THE DEVELOPMENT OF POST-*APARTHEID* SOUTH AFRICA IN LIGHT OF THE INSTITUTIONALIST PERSPECTIVE: A CRITICAL REVIEW

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Introduction

In September 2015, the British magazine *The Economist* released an article that questioned differences in development patterns, even internal ones, among emerging economies such as Mexico, Brazil, Russia and South Africa. It recommended that, besides making the right choice for macroeconomic policies, they should take into consideration factors such as security of contracts, high-quality public services and transparent budgets to be trustworthy to economic agents[4]; in other words, it was necessary building institutions the population could trust in.

Although advocating for the institutionalist perspective of economic development is nothing new[5], the idea that "good institutions" and "good governance" were necessary to promote development has gained prominence

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4 See https://www.economist.com/leaders/2015/09/19/the-two-mexicos.

5 Cf. (Gerschenkron 1962).

in the political and economic debate in the late 20th century, in convergence with neoclassical propositions and with the discourse of multilateral organizations. Based on the agenda for developing countries, "good institutions" and "good governance" are synonymous with greater protection of property rights, independent central banks focused on stabilization policies, transparent corporate governance, among others prescriptions crystallized in the Washington Consensus, which are translated into greater economic liberalization and market deregulation. The acceptance of these recommendations did not happen in a historical vacuum.

For some countries, this change went against social formations that had already presented structural cracks. It was the case of South Africa, which not only spent much of the 20th century dealing with a primary-export economy that depended on foreign capital from multinational corporations (Marais 2011), but was also ruled by an authoritarian and segregationist political regime. After years of political struggle by liberation movements, led by the African National Congress (ANC), the democratic transition started in mid-1990s and met the diffusion of new development conventions: multilateral institutions and developed countries started recommending a series of institutional and governance reforms combined to policies focused on eradicating poverty mainly for African countries. Therefore, since the 1990s, South Africa has been a special example of drastic institutional transition, economic and political change occurring at the same time.

This work aims to present a critical analysis of the impacts on the diffusion of new international institutional and governance standards in the economic development of South Africa (in its broad sense). The study was divided into four sections, besides the introduction and the final considerations. The second section addresses the association between institutions and economic development in recent academic literature. The third section presents the methodology applied to assess the development of democracy, private and intellectual property rights, financial institutions, tariffs and commercial protection in the country, as well as of welfare and labor protection institutions. The fourth section briefly addresses the South African democratic transition period back in the 1990s, highlighting its institutional and political shift towards a neoliberal model capable of favoring monetary stability and "big business", despite the chronic inequalities yet observed in the country nowadays. The fifth section makes an in-depth analysis of each of these institutions in the South African context and investigates the extent to which they have resulted in economic growth, reduced inequalities and have enabled better quality of life for the South African population. It was possible concluding that the association between institutions and economic development is more complex than the one presumed by many economists and international organisms, since it does not present a simple and linear correlation. Moreover, it was observed that developing countries need to implement structural transformations that are beyond the sole power of market mechanisms.

Institutions and economic development: from the New Institutional Economics to the critical view of Ha-Joon Chang

The interest in bringing institutions to the core of the debate about economic development has gotten significant contribution from the New Institutional Economics (NIE) in recent decades, mainly since the 1990s. According to authors who follow the "new institutionalism orthodoxy" (Castellano 2012), there would be a series of historical evidence capable of proving the association between institutions and economic development. These researchers interpret the progress of nations as a process deriving from basic economic development forces observed in decentralized relations of market institutions. Thus, NIE discourse is crystallized by the logo "institutions matter" (Tylecote 2016) for development purposes, which highlights the direct relationship established between the institutional framework of a given country and its economic growth variables (Acemoglu and Robinson, in "*Por que as nações fracassam: as origens do poder, da prosperidade e da pobreza*" [2012]; North, Wallis and Weingast, "Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History" [2009]; Tylecote 2016; Zanden 2009).

The term New Institutional Economics was introduced by American economist Oliver Williamson (1975). According to Richter (2005), two branches of the New Institutional Economics have developed from the pioneering works conducted by Ronald Coase (1937; 1960) namely: Transaction Cost Economics (Williamson 1985); and New Institutional Economics of History (North 1986). According to North (1990), who won the Nobel Prize in Economics, institutions arise from uncertainty and from the need of overcoming transaction costs, for instance, the costs of establishing, monitoring and controlling agents' relations in market-failure environments[6].

