DECLARATION

I hereby declare that the dissertation submitted for the MA degree to the RAU, apart from the help recognised, is my own work and has not been formerly submitted to another university for a degree.

ABSTRACT

On the African continent South Africa is unequivocally the economic and military giant. As the continental hegemon, the state has sought the reform of the unequal global economy in order to enhance the participation in the global political economy of all African countries. The South African government projects the discourse of African solidarity in driving global reforms, emphasising that such reforms will be of benefit to both the continent as a whole, and to the South African state.

Within this context, it is the purpose of this dissertation to determine with greater clarity who stands to gain from South Africa's efforts. In other words, is South Africa acting to acquire economic growth and development for Africa as a whole, or is the country primarily acting to secure its own wealth and power? In short, this study investigates whether South Africa – as the continental hegemon – is acting in a benevolent or selfish manner in its undertakings.

The assessment of South Africa's hegemony is presented in a theoretical schema constructed with a focus on the three main theories of international relations, namely liberalism, realism and structuralism. Each of these theories is employed descriptively as well as prescriptively as tools to evaluate the nature of the African political economy, and South African action versus rhetoric. Applying these conceptual lenses, South Africa's position on three aspects of the African political economy are assessed and evaluated. These three areas of the political economy – trade, debt and foreign direct investment – serve as case studies revealing South Africa's benevolence and/or selfishness.

In brief, South Africa is pressing for the reform of the international financial architecture; rhetorically, the state seeks free trade and enhanced export opportunities for all African states; the country is urging foreign creditors to reduce Africa's external debt; South African leaders have recommended that their counterparts establish an investor-friendly climate in Africa as a means to enhance foreign investments on the continent. South Africa's actions have the potential to benefit the African continent as a whole, and simultaneously advance the state's interests.

The findings of this study point out that (a) each of the three theories can be utilised to describe South Africa's rhetoric and actions, and (b) the essence of South Africa's hegemony is neither entirely benevolent, nor exclusively selfish.

OPSOMMING

Suid-Afrika is sonder twyfel die ekonomiese en militêre reus van Afrika. As die kontinentale hegemoon het die staat hom beywer vir die hervorming van die ongelyke globale ekonomie ten einde aan alle Afrika-state groter deelname in die globale politieke ekonomie te verseker. Die Suid-Afrikaanse regering projekteer die diskoers van solidariteit met Afrika in die aansporing van globale hervormings, en beklemtoon dat sodanig hervormings tot voordeel sal wees van beide die kontinent en die Suid-Afrikaanse staat.

In hierdie konteks is dit die doel van hierdie dissertasie om in groter detail vas te stel wie die meeste sal baat uit Suid-Afrika se pogings tot globale hervorming. Met ander woorde, tree Suid-Afrika op om ekonomiese groei en ontwikkeling vir die hele Afrika te verkry, of is die land primêr besig om sy eie rykdom en mag uit te bou? Om op te som: hierdie studie stel ondersoek in of Suid-Afrika – as die kontinentale hegemoon – besig is om altruïsties of selfsugtig op te tree.

Die assessering van die Suid-Afrikaanse hegemonie word aangebied in ‘n teoretiese skema wat saamgestel is met ‘n fokus op die drie belangrikste teorieë van internasionale betrekkinge, naamlik liberalisme, realisme en strukturalisme. Elk van hierdie teorieë word toegepas as beskrywende sowel as voorskriftelike middele om die aard van die politieke ekonomie van Afrika te ondersoek, sowel as die aard van Suid-Afrikaanse retoriek versus optrede. Deur die toepassing van hierdie konseptuele lense word Suid-Afrika se standpunt op drie aspekte van die Afrika politieke ekonomie ge-evalueer. Hierdie drie areas van die politieke ekonomie – handel, skuld en buitelandse belegging – word gebruik as gevallestudies om Suid-Afrika se altruïsme en/of selfsug bloot te lê.

Kortliks is Suid-Afrika besig om hom te beywer vir die hervorming van die internasionale finansiële argitektuur; retories-gesproke is die staat ten gunste van vrye handel en beter uitvoergeleenthede vir alle Afrika-state; die land vra vir buitelandse krediteure om Afrika se eksterne skulde te verminder; Suid-Afrikaanse leiers het aanbeveel dat hul eweknieë ‘n belegger-vriendelike klimaat in Afrika skep ten einde buitelandse beleggings na die kontinent te vermeerder. Hierdie Suid-Afrikaanse dade het die potensiaal om die Afrika-kontinent as ‘n geheel te laat baat, en tegelykertyd die staat se eie belange te versorg.

Hierdie studie bevind onder meer dat (a) elk van die drie teorieë toegepas kan word om Suid-Afrika se retoriek en dade te beskryf, en (b) dat die Suid-Afrikaanse hegemonie nóg totaal en al altruïsties, nóg uitsluitlik selfsugtig is.

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ABBREVIATIONS

ADB	African Development Bank
AGOA	African Growth and Opportunity Act
ANC	Africa National Congress
APRM	African Peer Review Mechanism
AU	African Union
BLNS	Botswana, Lesotho, Namibia, Swaziland
BWI	Bretton Woods Institutions
CAP	Common Agricultural Policy
DFA	Department of Foreign Affairs
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Agreement
G 20	Group of 20
G 77	Group of 77
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Programme
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICJ	International Court of Justice
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPE	International Political Economy
LDC	Less Developed Countries
MNC	Multinational Corporation
NAM	Non-Aligned Movement
NEPAD	New Partnership for Africa's Development
WTO	World Trade Organisation
OAU	Organisation of African Unity
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Paper?
SACU	Southern African Customs Union
SADC	Southern African Development Community
SANDF	South African National Defence Force
SAP	Structural Adjustment Programme
SMME	Small, Medium and Micro Enterprises
SOE	State-owned Enterprise
TDCA	Trade, Development and Cooperation Agreement
TISA	Trade and Investment South Africa
NATO	North Atlantic Treaty Organisation
TNC	Transnational Corporation

UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States

Chapter 1: Study outline: problem, methodology, structure

Introduction

Alliances, arrangements and associations of African states underwent transformations in the early 1990s due to both the conclusion of the Cold War and the termination of apartheid in South Africa. South Africa possessed the economic and military strength necessary to fulfil the function of hegemon on the continent. However, South Africa's young democratic government expressed its reluctance to assume such a position as it feared association with its predecessor's bullying antics. It is indisputable that South Africa is Africa's military, economic and political powerhouse, and although the government is emphatic that it does not wish to be regarded at the continental leader, its actions appear to be contradictory. This is evident in the following: South Africa has been in the forefront of the creation and adoption of the New Partnership for Africa's Development (NEPAD); the South African government has undertaken a prominent role in uniting African states (and states of the Global South) so as to ensure a common position in international trade and increased participation in the international political economy; President Thabo Mbeki has been an advocate of debt cancellation for the African continent; and the state is advancing good governance in Africa as a means to attract Foreign Direct Investment (FDI).

