picking winners and subsidisng favoured companies and sectors behind a protectionist wall. Though there was a strong BEE element to this, it remained classic statism of the kind fashionable in the 1960s and 1970s. But it was to provide horses – state procurement and subsidy – which both patronage business and manufacturers could ride together, and so it was popular amongst some business interests.

Business had always conceived the Business Trust as a five-year programme with a significant concentrated contribution (over R1-billion) that would end when the economy had stabilised and had begun to grow.

As indicated the import of the Ten Year Review was not clear to business at the time. Its relationship with government remained confused. The Business Trust had yielded some gains – close and successful cooperation in building tourism, in malaria reduction, in selected aspects of employment creation (such as the building of a very successful business outsourcing sector, as well as education). Also, the BBWG has begun to operate slightly more effectively towards the end of this period with a more coherent agenda and concrete cooperation in some areas.

Business had always conceived the Business Trust as a five-year programme with a significant concentrated contribution (over R1-billion) that would end when the economy had stabilised and had begun to grow. That was indeed the case by 2004 with growth in the new millennium moving up from 3% towards even higher growth of 5% in 2005 -2008, a period characterised by the pre-Global Financial Crisis (GFC) global boom. However the re-emergence in 2003/4 of the reparations debate that had raged in the 1990s, when a number of class actions were lodged in the US and South Africa against major multinationals involved in the apartheid economy, posed a dilemma for both government and big business.

Though many in the Alliance and ANC hankered for some punishment of big business for its perceived role during apartheid and believed it had not adequately come forward to confess its sins during the TRC process, the ANC had had its own difficulties with the TRC, had curtailed the implementation of government reparations for human rights victims and intensely disliked the idea that South African issues were within the remit of extra-territorial legislation, especially from the US.

The Mbeki administration was therefore minded to oppose the US class action and their domestic counterparts but sought to establish a President's Fund for broad socio-economic development along the lines that of President Vincente Fox of Mexico, to which business would contribute. Business however disliked the patronage inherent in such an instrument and therefore counter-proposed that the Business Trust be extended for a further five years, and this is what was eventually agreed.

The more fraught side of the relationship was illustrated by ongoing tensions over HIV/Aids, a catastrophe that directly affected business as a large employer of those infected, and over Zimbabwe where business both was concerned at the spillover potential of the Zimbabwe government's racial policies for South Africa, as well as having business interests directly threatened in Zimbabwe. Just how prickly the relationship could be was demonstrated by the furore President Mbeki created by bitterly criticising the CEO of Anglo American, Tony Trahar, for what Trahar considered to be constructive and positive comments about the investment climate in South Africa (inter alia he said that the business climate was improving as political risk in SA had diminished).

Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart.

One of the complaints that government had about business was the fractured nature of business organisations that complicated business/government interactions. BUSA continued to struggle to recognise the needs of established business that required a national mandated umbrella body which could articulate its views in Nedlac and parliament, and those of many black members who were focused almost exclusively on transformation issues. At the same time, the old SA Foundation was rebranded and refocused as Business Leadership South Africa (BLSA), a policy/advocacy/lobby group of big business. Its emergence was received by suspicion by many in government and other parts of business, including organised business who saw it as a front for established 'white' business interests, but slowly over the period it became harder for government to ignore BLSA in the absence of other functional business bodies with coherent views.

In the second half of the 2000s corruption assumed a greater salience in South Africa as an issue undermining society and economic performance. The controversy over the 1990s arms deal lumbered on but perceptions that the country faced a real problem were sharpened by evidence of wrong doing on the part of leading politicians including deputy President Zuma as well as the phenomenon of tenderpreneurs. These were black entrepreneurs who became wealthy by soliciting tenders from government at national, provincial and local levels, often in ways that bypassed due process, and in areas where the lives of the poor were directly affected. Yet government and the political class were not predisposed to listen to criticism from a business community who were perceived as corrupt themselves – each corrupt transaction with a civil servant or politician required in this view a business counterpart. And from a left wing or racial perspective 'monopoly capital' continued to make excess profits from exploiting the poor and indulging in anti-competitive behaviour.