Most studies based on this tradition (North 1971; 1981; 1990; Landes 1998; Zanden 2009; Acemoglu, Johnson and Robinson 2005, 2012;

6 Cf. (Coase 1937); (Williamson 1979); (North 1986; 1990); (Gala 2003).

Bates 1981, 1997; Bates, Coatsworth and Willianson 2007) have inferred that, nowadays' developing countries are those that somehow still have undermined institutions that favored free competition and smooth Market functioning. This interpretation features developing countries as the ones that have adopted institutional arrangements that reduce productivity, destabilize contracts and create a property right-insecurity environment. This "vicious path" (North 1990; Medeiros 2001) would have been the one followed by the Spanish colonies in Latin America, and its solidification would be the reason why their economic development is permanently blocked. On the other hand, the "virtuous" path taken by the current developed economies is featured by the Anglo-Saxon model of market economy.

Following North's tradition, economist Daron Acemoglu and political scientist James A. Robinson, both in *Institutions as the fundamental cause of long-run growth* (2005) and in *Why Nations Fail* (2012), have defined institutions as rules for human game-shaping interactions. According to Acemoglu, Johnson and Robinson (2005), economic institutions are important because they influence the structure of incentives available in a given society, as well as help allocating resources in order to be more efficiently used. In addition, these authors have shown how institutional differences are determining aspects for divergences observed in prosperity levels between countries colonized by Spain and England. If on the one hand, theories by Acemoglu, Johnson and Robinson (2001; 2002; 2005) rejected geographic and cultural explanations for the success, or failure, of nations, on the other hand, they have put their hopes for development in institutions that encouraged free markets, as well as in the private sector.

Since the late 20th century, the aforementioned concept has been adopted as mainstream discourse, which echoes on the agendas of international organizations such as the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO). Governance reforms and market-oriented institutional changes are seen as essential to promote economic development. Institutionally strong states — i.e., who are capable of guaranteeing security and the rule of law for the largest number of individuals possible, but, above all, who are capable of guaranteeing property rights — are also essential (Bates, Coatsworth e Willianson 2007; Buchanan 2008; Boettke and Fink 2011; Dhonte and Kapur 1996; Glaeser *et al.* 2004; La Porta *et al.* 1999; Kaufmann, Kraay and Zoido-Lobaton 1999).

It is possible to find an alternative approach to the theoretical association established between institutions and economic development, as well as in the greater framework of trust in the markets as economic growth and development drivers. According to Chang (2011), NIE has two main theoretical issues, the first one lies on causality, according to which, NIE sees association between institutions and economic development as a linear process that goes from institutions to economic development. The second issue refers to the linear, static and simplistic ways often substantiating the understanding about this association (Chang 2007; 2011). Such an understanding ends up leading to the assumption of the existence of a universal model of "good economic and political institutions", as well as to the belief that such models could be extrapolated to other countries, based on the experience of powerful Western countries (Castellano 2012; Evans 2004; 2010; Portes 2007; Przeworski 2004).

Chang's (2011) main criticism to the mainstream discourse about institutions lies in the fact that it describes the association between institutions and economic development in a simplistic, linear and static manner. Institutional changing processes that advocate for the market are often recommended to developing countries without taking into account several aspects ("one-size-fits-all" model) likely involved in these processes that do not follow closed models (Chang 2004). Moreover, Chang (2004) criticizes the excessive focus on private property rights. Although economies without any property rights protection, where uncertainty almost permanently prevails, are clearly not the best environment for development, there is a belief in property rights as a "good-in-itself" institution (Chang 2004, 144).

Some methodological aspects: Institutionalist analysis of a developing economy

The idea that a "package of good institutions" (Chang 2004) would be essential to enable economic growth (Aron 2001; Kaufmann, Kraay and Zoido-Lobaton 1999); as well as that the development history of advanced countries would be marked by the application and evolution of this group of institutions (Bates, Coatsworth e Williamson 2007; North 1990; Acemoglu and Robinson 2012), has gained room in the economic discourse since the late 20th century.

However, applying this institutionalist approach to better understand the economic development of a country facing severe economic and social issues is a great challenge, since many institutional changes undergone by this country are so recent that most statistical data or censuses about specific institutions, or specific analyses, may not yet be available. Therefore, analyzing institutional changes in South Africa, as evident as some of them may be, leads to some challenges.

The first challenge refers to the application of a traditional institutionalist perspective to favor historical treatment and its effects on the economic development of a given society — path dependence —, within the South African context. Although the analysis to be conducted aims at covering the democratic years of the new South Africa after the end of *apartheid*, one cannot deny the effects of this regime on, and the roots it left in, the development of South African capitalism. The short time series covering this analysis will be compensated by the comprehensive analysis of the institutions.

Thus, the hypothesis raised in this work is that adapting to the "good institution" models did not necessarily result in economic development, or even in greater economic growth, in the post-*apartheid* South Africa. This study has also presented how, in some aspects, the country has shown better performance in institutional indicators than some developed countries, although it did not improve the quality of life of its population or reduced its deep inequalities.