By virtue of its moral, political and economic authority, South Africa is representing African states in multilateral organisations and in bilateral liaisons with states of the Global North. At a continental level, South Africa is employing its relative 'super power' status to unify the African continent, thereby allowing African states to assume a common position in the international political economy (which strengthens Africa's voice). This 'super power' status is utilised by South Africa to advance good governance and conflict resolution in Africa, which are essential requirements for development and the attraction of foreign capital. At an international level, South Africa's standing is exploited to defend African requirements in multilateral fora, and to encourage the necessary reforms to protect African interests. The South African government has been committed to the economic development of Africa and is challenging the existing structural arrangement and dependency that are synonymous with the international political economy. Proponents of these endeavours believe the African continent will unequivocally benefit from South Africa's efforts if the state is successful in attaining the reforms it seeks; however, opponents of this view assume a stance that is consistent with realism, i.e. that South Africa acts in its own interests and will merely drain these economies for its own extension of wealth and power. In addition, South Africa will profit from the development of the continent as debt cancellation and FDI will create vast markets for South African exports. Moreover, as South Africa witnesses success in its objectives, the power of the South African government and business will persistently grow. Thus, the potential recipients of South Africa's desired accomplishments are extensive as both South African business and government are presumed to benefit; while the African continent will gain from increased FDI, the cancellation of incapacitating debt, and greater markets for their exports. However, it is pertinent to determine whether South Africa's interests in the development of the continent are altruistic or self-seeking. Hence, is South Africa a selfish or benevolent hegemon?

The international political economy is defined as 'the study of the intersection of politics and economics'; and as 'the study of the inequality in power and wealth between peoples and nations' (Kegley & Wittkopf, 2001:247). Balaam and Veseth (2001:462) expand this definition to include issues arising from political, economic and social arrangements. Strange (quoted in Balaam & Veseth, 2001:12) suggested that international political economy

> concerns the social, political, and economic arrangements affecting the global systems of production, exchange and distribution and the mix of values reflected therein. Those arrangements… are the result of human decisions taken in the context of man-made institutions and sets of self-set rules and customs.

Balaam and Veseth (2001:46) defined a hegemon as 'a rich, powerful nation that organises the IPE'. Moreover, the authors differentiated between a selfish and a benevolent hegemon. The former refers to a state that utilises this hegemonic status to amplify wealth and power for its own sake. The United States is illustrative of a hegemon that has clearly assumed a selfish stance as it has utilised its power to serve its own interests. One example of this is the United State's position in international trade: the state advocates free trade and urges developing states to pursue liberal trade policies but the state practices protectionism by subsidising domestic producers. A benevolent hegemon is not only concerned with its own gains but also with those of other states; as

Balaam and Veseth (2001:58) wrote, '[t]he [benevolent] hegemon is guided by … enlightened self-interest – its self-interest is best served by maintaining the security and prosperity of others'. A further related concept is the hegemonic stability theory which Kegley and Wittkopf (2001:G-7) defined as 'the argument that a dominant state is necessary to enforce international cooperation, maintain international rules and regimes, and keep the peace'.

Due to the fact that the term hegemon is associated with a preponderance of power, it is perceived as having negative connotations. However, in light of the fact that a hegemon fulfills an invaluable function in the maintenance of a prosperous and peaceful world order, the term should be considered neutral unless it is preceded by the terms 'selfish' or 'benevolent' (these would create more weighted interpretations of hegemony). Odén (2001:172) wrote:

> In a hegemonic regime [the principles, rules, norms and decision-making procedures of international behaviour] are established and maintained by a dominant power, which through positive sanctions (rewards) or negative (threats) sanctions ensures adherence to this set of guidelines and constraints.

Odén (2001) differentiated between a benevolent and selfish hegemon: as a means for ensuring stability, the former makes use of positive sanctions (i.e. rewards), and the latter employs negative sanctions (i.e. threats). Further distinguishing features of a benevolent hegemon include cooperative relations and the hegemon's pledge to absorb the greatest costs in the provision of public goods. In contrast to this, a selfish hegemon's relations are based on coercion and exploitation; it utilises these tactics to '[force] smaller states to contribute to the international economic infrastructure and, at the extreme, to bear the entire cost' (Odén, 2001:171). The concepts of hegemony, hegemonic stability theory, and benevolent and selfish hegemony will be dealt with in greater detail in Chapter 3.

Two types of power identified by Strange (1988) are of relevance in a study of the international political economy, and especially in a study determining the extent and form of a state's hegemonic rule. These are structural and relational power. The former refers to the ability to determine the agenda or the rules of the game; the latter refers to the ability of actor A to get actor B to act in a way in which actor B would not ordinarily act. It is evident that South Africa has relational power in Africa and by fostering cooperation on the continent, the South African government is exerting its influence so as to augment its structural power which is necessary to make reforms to international trade and financial institutions, and to the international political economy on the whole.

In order to identify how South Africa employs its power, and whether South Africa is considered a benevolent or selfish hegemon, three indicators will be used, namely trade, debt and FDI. In addition to its engagement in the reform of these three areas of the international political economy, South Africa has participated in (and been an endorser of) the international ban on landmines, the protection of human rights, and the safeguarding of the environment (Nel, Taylor & van der Westhuizen, 2001). Moreover, the South African government played a prominent role in the restructuring of the Organisation of African Unity, and in the design and implementation of its successor, the African Union. The South African government has further contributed to the development of NEPAD and the African Peer Review Mechanism. Hence, South Africa has been extensively involved in reform and transformation of the international political economy, African organisations and institutions, and international peace and security. South African endeavours cover an array of disciplines in international and regional relations, for this reason, components of the international political economy (namely trade, debt and foreign direct investment) have been selected for this study.

