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SOUTH-SOUTH COLLABORATIVE PROGRAMME

OCCASIONAL PAPER SERIES

**Democratic Developmental States?
Malaysia and South Africa's
Institutional Structures for Incubating
an Indigenous Entrepreneurial Class
and Reducing Poverty**

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Introduction

The promotion of an inclusive development and incubation of an indigenous entrepreneurial class were some of the key challenges that faced Malaysia after political independence from colonial rule and South Africa after the end of apartheid. It is therefore no surprise that the Malaysian state after its first decade of independence and the South African state immediately after the democratic elections in 1994 set out to reduce poverty and promote an indigenous capitalist class. This paper will focus on the institutional foundation of the Malaysian and South African state that underpinned their development. In particular, it will focus on the internal institutional characteristics of the state and its relations to the indigenous business class. The focus on the latter is important because the participation of societal actors in the policy process is one of the defining characteristics of a democratic developmental state.

The focus on these countries is interesting for a number of reasons. First, they are both heterogeneous societies, in terms of religion and race/ethnicity. Second, minority race/ethnic groups dominated their economies while majority ethnic/race group dominated the politics and state institutions after independence. In the case of Malaysia, the economy and politics as well as state institutions were respectively dominated by the Chinese and indigenous Malays. While in South Africa, the economy is dominated by the minority white population while the black population especially Africans dominated politics and state institutions. The domination of the economy by minority race/ethnic group resulted in high inequalities and the identification of race/ethnicity with economic functions. Third, after independence both countries politics have been dominated by one political party, parties that drawn their membership from the majority ethnic group. Fourth, in the light of the above, developmentalism, especially promotion of indigenous capitalist class and reduction of poverty and inequalities, have been defining feature of the Malaysian and South African states socio-economic policies. In other words, the need to promote an inclusive development is a shared characteristics of both countries. These two countries have been driven by developmentalist ideology. This means 'a conscious, strategic stance taken by government to promote accelerated growth, structural transformation, social development and the repositioning of the economy in the international division of labour by consciously influencing the performance of the market' (Mhone, 2003: 39) It also means that its interventions in the economy are intended to lead to qualitative improvements in the material conditions of their citizens.

However, as the subsequent analysis will show, the two countries differ in two important aspects. First, Malaysia has more expansive policy tools at its disposal in the years the NEP was implemented compared to South Africa since the end of apartheid. Second, the Malaysian state is a semi-authoritarian state compared to South Africa that seems to score high in most indicators of procedural democracy. The former resorted to a range of repressive measures to drive through its developmental agenda. In fact, in the NEP years, dictatorship was fashionable in the world and some would argue that it was a necessary condition for development. However, by the 1990s, undemocratic rule became unfashionable following the triumph of liberal democracy. Thus unlike Malaysia of the 1970s-80s, South Africa has to build

consensus around its social and economic transformation among a range of interest groups and diverse communities. It is only as from the late 1980s that Malaysia began to relax some of its repressive laws and to open the policy space to the participation of non-state actors other than capital. This is unlike South Africa, where both internal factors, especially the need to overcome apartheid legacy of adversarialism, and external factors, necessitated the participation of CSOs, trade unions and capital to participate in the economic policy-making and implementation.

Conceptualising the Democratic Developmental State

In defining the developmental state, some scholars rely on developmental outcomes –success or failures – to define a state as being developmental or not. Thus for example Stephen Gelb (2006) proclaimed that South Africa was not a developmental state because of what he termed its ‘low level of equilibrium trap’ and its failure to reach a pact with its social partners around growth and redistribution. At another level, others tend to define the developmental state in terms of its objectives. This objective is defined mostly in terms of the state ability to foster an accumulation strategy and hence economic growth. On the other hand, some other scholars defined the developmental state in terms of its ability to promote redistribution and equity as well as reduce poverty. But as I have argued elsewhere, if the developmental state is defined only in terms of its objectives, the immediate post-colonial African state would have to be classified a developmental state because of its developmentalist orientation. But it is common knowledge that the post-colonial African state is a developmental failure. What seems to be common in these approaches is that the developmental state (and the democratic developmental state) is defined in terms of its role. By so doing, they ignore the fact that the role performed by the state is ever evolving and may vary from sector to sector. Another main weakness of these approaches is that they tend to look for already made and purified attributes. Hence once they did not see them, they proclaim a state as not being developmental. But they ignore the fact that developmental states are constructed and at times full with contradictions. Hence for example, such an approach will proclaim a state with some rent-seeking, no matter how low the level of such rent-seeking activity, as not being developmental. One other problem with these various approaches is that they did not make systematic attempts to establish a causal connection between state’s organisational structures, its relations to societal actors and development outcomes. As Evans in his seminal work, *Embedded Autonomy*, reminds us ‘in defining a developmental state, the trick is to establish a connection between development impact and the structural characteristics of the state – their internal organisations and relations to society’ (Peter Evans, 1995). In fact it has been empirically demonstrated that certain institutional attributes of a developmental state are not only positively correlated with growth, equality and poverty reduction but that those institutional characteristics have significant effects on these dependent variables. Evans and Rauch (1999, 2000) show that Weberianness is a powerful explanatory variable of economic growth. Similarly, Henderson has demonstrated that Weberianness has a significant positive effect on poverty

reduction. Also, Edigheji (forthcoming) shows that autonomy and synergy are not only positively correlated with economic growth and equality but that they are powerful explanatory variables of growth, equality and equitable growth. The importance of these studies is that they systematically show a link between organisational structures of the developmental state and certain dependent variables.

This study will proceed along the line of these studies. Accordingly, it will define the democratic developmental state by its institutional characteristics and would attempt to link them with certain development outcomes in Malaysia and South Africa. Specifically, the paper will examine the institutional characteristics that enabled the Malaysian state to incubate a Malay entrepreneurial class and significantly reduce the level of poverty. It will explore the organisational structures being put in place to enable the South African state to promote a black business class and reduce the high level of poverty among its population. Institutions here imply organisations rather than Northian framework that defined institutions in terms of rules that constrain human behaviour (North, 1990).

The Institutional foundation of the Malaysian Political Economy, 1971 - 1990

At the time of independence in the late 1950s until the early 1970s, Malaysia was a rural, agricultural and primary sector-based economy. Also, it was a heterogeneous society polarized along cultural, racial, religious and geographical lines. This divide was evident in all facets of the Malaysian society. Malaysian-Chinese dominated the economy while the Malays (who were the majority indigenous race or ethnic group) dominated the political system including the military, bureaucracy and judiciary. Racial divisions coincided with economic and geographical divisions. While the Chinese dominated the modern sector of the economy and lived in the urban areas, the Malays undertook agricultural activities and lived in the rural areas. This polarization, especially the intersection of race with economic activities, fueled the 1969 riot. The (UMNO) United Malays National Organization-led coalition government feared that racial disparities if continued would threatened the political stability of Malaysia. The New Economic Policy (NEP), the subject of the next section, was initiated with the aim of redressing these racial imbalances.