The institutions analyzed in the next section were the ones mostly defended by the mainstream institutionalist discourse and by NIE as essential to enable economic development — the so-called "good global standard institutions"[7]. The herein analyzed institutions were democracy (universal suffrage and worldwide governance indicators such as voice and accountability, rule of law, political stability), property rights (mainly intellectual property rights), financial institutions (banking system, central bank), commercial tariffs (trade opening level) and social and labor protection institutions. Furthermore, the timeline of analysis has privileged the decades following the South African democratic transition, when several institutional changes and reforms took place based on the neoliberal approach (1994-2014). However, it has also outlined the history of these institutions in case their origin dated back to times prior to the assessed one.

Democratic transition and neoliberalism in South Africa: (mis)guided paths of post-*apartheid*

Although the South African *apartheid* regime was only institutionally formalized in 1948 by the Afrikaans National Party, the roots of segregation observed in it date back to the 19th century. The social panorama by 1910

7 *"Global Standard Institutions (GSI)",* Chang (2011).

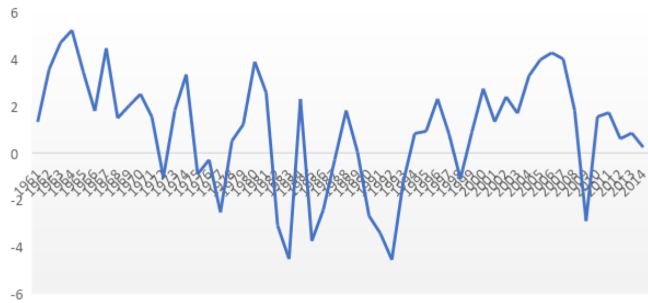
encompassed a great majority of black individuals (who were the labor force to be exploited and did not have political rights) and the white minority who had voting rights (Fonseca-Satter 2011). In the meantime, several laws and acts have been enacted and evidenced the segregationist nature of the country's economic and political elites and a state capitalism type emerged in South Africa that allowed the country to grow fast (Fonseca-Satter 2011; Pereira 2010).

The transition to a democratic regime in South Africa started in 1994; this time meets the period marked by the international neoliberal agenda driven by the end of the Cold War and by globalization. Indeed, despite the legacy of *apartheid*, mainly the profound social and racial inequality in the country, the South African economic policy has embraced a conservative marked-oriented program instead of making deep structural repairs. The abandonment of a more critical stance by the ANC represented, in its turn, a true "elite pact", since the ANC elite organized the elections, whereas the white elite managed to maintain their interests and economic privileges (Bond 2000; Taylor 2016).

This "transition of elites" (Bond 2000, 16), which has validated an economic policy that prioritized private initiative and property rights, was added to the GEAR (*Growth, Employment and Redistribution*) governmental plan from 1997. However, it did not happen overnight, but resulted from a process whose origins date back to the 1980s. Part of this process is linked to the involvement of Thabo Mbeki (who would become the country's future president) with the South African business elite and with international financial institutions such as Goldman Sachs (Segatti and Pons-Vignon 2013).

The economic policy adopted by the South African post-*apartheid* government was summarized in three main dimensions: European approach to social policy, along with the fear of risks of personal dependence on the state, in association with the East Asian approach to economic growth — based on conservative macroeconomic parameters (Hirsch 2005). However, these changes in South Africa's institutional settings during the post-*apartheid* years did not necessarily result in better economic performance. The average GDP *per capita* annual growth rate in South Africa declined from approximately 1,9% per year, in 1960-1980, to approximately 1,5% per year, in 1994-2014, or even 0,3% per year, if we consider the period 1980-2014 (Graph 1). "Good institutions" alone do not deliver economic development, as the study will show in the next sections.

Graph 1: South Africa GDP *per capita* growth (annual %)



Source: World Bank Data.

Institutions and economic development in post-*apartheid* South Africa

The South African democratization process took place at a time when the role played by institutions gained importance in political and economic debates. Several analysts, mostly the ones from multilateral organizations such as World Bank and IMF, have started interpreting the crises and structural issues of developing economies as institutional and governance issues (Aron 2001; Fallon and Pereira de Silva 1994; Kaufmann, Kraay and Zoido-Lobaton 1999; Riley 1995; IMF 2000). International recommendations, mainly the ones regarding African countries, have headed towards the implementation of a package of good institutions and focused on reducing poverty, as well as on improving education and health (Blackden 1999; Christiaensen, Demery and Paternostro 2002; Coudouel, Dani and Paternostro 2006; Marc, Graham and Schacter 1994; World Bank 1996). The next subsections analyze South African institutional development in light of this debate, as well as to what extent compliance with NIE discourse models has contributed to the economic development of the country.