The South African government appears to have hidden the true intentions in its engagement with African states. These are apparent in the field of political economy. Examples of South Africa's contradictory rhetoric and actions will be used to assess the state's true intentions. Two examples will be provided as a brief prelude to an assessment of South Africa's hegemony. First, according to the South African Department of Foreign Affairs (2004), '[t]he promotion of intra-regional trade and investment ranks as one of the government's key priorities', while SADC is considered 'the most important bloc in the South African context' (Kromberg, 1996:4). Contrary to this, the government signed a free trade agreement with the European Union (EU) in 1999, which undermined South Africa's commitment to regional trade. According to this free trade agreement, the EU was committed to liberalising 95 percent of South Africa's imports, while South Africa liberalises 86 percent of imports from the EU.

This clearly serves South Africa's interests as the state has access to European markets. In addition, South Africa will attract higher investment flows from Europe. This agreement was antagonistic to Southern African trade agreements, and South Africa appeared to disregard the negative implications of this agreement for the region, and specifically for Southern African Customs Union (SACU) member states. As SACU states apply a common external tariff, as a result of the South Africa-EU agreement these states are forced to lower tariffs for EU imports, although their exports will not enjoy a similar access to European markets. Furthermore, these states depend on tariffs for revenue and South Africa's import of EU goods will threaten the local industries of SACU states. The injurious effects of this free trade agreement will extend to all Southern African Development Community (SADC) states as they will be competing with EU exporters for the same market in South Africa. As Zimbabwe's Minister of Industry and Commerce, Nathan Shamuyarira, stated, '[t]he SA-EU agreement has grave implications for the region. The agreement was signed at a time when we are calling for more trade within SADC' (SARDC, 1999).

A second illustration of South Africa's incongruous words and deeds is evident in its proclaimed reluctance to assume a hegemonic, coercive role on the continent. Despite this, the government has been accused of 'economic colonisation' (This Day, 2004) and the 'South Africanisation of the African economy' (SARPN, 2003). Moreover, World Bank economist Alan Gelb stated that African states are concerned about being 'colonised by an economic power' (This Day, 2004). If one considers the example of one South African Corporation – Eskom – it is evident that the presence of South African companies is intimidatory. Eskom has expanded into over thirty African states, and is 'demonstrative of South Africa's capital penetration in Africa, a trend that is making countries in [Africa] wary of South Africa's muscle' (This Day, 2004). These instances indicate that South Africa is, in fact, looking out for its own interests. Moreover, they provide measuring devices for determining whether South Africa is a benign or selfish hegemon in Africa.

1.1 The trade context

Consistent with the rules of the international trade regime, South Africa and its African counterparts are expected to liberalise their economies; open their markets; encourage privatisation; and abandon protectionist policies. However, these states are facing barriers to trade in the global economy. As African states have been unsuccessful in the diversification and industrialisation of their economies, they are reliant upon agricultural exports. Hence, the Common Agricultural Policy (CAP) of the European Union provides a major barrier to trade for African goods. Similarly, the United States provides subsidies to its farmers, thereby expanding their share of agricultural exports and creating an obstacle to the entry of African products. The United States justified this action by stating that it was merely a means to redress the barriers it faced in Europe. Developed states are clearly not adhering to the 'rules', yet they expect poorer states to abide by them. This has led to Mbeki's interest in trade relations; he is pressing for the reform of international trade.

> As chair of UNCTAD, South Africa has been particularly keen to consolidate its reformist agenda within that body and achieve concrete and tangible results in organising a reformist project to advance the cause of the South in the international political economy (Nel, Taylor & van der Westhuizen, 2001:61).

South Africa aims to use its regional influence and international esteem to find a common position accepted by both the North and South. As Sipho Pityana (South African Director-General of Foreign Affairs) stated,

> We are not calling for charity for developing countries. What we are rather calling for are enhanced export opportunities for developing countries and improved market access, in order that they might improve their living standards through strong export growth to the levels enjoyed by the industrial world (quoted in Nel, Taylor & van der Westhuizen, 2001:71).

This is in line with what has been termed the 'Mbeki Initiative', which is based on the desire to reform the existing trade structure by holding the North accountable to its rules of trade, thereby creating an opening for African exports.

Mbeki's concern with international trade and his belief that reforms are imperative for the development of the African continent, are illuminated in his address to the Scottish Parliament in June 2001:

> The language of free trade cannot be sustained when the products of developing countries are denied access to the markets of the developed countries, when African producers are denied the ability to compete fairly and effectively in a playing field that is tilted against them because of subsidies and other impediments… We recognise the need to democratise decision-making in the international arena. This includes, as a priority, the restructuring of key multilateral organisations such as the UN, the international financial institutions and international trade organisations. So while parliaments are the custodians and promoters of democracy, human rights and human development in their own countries, they have to play a role in promoting this agenda in the international institutions of governance as well (Mbeki, 2002:112-114).

1.2 The debt issue

The year 1982 marked the beginning of the international debt crisis when Mexico was unable to fulfil foreign debt obligations. Two decades later, despite various attempts to resolve this problem, African states continue to struggle with the financing of their external debt. According to Van der Westhuizen (2001), 41 states owed US$215 billion by the start of 1998. Of these 41 states, 32 are in Africa; and under the IMF-endorsed Highly Indebted Poor Countries (HIPC) Initiative, only four of these African states (Mozambique, Uganda, Burkina Faso and Ivory Coast) have made the necessary structural amendments and proven to be eligible for debt relief (Nel, Taylor & van der Westhuizen, 2001:45-6). Thus, 28 of the HIPCs continue to battle with debt repayments. In response to the inadequacy of the HIPC Initiative, Jubilee launched its 'Drop the Debt' campaign at the start of the millennium. For the Jubilee group, debt cancellation is perceived as preferential to foreign aid as this would be of greater benefit to economic growth, aid is not guaranteed, and debt relief is not accompanied by political conditionality (IrinNews, 2003). Despite these efforts, debt is still a debilitating problem that faces the continent.

South Africa has recognised that the debt problem needs to be resolved and as a result, cancelled debt owed by Namibia when the neighbouring state gained independence in 1990; and in 1998, South Africa cancelled R40 million of Mozambique's debt. In addition to the cancellation of debt, South Africa has been a spokesperson for African states in the quest for resolving the continent's debt burden. An example was Foreign Minister Nkosazana Dlamini Zuma's visit to Japan in 1999, where she sought Japanese support for a debt relief programme.