The NEP objectives

The NEP which was launched in 1971 as a twenty-year plan (1971- 1990) has been described by scholars as a Malay-first policy (Horii, 1990), ethnicity-oriented policy (Torii, 1997), an affirmative action (Shamsul, 1997) and an economic empowerment program (Edigheji, 1997). It has two main objectives. The first goal was the reduction and eventual eradication of poverty through increasing employment opportunities and income for all Malaysians irrespective of race. The second objective was the restructuring of

society to correct economic imbalances in a way that would eliminate the identification of race with economic function (Malaysia, 1971). The basic idea behind these objectives was uplifting the social and economic position of the Bumis especially the Malays whose economic positions were historically inferior to the Chinese. Put differently, the NEP aimed to create a Malay entrepreneurial class and to reduce poverty among all Malaysians.

To realize NEP's objectives, the state set clear targets. With respect to the first objective, poverty alleviation, it was envisaged that poverty would be reduced from 50 percent in 1970 to 20 percent in the 1990. In respect of the second objective, restructuring of the society, it was stated that "employment in the various sectors of the economy and employment by occupational levels will reflect the racial composition of the country" (Malaysia, 1973: 9). This was to be accompanied by an aggressive training and education strategy intended to create the much-needed Malay professional class. The most salient aspect of the restructuring of society was the restructuring of wealth ownership. It was envisaged that by 1990, Malays and their interests (that is government trust agencies and state enterprises) equity ownership would increase from 2.4 percent in 1970 to 30 percent in 1990. The attainment of the set objectives was predicated on direct government interventions in the economy to give preferential treatments to Bumis as a way of leveling the socio-economic playing field.

Government interventions were not however intended to be at the expense of non-Malay Malaysians (i.e. the Chinese). Rather government's goals were predicated on economic growth and restriction on foreign equity ownership from 60 percent in 1970 to 30 percent in 1990. At the same time, non-Malays equity shares were to increase from 34.4 percent to 40 percent. Even the decline in the foreign equity ownership was to be in relative and not absolute terms. This is because the state continued to rely on foreign investment for technology, access to export markets, skills and employment opportunities in the manufacturing sector.

The Implementation of the NEP and its Impact

To achieve the NEP's objectives, the Malaysian government initiated several programs to facilitate Bumis entry into business. These included special training courses, advisory services, provision of credit with zero-interest and provision of business premises. The Urban Development Foundation (UDA) and Majlis Amanah Rakyat (MARA) were entrusted with these tasks. Malay-owned businesses also received other kinds of preferential treatments from the state. They were particularly favored in government contracts, import and export licenses, etc. For example, the Ministry of Works and Public Utilities and the Department of Telecommunication reserved at least 30% of their contracts/procurements for Malay firms and the Ministry of Transport reserved 100% of its contracts to Malay businesses.

The government also intervened in the banking sector so that it could channel more capital to Bumi entrepreneurs. For example, the Malaysian Central Bank (Bank Negera) required commercial banks to lend 20 percent of their total

lending to Bumi entrepreneurs. Those that failed to follow this guideline were sanctioned. Also, government-owned commercial and development banks were set up with the sole aim of channeling resources to existing and potential Malay businesspersons. Similarly, the state established the Credit Guarantee Corporation to provide security of up to 60% of the value of the loans advanced by commercial banks to small businesses.

Bumis were also given special opportunities to buy shares in major companies at a discounted price. The Ministry of Trade and Industry (MTI) kept a list of Bumis applicants for shares and ensured that they were the first to be considered whenever shares were being sold. The Perbadanan Nasional (PERNAS, The National Corporation) which was set up in 1969 to acquire stakes in existing companies and establish its own business -- especially through majority holdings in joint ventures, was given added impetus under the NEP. It acquired stock from foreign firms on behalf of Bumis. As Emsley (1996) notes, by 1988, PERNAS had under its control 96 companies -- having a majority share in 69 of these companies. However, critics point out that most of the state enterprises were poorly managed, riddled with corruption and made huge losses, and thus a waste of national resources. According to Jesudason, the state sacrificed economic efficiency for political objectives.

The MTI, like the Japanese MITI, played another important role. It facilitated linkages between the Bumis and foreign firms. Critics of NEP such as Crouch note that MTI was a source of patronage distribution to UMNO supporters and members. Particular attention is drawn to the fact that firms owned by top civil servants, UMNO politicians and supporters were favored in the award of government contracts. In addition, it has been observed that most of the discounted shares were acquired by politically connected individuals and members of the royal families who resold them at the market price. Not only was this a source of easy wealth but also, it defeated the aim of the NEP as some of the shares were resold to Chinese businesspersons.

In an attempt to rectify this situation, the government set up the Permodalan Nasional Berhad's (National Equity Corporation, PNB) trust scheme - the National Unit Trust (ASN). Under the scheme, stock shares of well-performing government-owned companies and public corporations were transferred to PNB. The ASN bought PNB's assets at cost and sold them exclusively to Bumi individuals so as to ensure the direct participation of the populace. Participants of the scheme could only buy and sell ASN's shares to the trust itself and not to non-Bumis. This was intended to keep them in Bumis' hands. Even strong critics of the NEP such as Jesudason hailed the scheme as a brilliant strategy that simultaneously kept the state managerial control of the companies, spread profit to the wider community, and kept the shares in Malay hands. Crouch reports that by 1989, 45 percent of about 5.3 million eligible Bumis had purchased ASN's trust. As I have argued elsewhere, the scheme was a good mechanism to empower the Bumi community, that is, to redistribute income and wealth to a large number of the Malay population, especially the poor who would ordinarily not participate in such a scheme should it have been left to market forces (Edigheji, 1997: Chapter 4). Indeed, the participation of the poor in the scheme was astonishing, with majority of

trust holders were farmers, laborers and housewives (Jesudason, 1989).

With respect to the creation of Bumi entrepreneurial class, critics note that the performance of NEP was a complete failure. They point out that most of the Bumis-owned small businesses were either run at a loss or were fronts for Chinese businesses and defaulted on loan repayments. It is further argued that most of the Malay businesspersons engaged only in 'property speculation and maneuvers on the stock market' (Crouch, 1996: 214) and as such contributed very little to employment generation and diversification of the economy. In addition, the pro-Bumis business strategy of the NEP, it is argued, hamstrung the growth of Chinese business and heightened ethnic tension. These criticisms fly in the face of the NEP's remarkable success. First, Chinese equity ownership actually grew reaching 46.2 percent in 1990, 6.2 percent more than the NEP target. Indeed the implementation of the NEP created the socio-political climate for the business community to thrive. In all, 'the Chinese not only increased their corporate equity but achieved social peace from the NEP' (Edigheji, 1997: 48). Furthermore critics point out that by 1990 Bumis equity shares had only grown to 20.3 percent, 9.7 below the NEP target. In contrast, Lubeck points out that if the shares of Bumis who covered their rentier accumulation are added, Bumis shares would amount to 29.1 percent -- almost the NEP target. It has also been noted that not all Bumi businesspersons were engaged in speculative activities as some, especially in the rural areas, run businesses in construction, manufacturing of food products and handicrafts, as well as wholesale and retail activities (Shamsul, 1997).