Democracy

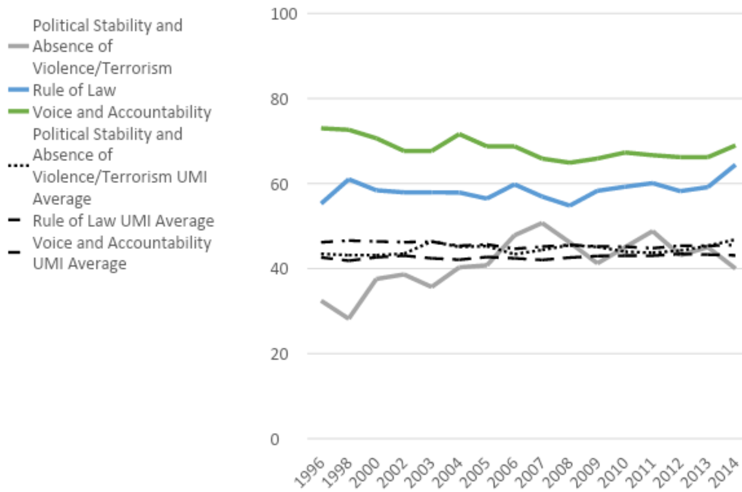
Although successful, the South African transition into an institutionally democratic regime only took place after a long process marked by violence and repression. However, it did not change the significant socioeconomic inequality between the white minority and the black majority in the country (Bond 2000; 2004; Holdt 2013). Universal suffrage was established in the country in 1994, after the country's first multiracial election, which brought Nelson Mandela to power. The democratic constitution approved in December 1996 was considered one of the most progressive constitutions in the world, since it set clear parameters for human rights, freedom of expression, religion and equal rights.

According to defenders of "good governance", South Africa has accomplished significant advancements in some of the indicators necessary to build democracy since the promulgation of its first democratic constitution. Such indicators, such as "voice and accountability", "rule of law", "political stability", among others, are components of the World Bank Group's Worldwide Governance Indicators proposed by Kaufmann, Kraay and Zoido-Lobaton (1999). These indicators reflect to which extent citizens of a given country are able to pick their government and collect their rights. They also measure the perception of trust in the law and in rules of society, as well as the likelihood of having their government destabilized by unconstitutional trends.

Graph 2 shows the position of South Africa (based on percentile) in these indicators: 0 is the lowest position and, therefore, reflects the worst performance in this indicator, whereas 100 is the best performance. Overall, South Africa presents a relatively good position in these aspects, mainly in relation to the "rule of law" — which rose from the 55^{th} percentile to approximately 59^{th} in 2010, as well as to the 64^{th} percentile, in 2014. Although "Voice and Accountability" presented a downward trend since 2004, as well as worse position in 2010 than in 1996 (approximately 67^{th} and 73^{rd} percentile, respectively), its rank remained above the average of upper-middle income countries, and higher than that of other African countries — it ranked the 68^{th} percentile in 2014.

With respect to "political stability and violence", the South African rank is below the average of upper-middle income countries, although it showed progress and approached this average from 2006 on. Similarly, Looney (2014) has compared these very same South African indicators to those of "emerging economies" such as Mexico, Malaysia, Turkey and Indonesia. South Africa presented better performance than each of these countries, on average. This outcome highlights the political gains acquired by the country, as well as its relative high governance levels over the years.

Graph 2: Governance Indicators, South Africa and mean of upper-middle income countries, 1996-2014



Source: Worldwide Governance Indicators, World Bank.

The Ibrahim Index of African Governance (IIAG)[8] was another indicator capable of evidencing South Africa's progress on democracy. This index measures the performance of institutions in African countries in comparison to governance, which, in its turn, is defined as "the provision of political, economic and social assets citizens have the right to expect from their respective states"[9]. It comprises categories such as "Security and the Rule of Law", "Participation and Human Rights", "Sustainable Economic Opportunities and Human Development", which, in their turn, comprise other subcategories. Nowadays, South Africa ranks the seventh position in the ranking of 54 African countries; its governance performance is well above the African average (Graph 2), mainly in subcategories such as "legitimacy of electoral processes" and "holding free and fair elections".