Despite being the representative for debt relief in Africa, South Africa has assumed a contrary stance on the cancellation of its own external debt. Debt relief would threaten its credibility as an emerging market and regional economic power. Moreover, South Africa is reliant on FDI for economic growth; and debt cancellation would be detrimental to government efforts to entice foreign investment. Another issue of contention with regard to South Africa's debt is whether the ANC government should be servicing debt accumulated by the apartheid regime, and the moral implications thereof. The South

African government, however, maintains that it does not wish for assistance in the reduction of its debt.

South Africa must be differentiated from its neighbours due to its relative economic strength and its relational power. Hence, it was written that

> South Africa is unique and should act accordingly. It is not a bankrupt country which needs debt relief and it is not a rich creditor country which can afford to dispense so much charity. It is a proudly-independent not-very-well-off country, struggling to uplift its poor majority (Nel, Taylor & van der Westhuizen, 2001:52).

Thus, despite not wishing to be comparable to other African states in the issue of debt relief, South Africa is intent on pursuing international backing for the cancellation of Africa's debt.

1.3 Foreign Direct Investment

Angola, Egypt, Nigeria, Tunisia and South Africa were the greatest recipients of FDI on the continent in 2000. The importance of FDI in Africa is evident in the following observation of Ian Forsyth (Heine, Mills & Porter, 1998:129):

> Foreign investment is now a critical engine in the development of all Southern economies and has become far more significant in economic development than government aid. It is notable that the developing countries which are most successful in their economic development are generally those which are most successful at attracting productive, direct foreign investment.

Investors' fears of political instability, corruption, macroeconomic instability, poor infrastructure and slow economic growth illustrate why Africa is not considered a lucrative site for FDI. With the exception of the above-mentioned states, the only other potentially profitable states that have been identified as targets for FDI include Mozambique, Botswana, Ivory Coast, Mauritius, Uganda, Lesotho and Ghana (WIR, 1998, WIR, 2001).

Foreign investors have pinpointed various sectors which are of interest to them; namely, tourism, telecommunication, petroleum, natural gas, agriculture, mining, quarrying, food, beverage, and pharmaceutical and chemical products. South African companies are currently expanding into the continent and these transnational corporations are to be found in the mining, finance, paper, glass, beverage and tourism sectors (Hirsch, 2000; UNCTAD, 1998).

The South African government recognised the value of FDI and has been participating in the design and adoption of regional and continental agreements that aim to build an investor-friendly environment in Africa. NEPAD exemplifies South Africa's engagement in the design of an African declaration that stipulates the need for good governance. Good governance incorporates control of corruption, the creation of political stability, democratisation, protection of human rights, market-oriented economic policies, abidance by the rule of law, and effective and efficient public administration. Thus, NEPAD is one illustration of an African declaration that addresses investors' concerns.

As signatories of NEPAD African leaders are collectively committed to (a) strengthening mechanisms for conflict prevention, management and resolution; (b) promoting and protecting democracy and human rights; (c) developing clear standards of accountability and transparency; (d) restoring and maintaining macroeconomic stability; (e) instituting transparent legal and regulatory frameworks for financial markets and auditing of private companies and the public sector; and (f) promoting the development of infrastructure, agriculture and its diversification into agro-industries and manufacturing to serve both domestic and export markets (NEPAD, 2001:11-12). In brief, it is apparent that the South African government has been prominent in the creation of NEPAD and in sustainable development by means of the establishment of an attractive environment for FDI.

1.4 Cui bono?

If South Africa achieves its stated objectives, many states will profit. Trade reforms will ensure an increase in African access to international markets, which will promote economic growth in these states. This, in turn, will create greater markets for South African exports on the continent. International trade institutions will similarly gain from such reforms as their credibility and legitimacy in the eyes of the South will improve; they will no longer merely represent the interests of the North, but will fulfil a neutral, equitable, accountable function. Debt cancellation will obviously be of immense benefit to the recipients as debt servicing will no longer place such a burden on the numerous economies. If South African endeavours at debt relief are successful, the state will gain international respect for its efforts. Finally, increases in FDI will ensure economic growth in the recipient states, and South African companies investing in African states will have access to more markets.

The above list provides a limited, brief proposition of who will benefit from South Africa's proposed reforms, and its representation of African interests in the international political economy. Although African states will experience immense gains, these will ultimately facilitate South Africa's interests. Thus, it is necessary to evaluate whether South Africa's interest in Africa is self-serving or benign. In line with Balaam and Veseth's (2001) definition of a benevolent hegemon, the argument can be made that South Africa is not merely acting in its own interests, but that the consideration of African needs simply assists South Africa's pursuits. Therefore, through its representation of African needs in the international political economy, South Africa's interests are advanced.

It is evident that the South African government has been engaged in activities in the international political economy that serve the state's interests. Moreover, the success of these actions could augment the state's power and wealth at both continental and international levels. Yet, despite the inevitability that South Africa will benefit from its efforts, its ties with the continent and its reliance on access to African markets may prevent it from exploiting the continent and acting in a malevolent manner. As mentioned above, South Africa appears to have recognised that its interests are served by maintaining the security and prosperity of its African counterparts. Consequently, South Africa's actions appear to be consistent with the realist school of thought: the state is not merely being good to African states as a result of altruistic intentions; rather, the state is being kind due to selfish motivations. However, if Africa's gains are inconsequential in comparison to South Africa's, it may be fair to assume that South Africa has merely exploited the continent in order to serve its own interests. Hence, South Africa may warrant a similar repute to the United States of pursuing selfish hegemony. Thus, this study will further investigate the interplay between self-serving and benign policy actions.

1.5 Purpose of the study

The purpose of this study is to identify whether South Africa is a benevolent or selfish hegemon in the SADC region, and in Africa in general. The study further aims to analyse and explain South Africa's hegemony in terms of a set of indicators related to the international political economy, i.e. trade, debt and FDI. This will be done by answering the following questions:

- Does South Africa have the capacity and desire to fulfil a hegemonic role in Africa?
- Does South Africa act in compliance with liberal, realist or structuralist values?
- How has South Africa served African interests in international trade, debt cancellation and FDI?
- How has South Africa benefited from its endeavours in international trade, debt relief and in its promotion of FDI?
- How has South Africa acted in apparent contravention of broader African ideals?
- Is South Africa acting in a benevolent or selfish manner in its role as Africa's hegemon?

Theory

The theoretical framework of this research will be based on the three major theories of international relations, namely liberalism, realism and structuralism, which are translated into liberalism, mercantilism and structuralism in the international political economy. A summary of the main tenets and assumptions of realism, liberalism and structuralism is provided below.