The strengthening of competition policy was a riposte to this behaviour, real and perceived. From a business perspective however many in government continued to have a one-eyed view on the subject as the largest monopolists were state owned enterprises which were leaders in the art of anti-competitive behaviour. Further, the industrial policy promoted by some in government looked to favouring and subsidising some firms over others rather than promoting market competition in the interests of the consumer. Hence it could be said that both the public and private sectors had complex vested interests that drove both to become able exponents of hypocrisy on competition matters. Yet greater competition (and attendant productivity and competitiveness) is one of the key structural requirements of the South African economy identified by all the recent major reviews of the SA economy in order to achieve a higher growth rate and more optimal growth outcomes.

5 The Zuma years

The ousting of President Mbeki after the Polokwane conference in early 2009 coincided with the global financial crisis and marked a new period of significant turbulence and uncertainty in government/business relations. The 'coalition of the wounded' – those who had been marginalised or suppressed by President Mbeki's autocratic management style – had little that unified them apart from opposition to Mbeki. As major members of the coalition, Cosatu and the SACP expected to get greater roles in and influence over government and to some extent did: a last minute addition to the economic cluster of ministers in President Zuma's new cabinet was the creation of an additional post of Economic Development (EDD) for Ebrahim Patel, a leading trade unionist in the textile sector. Trevor Manuel, the highly experienced Finance Minister of the previous decade who was closely associated with the centrist economic policies of GEAR, an anathema to Cosatu and the SACP, was moved to oversee the National Planning Commission. However, with no clear brief for all these new and old departments, a period of contestation between the economic ministries ensued.

With weak leadership and no interest in policy and a cabinet pulling in different directions both ideologically and departmentally, the ANC as a party, and especially the office of Secretary General, assumed a greater role particularly as later in the period the influence of the SACP and COSATU declined.

Although Patel was closer to Rob Davies, who remained as Trade and Industry Minister, in terms of ideological persuasion and was united in resisting the continuing macro-economic orthodoxy of the Treasury under the new Minister of Finance Pravin Gordhan, the turf war between EDD and the DTI was no less intense than that with Treasury. And the role of the Planning Commission also remained unclear for a considerable time – the statists disliked the independence of the commission just as they disliked the independence of the Reserve Bank, and would have been happier if both had been brought under direct state control.

Amidst this confusion on policy that President Zuma, as uninterested in policy as his predecessor has been interested, did nothing to clarify, existing institutions created by President Mbeki to foster dialogue with business such as the Working Groups were abandoned. Participation by government in the Business Trust withered on the vine, and representation on bodies such as the International Marketing Council, another Mbeki creation, were swiftly changed to reflect the interest groups within the Zuma coalition. Mainstream business was not amongst them.

The conflation of the State with the ruling Party, begun under President Mbeki, became a central theme under the Zuma Presidency. With weak leadership and no interest in policy and a cabinet pulling in different directions both ideologically and departmentally, the ANC as a party, and especially the office of Secretary General, assumed a greater role particularly as later in the period the influence of the SACP and COSATU declined. Not unrelated the rising tendency to personalised patronage rule by the President through careful placement of dependent allies characterised more recent times. Naturally this added a further complicating dimension to the business/government relationship.

With such confusion and contestation, there ensued some 18 months after the 2009 election when there was no formal dialogue between business and government besides meetings with individual ministers. Additionally Minister Patel assumed the role of coordinating South Africa's response to the GFC and imported his Nedlac-honed corporatist style of trying to create a pact or set of pacts between big business, big labour and big government. Though a minority of business had become increasingly sceptical of such corporatism, the deliberations on the response to the GFC proceeded to consume significant time and resources of all parties without concrete output.

With the trend towards patronage accelerating under a Presidency where family and associates were eager and active participants in politically directed wealth accumulation, supported by a cast of foreign and local carpetbaggers, ever more aggressive BEE legislation and legislation defined a set of business interests that were separate and at variance to the productive sector.

The hiatus in business/government relations coincided with a period of crisis within organised business itself. BUSA had never institutionally moved beyond its original artificial construct. Black professional associations who seldom paid their extremely modest dues and were little involved in issues aside from empowerment matters, nevertheless became increasingly critical of BUSA for failing to reflect their interests. They were not sanctioned by the leadership of BUSA (black and white) for failing to fulfill their constitutional obligations because of a fear of causing racial offence. Meanwhile the thinning out of senior corporate officials who were charged with thinking and lobbying on policy issues and representing business in various forums had progressed to a point where no more than a handful remained. And corporates generally were less and less willing to speak assertively of their interests especially if it involved any public criticism of government. The consequences were that organisations like BUSA were weakly led and ineffectual and the general stance of established business could be summarised as 'going along to get along'. Such a stance was reinforced when the few individuals and companies that raised their voices were swiftly and violently cut off at the knees by their political interlocutors.