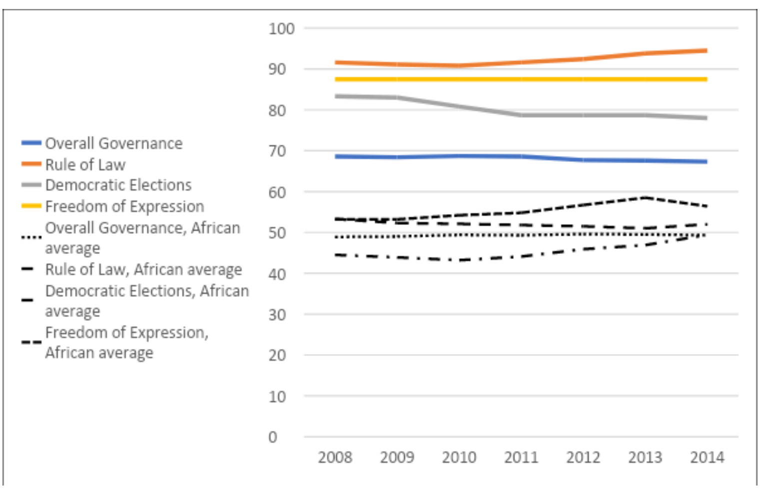
However, the outcome of these indicators presents some paradoxes that make the analysis of the association between democracy and economic development even more complex. This association in the South African case elicits some contradictions that test the supposedly linear and inseparable view between democracy and economic development.

8 The time series updated for this index starts in 2008.

9 See http://iiag.online/

Per capita income in South Africa when the universal suffrage was instituted for the 1994 elections (consolidated by the 1996 Constitution) was $3,445.23[10]. It was well above that of other African countries that had enacted universal suffrage decades earlier. On the other hand, South Africa *per capita* income faced a downward trend from its democratic transition until 2002 — it reached US$ 2,502.277. Thus, although one cannot deny the advancements achieved by South Africa through democracy introduction in the country, mainly in the form of universal suffrage and political rights of citizens, it is not possible to establish a simplistic and linear association between variables featuring liberal democracy and economic growth. Democracy is more than a "requirement" for growth; it is part of a larger historical process of social transformation (Alence 2009).

Graph 3: Ibrahim Index of African Governance in South Africa and the average for the African continent, 2008-2014



Source: IIAG Data Portal

Property rights

The protection of property rights occupies central place among institutions addressed in the neoliberal institutionalist discourse as essential for economic development. Property right regimes are seen as essential tools

10 World Bank data, in current dollars.

to encourage investment, work and, therefore, economic growth (Acemoglu and Robinson 2005; 2012; Aron 2001; Clague *et al*. 1996; Soto 2000; Knack and Keefer 1995; Gala 2003; North 1990; Tylecote 2016).

The 1978 Patent Act was the first patent law enacted in South Africa; it addressed the registration and granting of patents associated with commercial, industrial or agricultural activities. The Copyright Act (1978) was also drafted in that very same year. Most of the content in these laws, as well as that of previous laws associated with the protection of intellectual property rights — such as the 1967 Performer's Protection Act —, was revised in the 1997 Intellectual Property Laws Amendment Act. The introduction and revision of these laws have been increasingly influenced in order to comply with the standard of an international regime for intellectual property rights. South Africa became a member of the Patent Cooperation Treaty (PCT) in 1999; this treaty aims at protecting patent rights for inventions simultaneously developed in different countries, based on the application of an international patent. It is important emphasizing that even before the official patent law was enacted in South Africa, the country was already a member of the Paris Convention for the Protection of Industrial Property since 1947. In addition, the country has joined the World Intellectual Property Organization (WIPO) Convention in 1975.

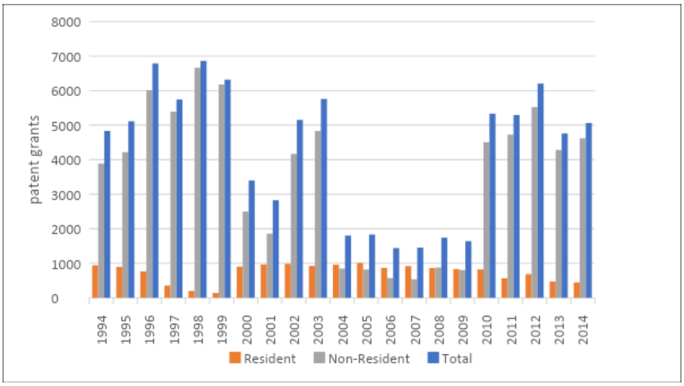
According to WIPO, South Africa has granted the total number of 5,748 patents through its official office, between residents and non-residents, in the year it drafted its first Patent Law, whereas 6,817 patents were granted in the following year (1979). The number of patents granted to South African residents has decreased since its transition to democracy in 1994 — from 942 (in 1994) to 140 (in 1999). The number of granted patents has increased and stabilized since the 2000s; 822 patents were granted to South African residents in 2010, although this number was still smaller than the one recorded in 1994. This number has decreased again by 2015, when 453 patents were granted to South African residents[11].