Realism

- Anarchic world order resulting in states acting to secure their sovereignty;
- The state is the central unit of analysis;
- States aim to maximise wealth and power;
- The economy serves to accumulate power and wealth;

- Inter-state competition is based on zero-sum gain; thus, relative gain is preferable to mutual gain.

Liberalism

- Politics is separate from economics;
- Favours minimal state intervention;
- The individual is the primary unit of analysis;
- Based on laissez faire principles;
- Freedom, free markets, individual rights, maximum efficiency, free trade, open markets;
- Inter-state competition is a positive-sum game; thus, it is mutually advantageous;
- International institutions create an environment that is favourable for the creation and preservation of international peace and prosperity.

Structuralism

- Encompasses class differentiation, modern world systems theory and dependency theory;
- Considers a liberal, capitalist world system to be the cause of inequalities and exploitation;
- Market imperfections augment inequality and exploitation;
- The economic structure has the greatest influence on society;
- The state system perpetuates the interests of the bourgeois class;
- Represents the interests of the powerless;
- The modern world systems theory comprises the division of states into the core, semi-periphery and periphery;
- The dependency theory covers the Global South's dependence on the industrialised North.

Each of these theories is necessary in an analysis of South Africa's representation of Africa in the international political economy, and in an assessment of South Africa's hegemony. In short, is South Africa holding the North accountable to liberal policy obligations so as to reform the existing structuralist arrangement of the international political economy? And are these reforms the logical measure for South Africa's mercantilist goals? Consequently, will these goals then result in augmented power and wealth which are synonymous with realism?

From a structuralist perspective, the economic development of Africa will ultimately bridge the gap between the 'haves' of the North and the 'have-nots' of the South. Consistent with liberalism, reforms to international organisations will ensure equity in the international political economy and these institutions will no longer merely serve the interests and profits of the states that unfairly (and immorally) dominate these institutions (i.e. the EU, the United States, Canada and Japan). Finally, from a realist perspective, it is questionable whether South Africa has taken such an interest in the development of the continent for altruistic reasons. If its efforts are fruitful, not only will South Africa witness an increase in its relational and structural power, but it will also enjoy economic growth due to the availability of a much greater African market for South African products and corporations. A theoretical assessment of South Africa's role as Africa's hegemon will involve an interplay of theories which are not mutually exclusive and may encompass aspects from realism, liberalism and structuralism. In short, the buoyancy of the continent will be beneficial to South Africa as it will experience economic growth, and, perhaps, the iconic status of benevolent hegemon.

1.6 Research method

This study is primarily a qualitative analysis of various books, journal articles, internet sources and addresses pertaining to trade, debt and FDI and how these aspects of the international political economy are used to determine whether South Africa is a benevolent or selfish hegemon – or, indeed, both.

1.7 Significance of the study

This study is of significance as there appears to be a void in the analysis of South Africa's hegemony in Africa. Studies relating to South Africa's hegemony (including articles by Adebajo and Landsberg (2003), Schoeman (2003) and McGowan and Ahwireng-Obeng (1998)) have concentrated on whether South Africa is in fact Africa's hegemon, and not whether this hegemonic status is self-serving or selfless. Moreover, there is great scope for studies relating to post-apartheid South Africa's power in Africa and its role in the international political economy. How South Africa utilises its military and economic power, coupled with its moral standing in the international community, is an intriguing area of research. Similarly, it is of great interest to identify the motives for South Africa's representation of African interests in international trade, debt cancellation and the attraction of FDI, and which theory of international relations most accurately explains this.

1.8 Structure of the study

This study is divided into three sections. The first section, comprising chapters 2 and 3, will provide the theoretical context of the research. The second chapter will consist of the explanation of the three principal theories of international relations and how these can be used to assess the existing organisation of the international political economy. The third chapter will be based on a discussion of hegemony and South Africa's role in Africa. The three measuring devices (trade, debt and FDI) will constitute chapters 4, 5 and 6 of section two. In these chapters, a background to the trade regime, debt crisis and FDI flows, respectively, are provided. The role assumed by South Africa will be discussed and evaluated on the basis of the three theories of international relations, and the state's hegemonic rule will be assessed. Finally, the third section of the research will comprise chapters 7 and 8, which will conclude with the findings of the investigation, i.e. whether South Africa is considered the benevolent or selfish hegemon of Africa, and which theory the state subscribes to (both in rhetoric and in practice), a summation of the research and suggestions for future studies.

Section 1

The first section of this research – comprising chapters 2 and 3 - provides the theoretical framework within which South Africa's hegemonic rule is assessed and analysed. Chapter 2 provides a discussion on the three theories of international relations, namely liberalism, realism and structuralism. Each of these theories is relevant to an assessment of South Africa's hegemonic rule in Africa as, in short, the state is advocating liberal policies as a means to redress the structural character of the global economy, which is inherently prejudiced against African states. The South African government is set to profit from its endeavours, thereby portraying the realist ambitions of the state. Chapter 3 provides the theoretical delineation of hegemony and includes the responsibilities of a hegemon, a discussion of hegemonic stability theory, and an assessment of two current hegemons, viz. the United States (the international hegemon) and South Africa (Africa's hegemon).

Chapter 2: Three theories of international relations

Introduction

Three major theories of international relations will be used to analyse South Africa's role in the African political economy [1]. Therefore, it is necessary to provide detailed explanations of these theories. Each of the three contending theories classifies differing units of analyses. For liberals, the individual is of primary interest. Realists focus on the state, which is believed to be the highest form of authority in an anarchic world order. Marxists view the economic structures of the state and of the international system as the cardinal area of attention. In the international political economy, liberalism assumes the form of economic liberalism; realism is mirrored in mercantilist and economic nationalist thought; and Marxism is apparent in structuralism - and subsequently in the two strands of structuralism (viz. the modern world system theory and dependency theory). This chapter will begin with a delineation of liberalism, and will be followed by explanations of realism and Marxism.

2.1 Liberalism

At the start of the nineteenth century, liberalism developed into a political doctrine guided by the tenets of individualism, freedom, reason, equality, and limited state intervention. Central to liberalism is the conviction that humans are rational, inherently ethical, and concerned with human welfare. The core value of this theory is individual freedom. Moreover, individual worth and equality are paramount. Rawls (1999) identified further requirements of liberalism. His first principle of equal liberty was concerned with the need for constitutional convention, thereby ensuring that 'the fundamental liberties of the person and liberty of conscience and freedom of thought be protected and that the political process as a whole be a just procedure' (Rawls, 1999:174). In states that adopt liberal policies, the constitution is expected to provide for 'moral liberty and freedom of thought and belief, and of religious practice', thus, tolerance is an additional requisite

[1] Kegley and Wittkopf (2001:G-12) defined political economy as 'a field of study that focuses on the intersection of politics and economics in international relations'; thus, African political economy refers to the intersection of politics and economics in intra-African relations.