The Bumis business class has been described as a rentier class that depended on government patronage (Faaland et al, 1990). The Bumi politico-bureaucratic elite and the emergent Bumi businesspersons used the state as a source of personal wealth aggrandizement. State officials awarded contracts to companies in which they were directors or to companies of friends and family members. As Jesudason argues, most Bumi businesspersons were involved in speculative rather than productive activities, which had few national economic benefits. The Chinese business class even became involved in rent-seeking activities and became considerably dependent on state patronage. Put differently, rent-seeking activities permeated the political economy of Malaysia resulting in few national economic benefits.

These critical assessments of the NEP especially its association with rent-seeking activities have been refuted by scholars such as Lubeck. To look at the rent-seeking activities in Malaysia certainly misses the point. In his words:

"The less one becomes excessively critical of the rent-seeking and corruption in the Malaysian case and idealizes the experience of the developmentalist NICs, Chang's description of Korea reminds us to be realistic about rentierism. "The abuse of bureaucratic power, political favoritism, and corruption are hardly rare in Korea. And the country by no means lacks stories of rent-seeking activity" (Chang: 145). For the question of accumulation and state strategy, the question of import is not whether corruption exists or whether monopoly rents were granted by the state to individual members of the Bumi bourgeoisie and to the public enterprises ... Indeed, such rentier interventions were

probably necessary to maintain social peace, to abolish the ethnic division of labor and to incubate a bourgeoisie that can confidentially cooperate with state bureaucrats to achieve planning goals in the flexible informal manner that Johnson affirms for the developmental states. True, for free marketeers of the Anglo-American variety, the mode of bourgeoisie formation is neither inspiring nor efficient in the short run. The key question for assessing this strategy rests upon the capacity of the bureaucracy and the new generation of the Malays political elite to discipline, rationalize, and deepen the technical capacity of the fledgling Bumi business and industrial class" (Lubeck, 1997b: 8).

This is an important insight into the analysis of the developmental state as it draws attention to the simultaneous occurrence of developmentalism and rentierism. It seems to us that the developmental state is closely associated with corruption, patronage and the emergence of a rentier class, at least in the short run. But the key factor that determines successful economic and industrial transformation is the political will by political leaders to identify and create a focal point and ensure that it sticks to its developmental objectives, in spite of tendencies toward rentierism by the emerging business class. This is evident in Malaysia, and it explains its successful economic transformation.

As noted earlier, the NEP also aimed to ensure that employment in all sectors and occupational levels reflected the racial composition of the country. Towards this end, the state invested massively in Bumis' education. The initial focus was basic education but as the country's productive base became more technological, emphasis shifted to technical and vocational education. This resulted in a massive increase in the proportion of Bumis in institutions of learning including universities. But this increase was not at the expense of non-Bumis. To ensure that the trained human resources were gainfully employed, the state exerted considerable pressure on the private sector so that at least 30 percent of their workforce were Malays. In addition, Bumis were preferentially treated in public sector employment. The result was remarkable. By 1990, the Bumis population had been transformed from agricultural to modern sector occupations. The state also achieved its objective of creating a middle class Bumis society by 1990, as a large number of Bumis became middle class. They were found in various professional occupations both in the public and private sectors.

The net effect of the NEP was a remarkable improvement in the living standards of all Malaysians, irrespective of ethnic background. Absolute poverty declined from 49.3 percent in 1970 to 15 percent by 1990, a better result than the NEP target. Also, unemployment declined from 17 percent in 1990 to near zero percent in the early 1990s. Gross National Product (GNP) per capita rose from \$370 in 1970 (Emsley 1996) to \$3,890 by 1995 (World Bank, 1997). The infant mortality rate fell from 45 per thousand in 1970 (Emsley, 1996) to 12 per thousand in 1994 (World Bank, 1996). These achievements in social development coincided with high economic growth throughout the NEP period averaging about 6.7 per cent annually. Economic growth was accompanied by fundamental transformation of the economy -- from an agrarian and raw material export to an industrial economy with

informatics being the dominant sector in the 1990s.

State Institutions and State-Society Relations: A critical examination

I have gone to great lengths to explain the role of the Malaysian state in promoting a Bumi business class while simultaneously reducing the level of poverty among the general populace. The next logical step, in this paper, is to analyse the institutional arrangements that enabled the Malaysian to incubate a Malay entrepreneurial class and enabled it to reduce poverty. It needs to be observed that the Malaysian state can hardly be described as predatory in spite of evidence of rampant rent-seeking activities, cum corruption neither did it meet all requirements of the archetypal developmental state defined by Johnson. However, the Malaysian state was highly autonomous. This does not mean that there was absence of corruption. But rather the Malaysian state was riddled with rentierism and lacked the discipline that characterized the classical developmental states. How was it able to achieve its remarkable success? Evans seems to provide the answer when he opined that:

...it takes only a very rough approximation of the Weberian ideal type to confer advantage. Even developmental states are only approximation of the ideal type, but intermediate states show that the basic bureaucratic model can be stretched further and still deliver (Evans, 1995: 64).

In the analysis that will follow coupled with its impressive economic (discussed in the previous sections), the Malaysian state exhibited high degree of autonomy and was partially embedded. By this I mean that it was only embedded with a section of capital, that is, the Malay business class while excluding the Chinese business class and broad civil society organisation. A key point to note is that autonomous state institutions minimizes but not eliminate corruption.

Before proceeding to a discussion of the state institutions and state-society relations, it is important to discuss the political landscape.

The nature of the Political

For most of its post independent period, Malaysia could be described as a soft-authoritarian state as it did not meet all the requirements of procedural democracy. Repressive measures adopted by the state included repression of the press and restriction of the rights of association. During the NEP period, 1970 – 1990, the emergency and other legislations were introduced to curtail the rights of citizens. Some of these laws were aimed at limiting criticisms of the NEP and to silence interest groups and radical opposition parties (such as the ban of the Labour Party and the constriction of parliamentary debate). In particular, academic freedom, workers' rights to organize and strike were denied or extremely curtailed. Also, unionization was banned or restrained in industries the state considered as key sectors such as informatics. It was only in

1988 that the rights of workers to unionize in the IT sector were recognised. Even this was limited to in-house and not industry-wide unions. This and the divisions of the labour movement along racial lines considerably limited the capacity of the union movement to participate in the policy process.