The appointment of a new president for BUSA became the catalyst for the walkout by many of the professional associations of black business led by Jimmy Manyi's Black Management Forum (interestingly the majority of BMF members were civil servants) and Sandile Zungu, head of the reinvigorated Black Business Council and the losing presidential candidate. Though formally the leadership of the government regretted the rupture, practically it did much to promote it both funding and supporting the exclusively black organisations. These organisations also assumed a higher profile role in the delegations of business people taken on President Zuma's international travels.

With the trend towards patronage accelerating under a Presidency where family and associates were eager and active participants in politically directed wealth accumulation, supported by a cast of foreign and local carpetbaggers, ever more aggressive BEE legislation and legislation defined a set of business interests that were separate and at variance to the productive sector. Revised BEE policy in the form of the Broad Based Black Economic Empowerment Act of 2013, despite a rhetorical nod in the direction of including broader parts of the South African community, continued to emphasise and indeed increase a focus on the redistribution of ownership and control of existing productive assets to a few politically connected individuals. Hence the incentive to take risks, to innovate and establish new grass root businesses - small medium and large – was heavily reduced. This central aspect of BEE can therefore be said to have contributed to South Africa's sub-optimal economic performance as well as highlighting inequality in the country.

The constraints of a rigid labour market, lobbied for by a trade union movement vigorously promoting the interests of a narrow class of the existing unionised workforce, disincentivised entrepreneurial activity further. It also disincentivised the addition of new employees to existing firms, particularly those young and unskilled black south Africans who formed the bulk of the country's very large army of the unemployed.

Big companies continuously bemoaned the rigidities of the labour market but nevertheless routinely gave in to wage settlements well above inflation rates without any productivity clauses, and maintained the competitiveness of their businesses by shedding labour and raising prices. They ignored the plight of small and medium enterprises who had no such remedies.

The fault lines and differing interests within business are clearly delineated by attitudes to the country's labour legislation. In the early years of democracy, big business representatives had at least acquiesced in and, in some ways, been the architect of a labour relations regime that was more suited to a full employment northern European society than an emerging economy with serious unemployment challenges. But as evidence of its cost emerged, business became more critical, but in a diffuse and ineffectual way. Big companies continuously bemoaned the rigidities of the labour market but nevertheless routinely gave in to wage settlements well above inflation rates without any productivity clauses, and maintained the competitiveness of their businesses by shedding labour and raising prices. They ignored the plight of small and medium enterprises who had no such remedies. Even when President Zuma's administration, partly at the behest of its Cosatu allies, introduced four new major pieces of legislation that dramatically tightened labour laws, business opposition proved no more strategic or effective. An initial thrust to draw a line of total rejection at Nedlac in 2011/12 was followed by a retreat into the usual compromise mode which allowed government and its Cosatu allies to outmaneuver business with only limited dilution to the legislation eventually promulgated in 2014.

Nevertheless, the expectation by Cosatu and the SACP that they would be able to shift the direction of economic policy making within the Zuma administration decisively to the left was not fulfilled. Rather the process of policy contestation continued. Over a period of three years, three major and contradictory policy documents emerged. The first was the New Growth Path authored by Minister Patel and his EDD. This set out the developmental state approach which sought to create a series of new higher skill, higher wage, but ironically more capital and energy rather than labour intensive industries at a time when South Africa was rapidly running short of both capital and energy. The state would catalyse higher growth through a major new infrastructural push, 95% of which would be funded and directed by the state and its key strategic state-owned enterprises. The private sector, rhetorically recognised as the driver of growth and employment, was practically assigned a clearly subordinate role.

Though it shared some similarities, it was not totally congruent with the various iterations of the Industrial Policy Action Plan (IPAP), a protectionist inward industrial programme that also posited state intervention in and support of a very wide range of capital intensive industries. Both of these policies were aimed at the workers their authors wished South Africa had, the skilled who would be offered higher wages in so-called 'decent' jobs, rather than the overwhelming reality of the army of young and unskilled South Africans prevented from entering the job market at all by the barriers created by labour laws and union protectionism.