(Rawls, 1999:186). Rawls (1999:196) further suggested the need for equal participation in a liberal state; he wrote that 'the constitution must take steps to enhance the value of the equal rights of participation for all members of society. It must underwrite a fair opportunity to take part in and to influence the political process'.

Kegley and Wittkopf (2001:G-7) defined liberalism as

> A paradigm predicated on the hope that the application of reason and universal ethics to international relations can lead to a more orderly, just, and cooperative world, and that international anarchy and war can be policed by institutional reforms that empower organisations and international laws for global governance.

At an international level, liberals promote harmonious relations and peaceful cooperation. They assert that interdependence, institutionalism, internationalism, collective security, international law and intergovernmental organisations (e.g. the United Nations) guarantee the preservation of peace and accord.

According to democratic peace theorists, the preservation of international peace is possible if states adopt liberal democratic policies as liberal democracies do not go to war with one another. In addition, Hill (2003:237) provided two inferences: first, liberal democracies may fight non-democracies as '[they may be willing] to use violence against those they regard as 'others''; second, states that do not adhere to liberal democratic tenets are not necessarily more aggressive or more prone to go to war 'however unpleasant they may be towards their own people' (Hill, 2003:238). Woodrow Wilson maintained that 'the best antidote to war was the construction of a world of democratic nation-states that were prepared to cooperate in areas of common interest and had no incentive to embark upon conquest or plunder' (Heywood, 1997:142). Thus, the rational structure of the world would encounter a 'struggle for consensus' in inter-state interactions rather than a 'struggle for power and prestige' (Kegley & Wittkopf, 2001:29) as attaining a cooperative outcome was the desired objective.

2.1.1 Economic liberalism

Restricted state participation and individual freedom are restated in the definition of economic liberalism. Balaam and Veseth (2001:458) defined economic liberalism as '[t]he ideology of the free market. Economic liberalism holds that nations are best off when the role of the state is minimised'. The foundation of economic liberalism is laissez-faire economics. This term is literally defined as 'let be' or 'leave alone', specifically, a view advocating the free market rather than government policies (Balaam & Veseth, 2001:463). Moreover, the separation of politics and economics is fundamental, based on Gilpin's (1987) understanding that politics and economics are contradictory as the former divides while the latter unites.

According to economic liberals, the individual is the primary unit of analysis. Gilpin (1987) made reference to the belief in an economic human, a creature capable of rational thought and maximising behaviour. Hence, it follows that the primary goal of market activity is to benefit the individual.

Gilpin (1987) wrote that markets come into being voluntarily and naturally and that, given adequate information, individuals follow the most profitable and advantageous course of action. Supply and demand are the driving forces behind markets as they determine the price mechanism and terms of exchange. Thus, it follows that decreases in relative prices boost consumption as does increased income. Moreover, economic decisions entail opportunity costs; that is, waiving one product or service for another. If the market is determined by supply and demand, this market is characterised by equilibrium, and it is intrinsically stable. Finally, liberals assume that there exists a compatibility of interests between consumers and producers of goods and services (Gilpin, 1997:30).

Economic liberalism advocates private ownership, the free market, limited government interference in the economy, and mutually advantageous international interactions securing a positive-sum game. Furthermore, the liberal economic doctrine provides a set of principles for the management and organisation of the market economy so as to ensure economic growth and welfare, and to maximise efficiency. Liberals consider the price mechanism to be the foremost method of attaining these levels of efficiency. These ideas were central to the thinking of Adam Smith (who is regarded as the father of modern economics). Smith was weary of government intervention in the economy; hence, he introduced the notion of the 'invisible hand' that 'was offered to supersede the mercantilist notion that governments needed to act in every corner of the economy in order to achieve growing wealth and welfare' (West, 1990:167).

According to West (1990), if freedom is the ultimate purpose of liberalism, and if this freedom creates free trade and competition in domestic markets, then the notion of free trade and competition should extend to international trade. At an international level, the promotion of free trade and open markets augment the availability and diversity of goods and services that are available to the consumer. This has been fortified by the process of globalisation. Increased interaction and interdependence, free trade and open markets create cooperative, peaceful relations between states which simultaneously benefit from these interactions.

Balaam and Veseth (2001) referred to the 'Keynesian Compromise' – otherwise known as the 'system embedded in liberalism'. According to the authors, within the liberal international system - that is characterised by free trade and open markets - domestic policies can be employed as a means of controlling inflation and unemployment, and stimulating economic growth. Subsequently, state involvement has a function in terms of domestic policies whereas a free market should exist between states. In short, this compromise is based on the trade-off between a strong state and a strong market, that is to say, a 'strong state embedded in a strong market' (Balaam & Veseth, 2001:57).

2.1.2 Liberalism in the international political economy

The creation of, and participation in, international institutions such as the United Nations (UN) and World Trade Organisation (WTO) is consistent with Woodrow Wilson's conviction that the existence of such organisations would promote peaceful interactions between states. In the international political economy, the WTO projects itself as playing an invaluable role in the promotion of free and fair trade. The WTO reflects liberal economic thought in international trade as

> Liberal trade policies – policies that allow the unrestricted flow of goods and services – sharpen competition, motivate innovations and breed success. They multiply the rewards that result from producing the best products, with the best design, at the best price (WTO, Internet Source).

In addition, the promotion of liberal trade policies is justified by the following:

> The data show a definite statistical link between freer trade and economic growth… All countries, including the poorest, have assets – human, industrial, natural, financial – which they can employ to produce goods and services for their domestic markets or to compete overseas. Economics tells us that we can benefit when these goods and services are traded (WTO, Internet Source).

Hence, liberal economic thought imparts the foundation of this paramount international institution.