However, it needs to be recognised that Malaysia is not a full-fledged authoritarian state. At best, it was (and still is) a semi-parliamentary democracy as it allowed considerable freedom and was responsive to society's demands. But is not a classical multi-party democracy as there are a lot of restrictions on opposition parties, which has enabled UMNO to dominate the political landscape since independence (As I will show later, it shares similar characteristics with South Africa where the ANC has dominated the political landscape. But the difference is that in South Africa there is no restriction on opposition parties). Elections were regularly held (though results rigged in favour of the UMNO led National Front) and competition for positions within UMNO was intense. Because Malay votes alone could not give it a two-third majority, and because radical Malay parties such as PAS (Pas Islam sa-Malaysia) competed for Malay votes as well, UMNO had to rely on Chinese and Indian parties to garner the required two-third majority. This meant that the Malay elite could not use repressive measures alone to suppress the other ethnic groups nor completely ignore their demands. Consequently, the government was at the same time responsive to the demands and pressures from the broader society as well as permitted a considerable degree of freedom. What this shows is that ethnic diversity in Malaysia was a condition for the state not assuming a full fledged authoritarian character. This is because the presence of ethnic diversity favours government's responsiveness and promotes intercommunal bargaining and negotiations between the ethnic parties that constituted the consociational governments that run Malaysia through most of its independent period. In large degree, this contributed to consensus building around socio-economic policies. It is this consensus that enabled the government to begin to relax some aspects of NEP as from the late 1980s. Legislations were enacted to give effects to such changes.

Autonomous State institutions and Development Outcomes

The Malaysian state had a relatively high degree of autonomous institutions (Edigheji, forthcoming) that contributed to its cohesion. Like the East Asian NICs, a shared ideology existed between the political and bureaucratic elite. It was an ethnically driven ideology to promote the participation and dominance of the Bumis in all spheres of the national life, a Malayness ideology. It was also built on the need to reduce poverty. Also, the Malay political and bureaucratic elite, at least in the early stage of the NEP, had a common background of schooling, familial ties or through marriage. In other words, the informal networks referred to by Johnson as an attribute of a developmental state existed in Malaysia.

Although from a different interpretation, Crouch has drawn attention to another factor that contributed to the state cohesion and a basis for a shared project by the politico-bureaucratic elites. Civil servants in Malaysia played

a leading role in politics. They were allowed to join political parties and by the 1980s could take up elective positions in them. The civil service was not only a recruiting ground for UMNO but also most of its leaders had a bureaucratic background. This provided a basis for state cohesion. In addition, UMNO and the government were highly embedded providing a basis for cooperation on vital policy issues. In the words of one time Malaysian Prime Minister, Tun Razak, it was a 'government with the party' (cited in Torii, 1997: 221). This means that strong ties between the government and the party constituted the institutional foundation for economic transformation. UMNO through its seven bureaus especially the Economic Bureau contributed enormously to the policy process and even played a leading role on some vital aspects of the NEP. The Economic bureau enhanced the scope for economic policy coordination within the party and between it and the government.

Furthermore, Malaysia inherited a significant bureaucratic apparatus from the British that enabled the state to intervene in the economy. Recruitment and promotion in the bureaucracy were examination-based (although within the confines of the NEP objective of giving preferential treatments to Bumis) and hence met the Weberian model of bureaucracy. In other words, attributes of Weberian bureaucracy were refined to suit the Malaysian situation. The privileging of Bumis enabled the political elites to appoint mostly trusted personnel to key planning and decision-making positions at the expense of the 'technically competent' (Jesudason 1989: 78). In addition, the UMNO-led government enacted legislation that limited debates on the NEP. This insulated state policy-makers from criticisms by special interest groups. Insulation was thus achieved through repression rather than the ability of the state to elicit co-operation from society. This is a violation of the principle of democratic governance.

However, compared to the East Asian NICs, the Malaysian state was much more fragmented with multiple planning agencies. The most important of these agencies was the Economic Planning Unit (EPU), an arm of the Prime Minister's office. As Jesudason observes, the EPU acted as 'the custodian of NEP goals' and played a leading role in the selection of projects. At the initial stages of the NEP, the political elites set the broad policy direction and left the technocrats to detailed planning and implementation. But with the increased concentration of power in the hands of top political executives coupled with the emergence of powerful political leaders like Mahathir Mohamad as Prime Minister, agencies like the EPU lost some of their authority. In spite of this, the political and bureaucratic elites were able to achieve a workable degree of technocratic expertise that enhanced state capacity. Other agencies like the Malaysian Industrial Development Authority (MIDA) and the State Economic Development Corporations (SEDCs) also played a decisive role in insuring that NEP's targets were achieved. The Penang Development Corporation seems to be the most successful of the SEDCs. It has stirred the Penang economy from a labor-intensive to electronics sector and to automated manufacturing.

From the foregoing, it could be argued that a semblance of state autonomy existed in Malaysia and conferred advantages on the state in its task of

incubating a Bumi business class and reducing poverty.

Embedding the Malaysian State

Most of the existing literature on the Malaysian political economy has concluded that there is a lack of embeddedness in Malaysia. They point to the exclusion of the Chinese business community that constituted the dominant part of the domestic bourgeoisie from the policy process as evidence of a lack of state-business embeddedness. In addition, according to Crouch, the Chinese entrepreneurs were disqualified from playing a dominant role in politics because of their ethnic background. The increased role of the state also placed them at the mercy of the Malay-dominated government committed to the expansion of Malay participation in business. The state-Chinese business relationship was anything but cordial. This and similar other criticisms miss the point. A major plank of the NEP was the creation of a Bumi business class. To achieve this goal, the state entered alliances with foreign capital rather than the local Chinese business class, as well as facilitated Bumi-foreign capital alliances. The state did not see the Chinese business community as a crucial partner in the realization of its objective. However, with time, the relationship with the Chinese business class changed due to the following reasons, among others. The fact that the Chinese business class constituted a substantial part of the economy made it impossible for the state to totally ignore them. Consequently, the government responded to their demands one way or the other, and insured that their businesses were not damaged. In addition, because of the changing economic climate, the state privatized some of its assets in the 1980s and relaxed some of its equity requirements to the relief of Chinese businesses.

Most of the existing literature on the developmental state stressed that the state identifies or creates a social group with which it shared a joint project of transformation. Any analysis of embeddedness or lack of it in Malaysia should therefore focus on the social group that constituted the state's partner in its pro-Bumis policies and the relationship with such a group. The Malaysian State, like all developmental states aimed at creating a social group, a Bumi business class, with which it shared a joint project of transformation. Although, subject to various interpretations, the state achieved its goal. The state and Bumi business class was highly embedded. State-Bumis business embeddedness informed the need to restructure state and society in favor of the Bumi community. The emerging Bumi entrepreneurs exercised considerable leverage with government as far as the promotion of the NEP's goals were concerned. Not surprisingly, they were avid supporters of UMNO. In the words of Jesudason, 'The Malay business leaders had much leverage with government officials because many were either at present members or in the past high UMNO officials and top civil servants. These business leaders enjoyed close ties with the government and as potentially important opinion makers, found a receptive ear among politicians and bureaucrats' (Jesudason, 1989: 65). The link between the UMNO and the Bumi business class became a foundation for state-informed public-private cooperation. Furthermore, through various measures, the state strengthened the Bumi business class including organizing them into business associations, which they use as platforms to contribute to the policy process.