The third document, the National Development Plan, was a more market-friendly though unwieldy and aspirational document. It was officially adopted as policy by the second Zuma administration in 2014 over the continuing opposition of Cosatu and SACP. To some extent this reflected the declining influence of a Cosatu at war with itself and with the new rising star of unionism, Amcu, in the wake of the seminal Marikana massacre of August 2012. There were also pressures from the more conservative patronage business elite whose interests were hostile to those of the left.

Notwithstanding this, because the Cabinets of the first and second Zuma Administration continued to reflect the full spectrum of ideological views – in fact the second cabinet was substantially larger and even more diverse – and in the absence of any strong leadership from the top, Ministers and their Departments felt free to continue to promote policies and legislation which directly contradicted the thrust of the NDP. An important feature of the post-Marikana period was the rise of the EFF after Julius Malema was expelled from the ANC, espousing a populist rhetoric that threatened to outflank the ANC. In turn this encouraged populist responses from the ANC in areas such as land reform policy, further threatening property rights.

Despite the fact that big business leaders serve on the Planning Commission and business has strongly supported the NDP, business leaders have continued to participate in and lend credibility to initiatives that are palpably unfriendly to market approaches, such as the idealistic 'compacts' that are promoted by Minister Patel. These posit business as a single, centrally directed actor willing and able to deliver a complex set of itemised commitments and actions that frequently go against business's deepest interests and inclinations.

Despite the fact that big business leaders serve on the Planning Commission and business has strongly supported the NDP, business leaders have continued to participate in and lend credibility to initiatives that are palpably unfriendly to market approaches, such as the idealistic 'compacts' that are promoted by Minister Patel.

To take another example: business opposed the creation by government of Sectoral Education and Training Authorities (SETAs) as institutions that would be unnecessarily bureaucratic and open to corruption. They considered funding and training of workers to be properly the remit of companies. When these SETAs more than fulfilled their predictions of bureaucratic inertia and corruption and undermined, delayed and made more expensive the pipeline of skills, very few in business were willing to argue that the SETAs should simply be closed, even after years of incremental attempts to 'improve' these institutions had continued to yield little progress. No doubt a major effort by business could yield some gains in efficiency, but the fundamental structural problem of their statist and bureaucratic design would remain.

6 The commodities bust, declining growth and the 9/12 crisis

As the impact of the commodities bust induced by China's change away from an export to a consumption strategy bit after 2011, the threadbare nature of the South African economic 'model' became clearer. None of the key structural inhibitors of growth were tackled; in fact, the constraints were actively worsened by legislation, as in the four major labour law revisions referred to above, or by declining SOE performance, as the majority of SOEs were riven by governance challenges and as inefficiences drove up administered prices, with energy shortages being a key economic constraint from 2008; or by deteriorating macro balances characterised inter alia by a burgeoning public sector wage bill, growing trade and fiscal deficits and growing cost of borrowing and debt servicing.

Aside from Treasury, the Zuma Administration seemed blithely unaware of the looming economic crunch: ambitious plans for a National Health Scheme and a 9600 MW nuclear build were advanced without any serious thought as to how they would be financed - and these are just the most prominent of a long list of other spending plans.

But it was clear to many observers – the ratings agencies, the IMF, the World Bank and some private sector economists, that South Africa's potential as well as actual growth rate was steadily declining to the low single digits and that a fiscal crunch was just around the corner: there would simply be no more money, not just for future schemes but even to service government's existing needs and programmes.

The warnings of Treasury and external agencies fell on deaf ears in an Administration and ruling party almost entirely captured by the patronage interests of the President, his family and cronies. Ministers and senior officials who did not do the bidding of these interests were moved so that virtually the only institutions left that were independent were the Judiciary, the Public Protector and the Treasury (SARS having seemingly fallen to the machinations of the security apparatus acting on behalf of the interests referred to above).

The warnings of Treasury and external agencies fell on deaf ears in an Administration and ruling party almost entirely captured by the patronage interests of the President, his family and cronies.

Throughout the period 2012 – 2015, organised business stuck to its model of 'going along to get along', avoiding either criticising government or defending its interests and those of the economy in public, whilst also not fundamentally challenging the root causes of the country's malaise. Efforts by BLSA and BUSA to partner government programmes and build trust bore little fruit.