Patent granting to non-residents has shown an upward trend in 1994 (n = 3,889) and 1998 (n = 6,663); then, there was a sharp decrease to 1,858 patents granted in 2001. After 2004, the number of patents granted to non-residents was smaller than that granted to residents; this trend remained until 2009. It is possible seeing a paradox between the level of *per capita* income and the analyzed institution — in this case, intellectual property rights measured through patent granting. *Per capita* income in the year South Africa has instituted its Patent Law was US$ 1,722.227 and, despite small

11 Direct patents and those held by PCT.

advancements, this level remained almost unchanged until the mid-1980s, when it recorded US$ 1,807.977 in 1985.

Graph 4: Total number of patents granted in South Africa, 1994-2014



Source: WIPO and World Bank.

Although the country recorded peaks in patent granting at several points in the series, mainly in the mid-1990s (6,783 patents in 1996), the *per capita* income level has kept the decline rate at least until 2002, when it reached US$ 2,540.00 (current dollars). On the other hand, the level of *per capita* income increased from US$ 2,502.277 in 2002 to US$ 5,760.805 in 2008, as the total number of granted patents tended to fall; it ranged from 5,759 patents in 2003 to 1,742, in 2008.

South Africa has presented excellent performance in recent decades in the protection of intellectual property rights, which is measured based on the International Property Rights Index (Table 1)[12]. This index measures three basic dimensions, namely: "legal and political environment", "protection of physical rights" and "protection of intellectual property rights". The last dimension is further divided into subcategories such as "protection of intellectual property rights", "protection of patent rights" and "copyright protection".

12 See https://www.internationalpropertyrightsindex.org/

Table 1: Patent Right Protection Index (1960-2005) in developing countries

Countries	1960-1990 (average)	1995	2000	2005
South Africa	2.94	3.39	4.25	4.25
Brazil	1.22	1.48	3.59	3.59
China	1.33	2.12	3.09	4.08
India	1.03	1.23	2.27	3.76
Mexico	1.19	3.14	3.68	3.88
Nigeria	2.50	2.86	2.86	3.18
Russia	-	3.48	3.68	3.68

Source: Park (2008).

Protection of property rights remains the main recommendation of the institutionalist discourse for the progress of developing economies. However, it is fallacious to think that this is a good thing in itself. It is not uncommon for the protection of intellectual property rights to oppose social justice promotion; thus, it is necessary taking into account the significant social effects resulting from restrictions imposed to technological progress in developing countries. The economic performance of developing countries that did not do so well in protecting patent rights was better than that of South Africa. The growth rate of South African annual *per capita* income, for example, was one of the lowest between 1994 and 2010 in comparison to other BRICS countries[13].

Financial Institutions

The Central Bank of South Africa (South Africa Reserve Bank, SARB) was launched in 1921 based on the 1920 Currency and Banking Act. When it was created in 1921, the country became the fourth nation to establish a central bank outside Europe and the United Kingdom; the remaining three were the United States States, Japan and Java.

When it comes to political independence and autonomy, which are considered essential elements by the World Bank and the IMF, the South

13 See Bond (2013) for the analysis of South African performance in the context of BRICS.

African central bank has a considerable level of autonomy to carry out its duties. According to the 1996 Constitution, "in pursuit of its primary object, [it] must perform its functions independently and without fear, favor or prejudice" (Republic of South Africa 1996). With respect to its ownership, at the time it was created, SARB followed most central banks around the world, which had most of their shareholders of private origin.

The regulation of the South African banking system is performed by SARB, based on the 1990 Banks Act and on the 1993 Mutual Banks Act. Nevertheless, there was gradual institutional development regarding the regulation of financial institutions. Since the late 20th century and early 21st century, South Africa has been implementing several institutional changes to meet the international standard. These market-oriented changes were implemented in the early 20th century, when the country already had a Central Bank established, even before other developed nations had it. However, it was unable to reach the level of economic growth it achieved in the 1960s-1980s. When it comes to the group of institutions in the financial sector, the cause and effect relations between institutions and South African economic development become more paradoxical and often hard to identify[14].

Tariffs and commercial opening level

South Africa was one of the founding countries of GATT (General Agreement on Tariffs and Trade) in 1948, when there was no differentiation between developed and developing countries within it. From 1960 on, when GATT allowed this differentiation to enable developing countries to get some type of specific treatment, the South African government opted to maintain the status of developed country within the agreement; in practical terms, it meant further and faster cuts to protectionist measures (Hirsch 2005). The period of the South African democratic transition was marked by the re-entry of its economy in the world stage, based on a fast trade liberalization process (Bhorat *et al.* 2013).