What this indicates is that due to the ethnic heterogeneity of the Malaysian society, the state became selectively embedded with the Bumi business class which it sees as its partner in the tasks of restructuring the state and society. One could therefore argue that the Malaysian state was partially embedded, that is only had ties with a section of the business community. But it lacked what Evans (1995) referred to as 'inclusive' embeddedness.

Embedding the Emerging South African Developmental State in Society

Given the history of conflicts between the apartheid state and non-state actors, especially trade unions and civil society, the ANC and democratic government committed themselves to state-induced embeddedness. Participation of interest groups was seen as a necessary condition for democratic development. In fact, the government recognised its ability to promote growth, reduce poverty and unemployment was considerably dependent on its ability to elicit cooperation from South African diverse communities and interests. The new Deputy President, Phumzile Mlambo-Ngcuka (2006) articulated this when she notes that the state's ability to halve unemployment and poverty by 2014, would, to a large extent, be dependent on 'effective economic leadership from government and effective partnership between government and key stakeholders such as organized labour and business' (Mlambo-Ngcuka, 2006: 1).

Participation of interest groups in the policy process has consequently become a dominant feature of public policy in South Africa. In fact, there is legislation mandating the state to consult with non-state actors. Consequently, there is an array of policy networks and consultative mechanisms (CMs) at the three spheres of government, namely, national, provincial and municipal. At the national level, the apex CM is the National Economic Development and Labour Council (NEDLAC), established through an Act of parliament as a forum for negotiations and consensus-building between the state, organized business, organized labour and the communities. In addition, the Mbeki presidency has established a number of Presidential Working Groups through which the president and his cabinet consult regularly with interest groups. These are the Presidential Working Group on Women, Presidential Youth Working Group, Presidential Trade Unions Working Group, Presidential Big Business Working Group, Presidential Black Business Working Group, Presidential Commercial Agriculture Working Group, and so on. Though no research has been conducted on these Working Groups, there are regular *Indabas* (meetings) between the president and his cabinet on the one hand and representatives of the various sectors that made up the respective Working Groups on the other. For example, the Presidential Black Business Working Group enables the president to directly engage and consult with leading black business persons and organized black business on pertinent issues such as black economic empowerment (BEE). In a similar vein, the president consults with the farming community, including the National African Farmers Union's (NAFU) and Agric-SA on the transformation of the agricultural sector and land reform through the Presidential Working Group on Agriculture.

In addition to the above, President Mbeki also established an International Investment Council made up of prominent international business people, with the aim of helping to attract investments to South Africa. The president and his cabinet

hold regular meetings with members of the council. These meetings also enable President Mbeki to explain government policies to members of the council and to seek their advice. Members of the council include the vice President of the Citigroup Inc (United States), Mr. William Rhodes; the co-chairman of Unilever (United Kingdom), Mr. Niall FitzGerald; chairman of Commerzbank (Germany), Mr Martin Kohlhausen; chairman of Pretonas (Malaysia), Mr Hassan Marikan; chairman of Independent Newspapers (Ireland), Dr Tony O'Reilly; and chairman of Soros Fund Management (United States), Dr George Soros (Mbeki, 2000). In addition, President Mbeki has also established an ICT council made up of the CEOs of some of the leading ICT companies in the world. The establishment of these councils appears to be informed by the President's single-minded focus on the promotion of economic growth and increased investment as a necessary condition for it. The consultative structures (both domestic and international) are intended to gain the confidence of the investment community (both domestically and internationally), generate trust between members and the state, enable members to make inputs into government policies, enhance the legitimacy of policies, facilitate exchange of information, coordinate expectations among private agents, reduce coordination costs and ensure that policies are made transparently. Some of the advantages of these initiatives include the reduction of rent-seeking among private agents and the strengthening of the capacity of the state to forge ahead with its development objectives.

A lot has been written about the lack of consultation by government with its social partners around its macroeconomic policy. However, there is evidence to suggest that there is greater consultation and participation of interest groups around micro and sectoral policies. The aforementioned Presidential Working Groups are indicative of the increasing participation of interest groups in the formulation and implementation of public policies.

The advantages of embeddedness in South Africa notwithstanding, greater participation does not mean that the needs and interests of all non-state actors are accommodated. In the Growth and Development Summit (GDS), in spite of pressure from civil society organisations and the trade unions, HIV/AIDS was not addressed by the summit. This was one issue that could have aborted the GDS. Cosatu's president, Willie Madisha, in his address to the summit, lamented the inability to reach agreement on issues around HIV, which was instead deferred to a separate task team (Madisha, 2003). The summit was an effort by the national stakeholders 'to commit themselves to a common vision for promoting rising levels of growth, investment, job creation and people-centred development'. But overall, business interests predominated, and, quite predictably, made very few concessions. In the case of retirement funds for example, 'the life insurance industry, government, labour and community organisations committed to work towards investing five percent of their investable income' in unspecified 'appropriate financial instruments'. The trade unions in particular were demanding that more than 10 percent of pension funds be invested in job creating initiatives. But as we have noted above, business did not yield to this demand and this remains a source of dissatisfaction for the unions. Although the rhetoric in the GDS agreement seems progressive, the actual challenge is whether or not the parties to the agreements will fulfill their commitments. As observed elsewhere, South African social partners, especially business, are known for not meeting their commitments. In some instances, business has worked against agreements that it perceived not to advance its

interest. Its continued opposition to labour laws and affirmative action laws and policies are illustrative of this point (Edigheji, 2003). Perhaps this is what the Cosatu president, Willie Madisha, had in mind at the GDS when he observed that 'As always at Nedlac, it is easy to talk, but hardly that action follows the talk'. The unfortunate thing is that there are no effective mechanisms to monitor the implementation of Nedlac agreements, like most participatory structures in South Africa. It is therefore not surprising that the GDS agreement contained similar contents as the 2000 and 2001 Nedlac annual summit agreements (Nedlac, 2000 and 2001). For almost three years after these annual summit agreements were signed, there was no significant progress towards their implementation. Indeed, the Council was unable to come up with a work programme towards the implementation of the aforementioned annual summit agreements.

Similarly, Cosatu (2005) draws attention to lack of government commitment to aggressively pursue an equitable growth strategy (at least until the announcement of ASGISA). Cosatu's central concerns have been employment creation and poverty alleviation. This has informed its engagement both within the ANC-led alliance and with government. In Cosatu's views, equitable growth will go a long way in overcoming the legacies of apartheid, which are being exacerbated by the globalization process. It noted the government's lack of commitment to equitable growth thus:

"The reluctance by government to prioritise equitable growth also emerges if we contrast engagements on sector strategies with the implementation of BEE. In the 2000s, virtually every government policy adopted some reference to BEE. Government departments drove the BEE charters in key sectors. In contrast, it was difficult to ensure government commitment to sector strategies that sought to ensure employment creation and more equitable ownership" (Cosatu, 2005: 8. *emphasis mine*).