It was only when President Zuma, emboldened by his recent success in replacing Minister of Mines Ngoako Ramathlodi with a pliant nonentity, fired Minister Nhlanhla Nene on 9 December 2015 for insisting on a proper cost analysis of the nuclear build and resisting the transparently corrupt schemes of the President's close friend and Chairman of SAA, Dudu Myeni, that the international and local markets precipitated a crisis and allowed for a potential reassessment by business of its strategy and tactics towards government relations.

Whilst there has been significant support for the reappointed Minister Pravin Gordhan and his endeavours to prevent a disastrous credit downgrade, the early assumption that he would be able to leverage the crisis to begin to effect institutional change, starting with those bodies under his (nominal) control, SARS and SAA, underestimated the power of those interests ranged against reform.

The group of mainly banking CEOs who met Minister Radebe and Zweli Mkize, the ANC Treasurer General, three days after the firing of Minister Nene, contributed to the reversal of the appointment of his successor and the reappointment of Pravin Gordhan as Finance Minister. The same group of CEOs, somewhat broadened, then had extensive discussions with the President and Finance Minister ahead of the World Economic Forum in January and the Opening of Parliament and the State of the Nation Address by the President in early February. The President's address referenced some of the eight points set out by the CEOs to get the economy going, as did the Budget later in the month.

Yet business remains for the most part publicly silent in the face of the political and economic struggle.

Subsequently three working groups headed by senior CEOs, working with state officials, were deputed to carry some of these ideas forward in the fields of reinvigorating both ailing and more promising industries to accelerate growth, stimulating small and medium business, and boosting confidence in the South African economy. There is considerable energy and commitment behind this new proactive partnership approach that has also drawn in trade union participation. It is also notable that both senior black and white business leadership is involved, though BLSA is notable by its organizational absence.

Yet these groups are ad hoc interventions that run in parallel with ever more egregious evidence of state capture by private business interests and the political corruption of key agencies and SOEs by these interests, often using the security apparatus and seemingly acting on behalf of the President.

Hence, for example, the Hawks investigation of the so-called 'Rogue Unit' in SARS and the mailing of 27 questions to Minister Gordhan just before he delivered the budget. This together with the bizarre press conference called by the Minister of Police Nathi Nhleko (thoroughly discredited by the Nkandla scandal) and the Minister of State Security David Mahlobo, are widely interpreted as part of the President's push back measures to prevent Minister Gordhan from tackling governance issues, starting with SARS and SAA.

Notwithstanding their solid support for Minister Gordhan, some CEOs declined to accompany Minister Gordhan on his mission abroad to raise confidence of investors and prevent a ratings downgrade, on the grounds that the political issues at the heart of the loss of investor confidence are not being tackled and indeed are being deliberately ignored. Yet business remains for the most part publicly silent in the face of the political and economic struggle. Meantime the President and the ANC continue to pursue an electoral strategy for the local government elections that combines populist land reform with minimum wages demanded by organised labour and racial rhetoric to neutralise the opposition DA. All these are guaranteed to erode investor confidence and growth further and to undermine the supposed national priority of avoiding a credit downgrade.

Conclusion

At the time of writing, the political struggle between reformers who under the leadership of Treasury seek to escape the low growth trap and are insistent on good governance and independent institutions, and those whose patronage interests require the undermining of the independence of those same institutions, remains unresolved.

South Africa isn't the only emerging world democracy to face the conundrum of a low growth, state capitalism environment; the BRICS nations immediately spring to mind, particularly Brazil which has suffered serial rating downgrades and which is in deep recession. But compared to Brazil, the business and government communities in South Africa are less homogenous and have the burden of an apartheid past and an increasingly fractious liberation movement held together more by referencing the divided past than building the unified future.

The 9/12 crisis represents the best opportunity to build a new strategy of engagement with government that is based on a clear view of the need to facilitate the structural impediments to higher economic growth, including failed political leadership. But it will require even bolder leadership from black and white business leaders and much greater investment in more unified and effective business organisations.

This article is based on research conducted for The Centre for Development and Enterprise's project 'The Growth Agenda: Priorities for Mass Employment and Inclusion', whose reports will be released in early April 2016.