In the international political economy, however, the adoption of protectionist measures by developed states has resulted in the marginalisation of African economies. According to Kenyan President Mwai Kibaki, Africa is accounts for less than 1.5 percent of world trade (Business Day, 2004c). The WTO has acknowledged the emergence of an inequitable trading structure and aims to redress these issues in the Doha Agenda. According to the WTO, reforms extend to agricultural goods, textiles and clothing and reduced customs duties on industrial goods (WTO, Internet Source). Barriers to trade and the subsequent inadequate global share of trade have had negative implications for the economic growth of African economies. In 1776, Smith recognised the importance of free trade for all states:

> He decided in favour of free trade even in the case of the colonial agricultural countries. For he predicted that the expansion of agricultural exports… would promote their long-run economic development by widening the size of the home market, an event that would eventually encourage the rise of [domestic manufacturing] (West, 1990:27).

2.1.3 The liberal state

The contemporary liberal state is expected to value the individual, equality and civil rights and liberties. The state must display impartiality towards all citizens. The design and implementation of a constitution (ensuring equality, freedom, justice, democratic values, and an effective, free and fair electoral system) is of great significance in a liberal state. With regard to economic policies, a liberal state is expected to play a minimal role in the economy. However, consistent with the 'Keynesian Compromise', domestic policies aimed at controlling inflation, reducing unemployment and stimulating economic growth are acceptable. In terms of international economic interactions, free trade and open markets must be espoused. Privatisation is an additional requirement in the liberal economy.

In inter-state interactions, the liberal state must participate in and subscribe to multilateral institutions. Thus, partaking in politically-oriented institutions (such as the United Nations) and in economically-oriented institutions (e.g. the WTO and International Monetary Fund) is paramount. Moreover, inter-state relations must support the democratic peace theory. Therefore, a liberal state may not engage in armed conflict with another liberal state. Participation in international trade must be consistent with the policies of free and open trade. Simkins (1998:69) added that commensurate with Rawls' Theory of Justice, 'redistribution through the state is necessary to ensure equal liberty for all' as this 'helps in maximising the position of the least well-off'.

The South African government appears to subscribe to all the above-mentioned requirements of a liberal state. In the annual Freedom House report (2004), South Africa was deemed a 'free' state. The South African constitution is 'one of the most liberal in the world, and includes a sweeping bill of rights' (Freedom House, 2004). In 2004, South Africa held its third democratic elections since the demise of the apartheid regime, and Freedom House (2004) identified success in 'voter education, balanced state-media coverage, and reliable balloting and vote counting'. Although freedom of association is respected, there is a degree of censorship with regard to freedom of expression: in the Freedom House report (2003a), it was written that 'the state-owned South African Broadcasting Corporation… still suffers from self-censorship'.

South Africa is a member of numerous international and regional organisations (including the United Nations, African Union, Southern African Development Community, Non-Aligned Movement, Southern African Customs Union, World Trade Organisation, International Monetary Fund, etc.). The government has, however, been criticised for its response to the crisis in neighbouring Zimbabwe. As a member of the multilateral regional institutions of the African Union and the Southern African Development Community, South Africa is expected to be an advocate of good governance and the promotion of liberal, democratic ideals. Moreover, by signing the respective treaties of these institutions, the South African government indicated its commitment to the promotion of good governance. Despite this, the government opted for quiet diplomacy in response to Zimbabwean President Robert Mugabe's blatant violation of these principles. This approach has been unsuccessful in ameliorating the crisis in the neighbouring state.

In terms of South Africa's economic policies, it adopted programmes aimed to redress previous inequalities, such as the 2002 Mining Charter and the Growth, Employment and Redistribution Programme (GEAR). Unemployment remains high (approximately 40 percent of the labour force is unemployed), and poverty is rife. Privatisation needs to be furthered by reducing the state's role in Eskom, Transnet, and South African Airways. In line with the 'Keynesian Compromise', the Department of Finance and the South African Reserve Bank are responsible for monitoring employment, controlling inflation and stimulating economic growth. Moreover, the South African economy is categorised as an open economy (Schoeman, 1998:308). Similarly, the government is advocating free trade, evident in the free trade agreements between South Africa and the EU, SACU and SADC.

2.2 Realism

Thucydides' interpretation of the Peloponnesian War introduced the notion of realism. He attributed the conflict to the preponderance of Athenian power, and the fear that this escalated power evoked in the Spartans. Thucydides is considered the father of realism (Nye, 2000:11). In the seventeenth century, Thomas Hobbes distinguished three elements of human nature which enkindle the desire for power: competition (which 'maketh men invade for Gain'), diffidence ('From equality proceeds diffidence' and 'from diffidence warre') and glory (Donnelly, 2000:14). The yearning for power is, according to Hans Morgenthau (a prominent realist thinker of the twentieth century), 'an inescapable consequence of the [desire] … to live, to propagate, and to dominate'; simultaneously, '[m]an's aspiration for power is not an accident of history; it is not a temporary deviation from a normal state of freedom; it is an all-permeating fact which is of the very essence of human existence' (Donnelly, 2000:47).

Realists believe the world system is characterised by anarchy[2]; furthermore, as Donnelly (2000:10) wrote, '[i]n international relations, anarchy not merely allows but encourages the worst aspects of human nature to be expressed'. Thus, he supplemented that '[t]he interaction of egoism and anarchy leads to "the overriding role of power in international relations" and requires "the primacy in all political life of power and security"' (Donnelly, 2000:10). Kegley and Wittkopf (2001:G-13) defined realism as 'a paradigm based on the

[2] Defined in The South African Pocket Oxford Dictionary (1987) as 'disorder, [especially] political'. Derived from the Greek words *an* (without) and *arkhē* (rule). There is an absence of a control authority in the international political economy.

premise that world politics is essentially and unchangeably a struggle among self-interested states for power and position under anarchy, with each competing state pursuing its own national interest'. Thus, realists conclude that the state is the primary unit of analysis.

As the primary unit of analysis, the state is not answerable to a higher authority. As state sovereignty is imperative for the survival of the state, the accumulation of power to deter any potential threats is justifiable. Similarly, national interest is the pre-eminent aspiration in inter-state relations. As states seek divergent objectives in order to secure their own interests these discordant national interests create the extenuation for conflict as states act to defend their interests. Moreover, realists believe that conflict is both economic and political in nature. Economic growth and wealth are necessary requirements for the preponderance of power; concurrently, power is essential in order to secure and preserve wealth.

John Mearsheimer published The False Promise of International Institutions in which he highlighted the futility of international organisations in an anarchic world which is composed of self-interested states. His doctrine regarding the presence of these institutions was termed 'the no effect thesis'. History has supported this creed that the existence of international institutions has not prevented conflict, war and competition for sophisticated security (Donnelly, 2000:132). In short, realists like Mearsheimer do not acknowledge that there is a place for international institutions in an anarchic world order.