State-Business Relations

Though for different reasons, a strong state-business relationship has also not emerged despite the existence of several structures and processes of engagement between these two important stakeholders. There are a number of possible reasons for this development. The first factor that has hampered embeddedness in the new South Africa was the fragmentation of business organisations along racial lines, until the early 2000s. White business was composed of the South African Chamber of Commerce (SACOB), made up of predominantly small and medium size firms; the South African Foundation (SAF), comprising the fifty largest firms in South Africa; the Afrikaner Handelsinstituut, representing mainly Afrikaner business interests (AHI), and Business South Africa (BSA). On the other hand, black business was composed of the National African Federation Chambers of Commerce (NAFCOC) and the Foundation for African Business and Consumer Services (FABCOS). As I have argued elsewhere, 'the organization of business associations along racial lines has rendered them ineffective in shaping social economic policy through the platforms provided by Nedlac and other participatory decision-making processes and structures' (Edigheji, 2003: 78). The fact of the matter is that because of these fragmentations, business has been unable to speak with one voice on important policy issues. The need to do this, as well as government prodding, eventually led white and black business associations to form non-racial

associations. These include Business Unity South Africa (BUSA), formed in October 2003 as an umbrella body for business associations. In the same vein, the four chambers of commerce, AHL, FABCOS, NAFCOG and SACOB, all of which were initially formed along racial lines, came together in 2003 to form the Chamber of Commerce and Industry South Africa (CHAMSA).

State-White Business Relations

Another factor that has constrained embeddedness in the South African democratic state has been the absence of a shared project (shared developmental agenda) between the black majority government and white business. This phenomenon has hampered effective cooperation between the parties. This was reflected in the initial scepticism by white business during the transition period and the first few years after democracy, that an ANC-led government was likely to implement market-unfriendly economic policies. In particular, big business had fears about the ANC's nationalization policy - the official ANC policy until the early 1990s - and fears of the likely interventionist posture and redistributive thrusts of an ANC-led government. These fears were carried over to the democratic era. These were coupled with the opposition by white business to BEE and Affirmative Actions (AA) policies (both supported by the incipient black business class), which were conceived as attempts by the state to interfere with the free operation of market forces. In a speech to parliament in 1998, Mbeki, then deputy president, expressed government's frustration over white business' opposition to transformation thus:

“In the majority of cases, the call for the transformation of both public and private sector institutions and organisations, in particular to address the issue of racial representivity, has been resisted with great determination by the white community especially white business. Indeed, one of the issues of great agitation in our politics is the question of affirmative action. To ensure that it does not happen, some of what is said is that, black advancement equals a white brain and black management equals inefficiency, corruption and lowering of standards” (Mbeki, 1998. *emphasis added*).

But with the adoption and implementation of GEAR, business attitudes towards the government changed remarkably (resulting in surging business confidence that is reported in a number of domestic and international rating agencies). Although, as the *Towards a Ten Year Review* document acknowledges, there continues to be a disjuncture between the political elite (the state) and the business leadership (PCAS, Presidency, 2003). This, in part, is due to Afro-pessimism among the white community including white businesspersons, whom Mbeki (2004) in his weekly online letter in the *ANC Today* describes as “doomsayers”, “cynics” and “sceptics” who “continue to communicate negative messages about our country whenever they travel abroad, or receive visiting business people” and occasionally manufacture one scarecrow or another to frighten the unwary about our country and its future”.

The president wondered why this is so in spite of the fact that ‘business people in our country have never had it so good’. President Mbeki's frustration was in response to the position of Tony Trahar, CEO of Anglo American plc, the largest conglomerate in South Africa, who was quoted as saying that ‘... the South African political-risk issue is starting to diminish-although I am not saying it has gone.’ (cited

in Mbeki, 2004).

Mbeki's reaction should also be viewed in the context of the speculative attack on the Rand in the mid-1990s following unwarranted fear about the health of then President Nelson Mandela (as well as the appointment of the first black Minister of Finance, Trevor Manuel). This was another way of white business questioning the capacity of a black government to govern and to manage the economy efficiently; it resulted in substantial depreciation of the local currency and in part led to the adoption of GEAR. As one commentator noted, 'investors fretted about the resilience of the country's political transition, with some fearing that South Africa will go the route of Zimbabwe and most post-independent African countries' (Handley, 2005:225. *Emphasis mine*). Any talk of political risk was therefore interpreted as an attempt to undermine investor confidence, which President Mbeki and his government have worked assiduously to court. This was at a time when for about a twenty-year period (1987-2005), fewer numbers of South African manufacturers saw the political climate as a constraint on their ability to invest, according to the data of the Bureau For Economic Research (*Financial Mail*, February 17, 2006). The government's achievements in the first decade of democracy seem to have surpassed the expectations of the doomsayers, who now seem dumbfounded. The by-line of Ethel Hazelhurst (2006) in the *Financial Mail*, following the presentation of the 2006/7 budget reads, 'The doomsayers were not out when Trevor Manuel was appointed finance minister in 1996. Ten years later, and he has achieved the impossible'. I have highlighted, in the earlier part of this paper, some elements of what Hazelhurst was making reference to by the term 'spectacular success'. Suffice it to say that though the investment climate has improved, FDI inflows have not been very encouraging, and this has been coupled with low gross domestic capital formation. Both of these are low by international standards.

I have sought to use the above to illustrate the fact that the different racial backgrounds of business (white) and government (black) may have contributed to a low degree of trust between the state and white business, just as the relationship between the Malaysian state (controlled by the indigenous Malay) and the Chinese business class – business relations (central to embeddedness. The literature on the developmental state tells us that trust between the state and societal actors is crucial to successful development. Such trust does not exactly exist between the South African state and white business; this does not bode well for the building of a developmental state. This is, however, not to underestimate the influence of the white business community in economic policy-making. Besides its involvement in a number of policy networks/ - CMs, some of which I have mentioned earlier, according to Handley (2005), white business influence is also derived from two other factors, namely (a) its relative (large) size, and (b) the relatively open and internationalized nature of the South African economy also boosts their influence in South African economic policy. This influence is direct – through participation in a range of consultative structures and processes, and indirect – through its size and the exit option available to it (this was not the case when the East Asian developmental states were being constructed as the global economy was less open, a fact that enabled the state to discipline capital). This has constrained the policy options available to the state.

Suffice it to say that the white business community is reluctantly warming up to the idea of transformation of the economy to make it more inclusive. In that regard, it

is gradually accepting BEE as part of South African business imperatives. On occasion, the white business community has undertaken initiatives aimed at strengthening its relationship with the state as an indication of its commitment to South Africa. These include the establishment of the Business Trust with a pledge of R1bn for social investment (in job creation and education) as well as voluntary commitment by the financial sector to invest about R75 billion in issues that will advance broad-based BEE. White business' negative reactions and gradual embrace of BEE are similar to the negative reaction and then reluctant acceptance by the Chinese business class in Malaysia of the New Economic Policy in the 1970s.