The fall of trade barriers was quite abrupt after democratization (Barbosa and Tepassê 2009). The Minister of Commerce and Industry from 1994 to 1996, Trevor Manuel, who were also Minister of Finance in 1999, considered that inserting the South African economy into the world would be a challenging task, mainly due to the legacy of an economy that he considered non-competitive and protectionist (Hirsch 2005). South Africa

14When it established its legislation for the regulation of the banking sector, for example, the Banks Acts of 1990, South Africa already had a *per capita* income of approximately US $ 3,182.

quickly became one of the developing countries with the highest degree of trade openness; it has even exceeded the tariff liberalization requirements demanded by the World Trade Organization since it became a member-country (Pons-Vignon and Segatti 2013) (Table 2).

Table 2: Mean tariffs on imports of manufactured products (%), developing countries, 1996-2010*

Countries	1996	2000	2006	2008	2010
South Africa**	19.8	9.0	8.3	7.4	6.9
Argentina	11.9	12.8	8.6	8.6	9.0
Brazil	13.4	14.7	9.8	10.5	10.7
China	21.7	16.2	8.6	8.2	7.6
Egypt	-	23.8	14.1	10.0	9.4
Ethiopia	-	-	18.6	17.8	17.8
India	37.6	30.4	13.1	8.4	7.2
Russia	11.9	-	-	9.4	6.5

Source: *United Nations Conference on Trade and Development* (UNCTAD)
* Applied consolidated rates.
** Data from 1996 to 1999 refer to the *South Africa Customs Union* (SACU).

Economic integration took place, mainly in South Africa, after the years of isolation brought about by the *apartheid* regime, which turned foreign policies into a strategic element for the new government (Barbosa and Tepassê 2009). Cooperation in Southern Africa Customs Unions (SACU), which was increasingly supported in versions presented by the European Union and multilateral institutions, represents the market modality established in the early 20th century; this modality aims at reducing customs tariffs and barriers to economic activities (Visentini 2010). Another initiative towards a free trade zone lies on the integration to the Southern Africa Development Community (SADC) in 1994, which signed an agreement in 1998 to decrease tariff barriers for a 12-year period, in compliance with WTO standards — this process started in South Africa (Hirsch 2005). However, the drop in tariffs was not enough to provide a level of growth in *per capita* income comparable to that of previous decades, when mean tariff levels were much higher. The mean growth rate of *per capita* income recorded for the 1960-1980 period was 2.3%, whereas the rate recorded for the 1994-2010 period was 1.4%[15].

Social welfare and work protection institutions

The last point to be analyzed lies on the development of social welfare institutions and of those that regulate work in South Africa, with emphasis on the 1996 Constitution, which is considered one of the most progressive constitutions in the world. Institutions that "support the weaker segments of society have always been necessary to guarantee social stability" (Chang 2004, 176; Polanyi 2000 [1944]). These mechanisms and institutions in South Africa were delayed for even longer by a regime that marched against History for decades. The institutional framework of *apartheid* has contributed to stifle levels of poverty, as well as to social and economic inequality. These two factors have turned, and still turn, the broad and democratic establishment of adequate social welfare institutions into a challenge. The provision of these institutions in rural South Africa is an even more complex topic, since *apartheid*-control measures aimed at removing the black population from urban centers have favored the formation of isolated rural areas with high unemployment rates and precarious housing and education conditions (Hirsch 2005).

In order to deal with this legacy of racial discrimination and with social imbalances generated by it, the 1996 Constitution committed itself to improve the quality of citizens' life, by designating the South Africa Human Rights Commission (SAHRC) as the official monitor of public departments and state agencies accounting for the application of institutions that asserted the socio-economic rights of South African citizens. In 1994, the new government had already committed to the International Covenant on Economic, Social and Cultural Rights (ICESCR), which was one of the biggest treaties focused on protecting economic and social rights at that time (Seleoane 2001).

The commitment to the ICESCR has established clauses regarding working conditions — sanitary, working environment, equal opportunities, fair wages and salaries, limitations on working hours, right to strike, among others —, as well as social security, adequate housing and health standards, proper education, among others (Seleoane 2001). The South African Constitution aimed at meeting these conditions by including specific sections for such institutions, in an attempt to loosen *apartheid* ties and to enable political initiatives to combat poverty and inequality.

15 World Bank data.

Work-regulating institutions have been gradually introduced since then, and such an introduction has broken patterns that have segregated workers from different races and sexes for years. By 1999, most of the main institutions responsible for regulating the South African labor market had already been established, a fact that strengthened the struggle for labor and union rights with a historic record in South Africa (Table 3).

Table 3: Important new labor laws since 1994

Law	Main goal	Year
Labor Relations Act	Provides the framework for collective bargaining, union right, right to strike, dispute resolution, among others.	1995-1996
Basic Conditions of Employment Act	Provides the framework for the application of minimum standards to workers who are not covered by the LRA and of overall minimum standards regarding working hours, dismissal procedures, overtime and restrictions on child labor.	1997
Employment Equity Act	Eliminating race or sex discrimination in large firms.	1998
Skills Development Act and Skills Development Levies Act	Establishment of spending levels on the training and qualification of workers by firms.	1998-1999

Source: Elaborated by the author based on data available in Hirsch (2005).