State-black business relations

Simultaneously the democratic state is incubating and nurturing a black business class with which it does appear to share a common project. Consequently, there is a more harmonious state-black business relationship than a state-white business one. The state is not only facilitating this through BEE policies aimed at creating a black entrepreneurial class but also through the award of state tenders to black businesses. Cronin concurs when he observes that 'It is state policies (BEE charters, with their ownership quotas and tender policies) that are driving the emergence of this class fraction, putting pressure on established capital to cut this emerging fraction "a slice of the action" in order to remain in favour with the "new political reality".' (Cronin, 2005).

There is a tendency in some quarters to demonise the emerging black business class as parasitic individuals who owe their positions more to their political connections than their business acumen. Well renowned and respected Archbishop Desmond Tutu as well as Moeletsi Mbeki, President Mbeki's brother (an intellectual and top businessman), are some of the most vocal critics of the 'current' forms of BEE. They point out that BEE is not benefiting the majority of the black population. This has given rise to charges that government's BEE policies and programmes are only benefitting politically well connected individuals. In a lecture at the University of Pretoria, Moeletsi Mbeki argues that 'We are not creating entrepreneurs. We are taking political leaders and politically-connected people and giving them assets which, in the first instance, they don't know how to manage' (2003). He sees the black elite as no more than a buffer to protect white business. He also contends "the current model of black economic empowerment (BEE), focused on transferring equity rather than encouraging entrepreneurship, has created a culture of entitlement and dependency in the black middle class" (*Mail and Guardian*, 28 September 2003). The main weakness being highlighted by Moeletsi Mbeki and other critics of the current model of BEE is that the policy tends to be narrowly focused on share-acquisition without enough attention being paid to entrepreneurial development and skills training as a way of creating a sustained and independent black business class. This is what I have referred to as a minimalist approach to BEE (Edigheji, 1999) that primarily focuses on deracialisation of equity ownership. Seven years ago, I made an argument similar to that of Archbishop Desmond Tutu and Moeletsi Mbeki against the minimalist approach to BEE, when I observed that:

"Another major implication of the minimalist approach to BEE is that it is fostering a process of social exclusion in the new South Africa as the

majority of blacks, and mostly rural women, remain unemployed and are denied the fruits of social transformation – without access to physical and social infrastructure. At the same time, a new filthy rich black and professional class enjoys the benefits of the democratic transition – with access to corporate ownership.... Put differently, a minimalist approach to BEE promotes the empowerment of few black individuals and the disempowerment of the vast majority of the black population. This has resulted in the increased polarization of the black community, that is widening the gap between the rich and poor in the black population". (Edigheji, 1999: 7)

The emerging black businesspeople are also criticized for merely engaging in speculative rather than productive investment that could have positive multiplier effects such as generating employment opportunities and contributing to the diversification of the economy. Flowing from the above criticisms is talk of crony capitalism and self enrichment as the main features of BEE, similar to the criticisms against the Bumupitera businesspeople in Malaysia between the 1970s and mid-1980s (Jesudason, 1989). Some of these criticisms ignore the fact that some of the BEE deals and government policies on the subject benefit ordinary people. Such was the case in the privatization of TELKOM (the then state-owned telecoms utility) where some of the shares were sold to ordinary people. In the same vein, some of the BEE deals in the private sector, including in two of South African leading banks, Nedbank and ABSA, are benefiting workers and communities, although their spread remains considerably limited; hence the majority of black people have not shared in the fruits of BEE. To be sure, the charge of the elitism in BEE cannot be ignored if we are to overcome the legacy of apartheid's concentration of wealth. It is, however, important to point out that at the initial stages of the implementation of the New Economic Policy (NEP) in Malaysia, similar charges were levelled against the Malaysian state. And in general, crony capitalism was used by western scholars and institutions to describe the East Asian developmental states. The Malaysian state was charged with promoting a parasitic Malay business class, who were said to benefit from political patronage. This is how one Malaysian political economist described the situation:

the successful Malay businessperson typically had close connections with government leaders that were used to acquire land for housing development, timber or mining concessions, shares in newly restructured companies, special access to credit and licenses, and so on. Many gained great wealth through property speculation and manoeuvres on the share market... The main bumiputera businesspeople were from three groups: UMNO supporters, retired civil servants and royalty (Crouch, 1996: 214).

The point is that until the mid-1980s, the emerging Bumupitera business class was initially highly dependent on the state but thereafter rent-seeking was somewhat minimised. Lubeck (1997) cautioned against harsh assessments of the emerging Malay business class and perceptions about rent-seeking; an important warning in the South African context. He contends:

Lest one become excessively critical of the rent-seeking and corruption in the Malaysian case and idealize the experience of the developmentalist NICs, Chang's description of Korea reminds us to be realistic about rentierism. "The abuse of bureaucratic power, political favoritism, and

corruption are hardly rare in Korea. And the country by no means lacks stories of rent-seeking activity” (Chang: 145). For the question of accumulation and state strategy, the question of import is not whether corruption exists or whether monopoly rents were granted by the state to individual members of the Bumi bourgeoisie and to the public enterprises ... Indeed, such rentier interventions were probably necessary to maintain social peace, to abolish the ethnic division of labor and to incubate a bourgeoisie that can confidentially cooperate with state bureaucrats to achieve planning goals in the flexible informal manner that Johnson affirms for the developmental states. True, for free marketeers of the Anglo-American variety, the mode of bourgeoisie formation is neither inspiring nor efficient in the short run. The key question for assessing this strategy rests upon the capacity of the bureaucracy and the new generation of the Malays political elites to discipline, rationalize, and deepen the technical capacity of the fledgling Bumi business and industrial class (Lubeck, 1997b: 8)

This observation by Lubeck provides important insights into an understanding and assessment of the Malaysian developmental state in particular and developmental states elsewhere in general. It seems to us that the developmental state is closely associated with corruption, patronage and the emergence of a rentier class, at least in the short run. But the key factor that determines successful economic and industrial transformation, which South Africa needs to take to heart, is the political will by political leaders to identify and create a focal point and ensure that it sticks to its developmental objectives, in spite of tendencies toward rentierism by the emerging business class. This is an important lesson that we should learn as we continue with efforts to build a developmental state in order to make the economy competitive and overcome apartheid’s legacy of underdevelopment.

In the developmental state literature, it is generally recognised that the problem *per se* is not rent-seeking but whether or not the fruits of rents are used for productive investment as was the case in the Asian developmental states or diverted into “unproductive purposes” as the case of most post-independent African states. K.S Jomo, one of Malaysia’s most authoritative political economists notes:

“Rent transfers may well contribute to, rather than undermine, further investments in the national economy since rentiers can usually count on further advantages from such investments. If capital flight is thus discouraged, the greater concentration of wealth associated with such rentier activity may actually have the consequence of raising corporate savings, thus accelerated capital accumulation, growth and structural changes” (1996: 12).