However, the regulation of the South African labor market took place in parallel with the economic restructuring and with unemployment increasing from 19.3% to 25.8% (1996-2000) (Barbosa and Tepassê 2009; Paola and Pons-Vignon 2013). The hope that a democratic regime with labor protection institutions would reduce unemployment did not meet reality, which led neoclassical interpretations to point out a supposed "rigidity" in the labor market. These institutions, in their turn, demanded greater "flexibility" and ignored the structural roots of unemployment in South Africa, the low economic growth of the period and the dominance of sectors linked to the mineral-energy complex, which are basically capital-intensive (Paola and Pons-Vignon 2013). In addition, labor institutions were inserted in the context of a "dualistic economy", where thousands of workers were on the margins of the modern and industrial economy, a fact that highlighted the need of implementing state assistance for poverty and inequality matters (Hirsch 2005).

Such assistance came in the form of a substantial social security system, which transferred income to individuals with disability, provided support for children, pensions, among others. In 1997, when the White Paper for Social Welfare was launched, the South African government has expanded its spending on several social assistance programs, which jumped from R$10 billion[16] in 1994 to R$38.4 billion, in 2003 (Hirsch 2005). The income transfer provided by these institutions was particularly important for the black population, which participated with 60% of the income distributed in the form of retirements, pensions and social programs in 2005 (Barbosa and Tepassê 2009). The total number of social assistance beneficiaries more than doubled between 1996 and 2008 and the share of public spending on health and education as part of total public spending between 2000 and 2011 ranged from 10.9% to 12.7%, and from 18.1% to 19.2%, respectively (Barbosa and Tepassê 2009; Good Governance Africa 2013).

Conclusion

Based on the debate about the association between institutions and economic development, the main aim of this study was to present a critical view of the mainstream economic discourse propagated by multilateral organizations and developed countries. This view credits the successful path travelled by advanced economies to a set of "good policies" and "good institutions", which are mostly market friendly and based on the Anglo-Saxon models. The seminal study by South Korean economist Ha-Joon Chang has shown, on a historical perspective, that today's developed countries did not exactly follow the path they now advocate for the periphery of capitalism. On the contrary, they resorted to active policies of state intervention and protection of national industry, whereas their institutional development was slow and often had setbacks (Chang 2004).

The pro-market institutionalist discourse gained strength in the developing countries of capitalism in the late 20th century. Thus, it was possible to see transformations brought about in South Africa since the 1990s as the example of a country that was experiencing new institutional change processes. The South African democratic transition took place when the discussion about the role played by institutions gained importance in the

16 In *rands*, the South African official currency.

political and economic debate. Multilateral organizations, such as the World Bank and the IMF, started interpreting the crises and structural issues of developing economies as institutional and governance issues and, in the case of African countries, they started equalizing development policies to poverty-eradication measures.

Nevertheless, the current study has also addressed how the development of a set of institutions — such as democracy, protection of intellectual property rights, financial institutions and an independent central bank, tariffs and trade liberalization, and the labor market-regulating institutions — since the end of the *apartheid* regime did not necessarily result in better economic and social performance. If, on the one hand, it is quite true that "institutions matter", on the other hand, it is necessary taking into account that the association between institutions and economic development is more complex than what is predicted in the linear "one-size-fits-all" models defended by orthodoxy. British Prime Minister Gordon Brown was right when he told *The Economist* that it can take generations to develop reliable institutions. The same happened with developed nations, but it is always possible learning from history, as well as thinking about institutional programs capable of reflecting the structural, political, economic, social and cultural conditions of developing countries, without falling into sterile neoliberal models.

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ABSTRACT

The transition to a democratic regime in South Africa in the 1990s met the rise of neoliberal policies and the discourse addressing "good institutions" and "good governance" as economic growth drivers. In the case of African countries, the discourse preached by multilateral organizations such as the World Bank and the IMF included the idea that policies focused on eradicating poverty and on encouraging education would also mean development. The aim of the current study is to assess to what extent the adequacy to market-oriented institutional models has contributed to South African development, based on a set of institutions. In order to do so, the current study conducted a literature review about the New Institutional Economics (NIE), which is the main proponent of market-oriented institutions as key to development; it also analyzed the critical view of these linear models. It concludes that the association between institutions and economic development is more complex than that estimated in market-oriented models applied to mainstream institutionalism, mainly for developing countries.

KEYWORDS

Institutions. Economic Development. South Africa.

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