Also, Aoki *et al.* (1996:14) have persuasively argued that “if policy-induced rents are provided on the condition of fulfillment of an objective criterion, they may induce private agents to supply more goods that are undersupplied in the competitive process”. In fact policy-induced rents that are transparently distributed are likely to force private agents to act to further the development objectives of the state. Put differently, transparently state-induced rents force private agents to work towards the goals defined by the state. These points are important lessons that we need to be cognizant of in South Africa’s attempt to promote a black business class. A pertinent question to ask is whether or not the South African state is setting

performance criteria for the emerging black business class, aimed at reducing inefficiency and wastage by black firms while at the same time rewarding those that meet set-targets. The carrot and stick approach to rent distribution, therefore, requires greater attention as part of the state efforts to promote black business.

It is partly in recognition of the shortcomings of the dominant model of BEE that the state has now come out with a BBEE scorecard, with five main components, namely: 'preferential procurement, employment equity, skills development, enterprise development and residual initiatives (industry specific and corporate social investment initiatives)' (DTI, 2005: 1). A rigorous implementation of the scorecard could help to overcome some of the shortcomings of the minimalist approach to BEE and by so doing a progression toward a maximalist approach would be achieved.

In addition to promoting a black business class, the emerging developmental state in the post-1994 period in South Africa has played a pivotal role in strengthening black business associations, ensuring greater unity among them and that they speak with one voice. Black businesspeople and associations have subsequently become more active in policy networks/CMs such as NEDLAC, the committees that draft the sectors' charter', and so on. These are in addition to the Presidential Black Business Working Group discussed earlier. As a consequence, black business influence on economic policy has increased. As noted earlier, black business associations - through the BEECOM report - were instrumental in shaping government's BBEE policies. Also it is important to point out that another source of influence for black business is that some of the leading business people are either ordinary members of the ANC or are members of its highest decision-making body, the National Executive Committee (NEC). This gives them access to key government officials as well as provides them with an avenue, through the NEC meetings, to influence economic policy.

Some General reflections on embeddedness in South Africa

All the above notwithstanding, the point to emphasise is that state-coordinated embeddedness in South Africa, as elsewhere, has not been conflict-free. Some of the time it has been carried out unilaterally, with the abiding risk to undermine the state's development project- strikes and protests by trade unions, protests by civil society groups and communities, investment strikes by business and the adoption of a non-negotiable macroeconomic policy by government. Nevertheless, state-induced embeddedness in post-apartheid South Africa has provided avenues for negotiation, compromise and reconciliation of goals between the state, business and trade unions. This has contributed to the emerging consensus around a shared growth witnessed in the governments unveiling of its new economic framework, ASGISA, in February 2006.

Luiz (1994) suggests that excessive embeddedness in South Africa may have constrained the capacity of the state, more specifically, its relative autonomy. According to him, 'In South Africa, the ANC government is aggressively being lobbied by interest groups from the left and right' (p.606). This lobbying, in his view, accounted for the shift from the RDP to GEAR, which is a 'reflection of the state's incapacity' (p.594). Thus to enhance the capacity of the state, he says what

is needed is an authoritarian form of corporatism (as in Korea and Japan), where the state dominates and labour and business become mechanisms for transmitting state policy. For him, this is an option but it requires that the state has the political will to enforce its policy, preferably by co-opting these groups (in subordinate positions) (Luiz, 2002: 606).

Such propositions underestimate both the degree of cooperation between the state and business, as well as the degree of cooperation between business and trade unions at factory level in South Korea. I want to suggest that what is important is the ability of the state to use its relative autonomy to elicit cooperation from interest groups, in a state coordinated state-society relationship rather than to dominate its social partners. A similar conclusion is reached by Campos and Root (1996) in their incisive account of the Asian NICs, when they observe that ‘...East Asian leaders secured the support of economic elites without compromising sound economic policy through mechanisms designed to facilitate consultation, cooperation, and coordination’ (Campos and Root, 1996). I have earlier alluded to some of the factors that have hampered the capacity of the South African democratic state to build consensus around its vision of transformation. Furthermore, in the post-1994 context, the problem has been that consultation of, and participation by, interest groups in socio-economic policy are seen as the panacea for all problems. Also, it is becoming an end in itself rather than a means to an end. This is what Monteiro and de Tollenare (n.d) refer to as ‘a cult for participation as a panacea’ (p.11). In this context, there seems to be the perception, especially by trade unions, that the government cannot act on any issue without first consulting it. Similarly, some of the non-state actors, rather than constructively engage with the state as a development partner, and indicate what contributions they would make, see their involvement in economic policy-making as an opportunity to make demands on the state. Also, remnants of the apartheid legacy of adversarialism that characterised state-society relations have spilled over to the democratic dispensation. As the East Asian and Irish developmental states have shown, success depends on all actors being ready to make sacrifices by making credible commitments to the actualization of their shared objectives. For example, in these countries, business seems committed to long-term investments, unlike the South African case. Thus one major weakness of the emerging South African developmental state is that while the state has demonstrated a commitment to growth, through among other things its stabilisation policy; and increased spending on social and economic infrastructure, both business and trade unions have not made reciprocal commitments. Worse, some of the non-state actors see themselves as having a veto power over government policies and initiatives. The result, as we have seen in Nedlac, is that consultations go on endlessly with stakeholders focusing on the minute details rather than on the broad vision. In the process, social partners lose sight of the strategic and broad vision. As a consequence, in spite of the high degree of state-society interactions in the democratic dispensation, a shared vision of national transformation remains elusive. Whether ASGISA will be this shared project remains to be seen. An important lesson to draw from the East Asian developmental states is that consultations should focus on the broad national objectives, with the state having to fill in the details. Even then, both the trade unions and business will have to make credible commitments and contributions to the realization of the objectives of ASGISA.

The fact that decisions are not reached rapidly in some of these forums, especially Nedlac, has become a source of frustration for government and partly accounts for the reluctance of cabinet ministers to attend the council's meetings of late. Gradually, the council is losing its relevance. Business convenor, Raymond Parsons, has rightly argued that where consultative processes become obstructive, government must move ahead with policy formulation and implementation (See Edigheji, 2003).

Conclusion

The Malaysian cases provide a new insight into the theory on the developmental state. It shows that a developmental state can be selectively embedded, especially in a heterogeneous society, and still achieve the objective of economic transformation. As the argument above indicates, the Malaysian state chose to be embedded to a section of the business class - the Bumis - yet it still achieved its objectives. It is unlikely that it would have been able to restructure the state and society had it been highly embedded to the Chinese business community. However, the South African case shows that in the context of globalisation and in heterogeneous societies, the state needs to build broad alliance around its agenda to ensure success. This will not be without conflict, as we have seen in the South African state with white business. The paper also highlights another important point: embedded autonomy can converge in different ways to strengthen the state capacity. In Malaysia and South Africa, the relative internal unity of UMNO and ANC, and its relations with bureaucrats and Malay and black businesspersons have largely added to the enhancement of the state capacity. Both cases show that rent-seeking activities and developmentalism can occur simultaneously without threatening the transformative project of the state as long as there exist a political class that is committed to such a project. In effect equal attention should be given to the nature of the political elite when analyzing the institutional foundation that underpins successful transformation.

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