2.2.1 Mercantilism and economic nationalism

Analogous to realists, mercantilists consider the state the primary unit of analysis and the acquisition of wealth and power essential objectives for states. Balaam and Veseth (2001:464) define mercantilism as '[a] seventeenth-century idea that won't go away, mercantilism [is] an ideology that put accumulation of national treasury as the main goal of society'. Compatible with realism, mercantilists consider the anarchic international system to be the cause of conflict. This is due to the perception that economic interaction and interdependence are asymmetrical as states enjoy relative gains rather than mutual gains.

The related concept of economic nationalism is defined by Balaam and Veseth (2001:459) as the ideology of mercantilism: ‘Economic nationalism holds that nations are best off when state and market are joined in a partnership. The state protects domestic firms, which become richer and more powerful, which in turn increases the power of the state’. Economic nationalists espouse industrialisation as they believe it has a proliferating effect, which results in economic growth. Moreover, industrialisation is pursued as it is associated with ‘economic self-sufficiency and political autonomy’ and is regarded as a source of security (Gilpin, 1987:33).

Due to the fact that international competition is deemed a zero-sum game, it follows that states aspire to have the competitive edge over their counterparts. This has resulted in the preference for industrialisation over agriculture, the quest for technological prominence, and an international division of labour that maximises state power and profits. In order to ensure advantageous interactions in the global economy, states pursuing mercantilist goals employ various measures to protect domestic producers and augment national wealth and power. In international trade, these measures are labelled protectionism as the term is defined as ‘a policy of creating barriers to foreign trade, such as tariffs and quotas, that protect local industries from competition’ (Kegley & Wittkopf, 2001:254). Other examples of protectionist measures include export subsidies, import and export quotas, import tariffs, voluntary export restraints, non-tariff barriers and dumping (Balaam & Veseth, 2001:115).

The desire for wealth and power is reiterated in the following passage:

> [Mercantilists] today would argue that to accumulate and maintain their wealth and power states are more than ever tempted to intervene in and influence developments not only in their domestic economies but also in other nations’ economies and in the international economy itself. In effect, many states – often in support of their own industries – try to restructure the international economy in their [favour]. One way to do so is to influence or even control the political and economic rules of the game (Balaam & Veseth, 2001:36).

2.2.2 Realism and mercantilism in the international political economy

In the international political economy, and in international relations in general, states persistently act in their own interests. States continue to prioritise state sovereignty; this is evident in the acquisition of weapons of mass destruction which aim to deter potential threats. In international economic interactions, states adopt protectionist measures to safeguard domestic industries and to gain the competitive edge in international trade; this is apparent in the agricultural subsidies employed by the United States and by member states of the European Union. The United States exemplifies a state that has procured wealth and power and has, therefore, been able to determine the international rules of the game in the promotion of its national interests.

The presence of international liberal organisations (such as the United Nations) appears to reflect Mearsheimer's interpretation of international institutions, namely no effect. Consequently the UN exhibited its inability to generate international peace and stability. The United States, once again, exploited its power to undermine the Security Council when it invaded Iraq in 2003. The WTO has warranted a similar repute of ineffectiveness, the most obvious example being a shift in its commitment from free trade to fair trade. Thus, realism still has an invaluable place in an assessment of the modern political economy: the anarchic world system remains composed of self-interested states which endeavour to boost their power and wealth.

2.2.3 The realist state

States adhering to the realist school of thought are expected to prioritise state interests. In order to maximise the attainment of state objectives, the possession of power is imperative. Moreover, power is achieved by securing adequate military resources and the wealth generated from economic growth. Therefore, relative or absolute military and economic strength are essential requirements for the realist state. As realists support the 'no effect' understanding of international institutions, adherence to the policies of these institutions is not deemed necessary. Although these states do not necessarily comply with the policies of multilateral institutions, they still appear to participate in these organisations, possibly due to the fact that they may advance the interests of the state. In the realist state, the economy and the state are interlinked as the state advocates economic self-sufficiency. As a means to generate wealth (necessary for power) and in order to prevent dependence on other states (thereby undermining autonomy) the realist state promotes industrialisation and technological innovation. The competitive edge in technologically advanced goods is crucial to the preponderance of wealth. Finally, in order to protect domestic firms, the realist state is synonymous with the implementation of protectionist policies.

Despite the United States being a champion of liberalism in its rhetoric, it is the archetype of the realist state. Although economic growth was waning, the state is still a dominant economic power in the global economy. Likewise, the United States remains a dominant military power in the international system. State interests are furthered by the United States' participation in international organisations such as the World Trade Organisation. This is apparent in the alteration of the WTO's policies from free trade to fair trade so as to allow for the exception of protectionist polices adopted by the commanding powers in the international political economy (the United States, Japan, Canada and the EU). The United States' disregard for international institutions is evident in the recent invasion of Iraq. The UN Security Council condemned the invasion, yet the United States continued its attack. Although initially under the guise of preserving international peace by removing the weapons of mass destruction that Iraq was believed to possess, the United States later conceded that there was insubstantial evidence to support the invasion on these grounds.

Consistent with mercantilism, the United States has adopted protectionist trade policies. According to Oxford Analytica (2004), '[p]rotectionist pressures are gaining new force as longstanding concerns about the loss of manufacturing employment to low wage economies are interacting with new ones about the threat to the jobs of highly skilled workers' (2004). Although Alan Greenspan, Chairperson of the American Federal Reserve Board, is weary of increased protectionism, import protection has recently extended to the steel industry. Furthermore, the Farm Bureau Federation has acknowledged the significance of safeguarding import-sensitive products in trade negotiations (Oxford Analytica, 2004).

In line with the realist school of thought, South Africa continues to augment its relative power in Africa. In terms of its economic power, South Africa's GDP was equivalent to 44 percent of the total GDP for the sub-Saharan African region (Ahwireng-Obeng & McGowan, 1998:21). South Africa's relative military strength is evident in the state's deployment of peacekeeping forces during continental conflicts (e.g. the DRC and

Burundi). In terms of its regional military superiority, South Africa is indisputably unrivalled.

In his article entitled ‘The irrationality of South Africa’s Military Expenditure’, Harris (2002) identified the extent of South Africa’s military expenditure. In 1999, South African military expenditure was equivalent to the SADC region’s total expenditure; later that year, the acquisition of ships and aircraft increased military expenditure by R30 billion. In addition, Harris (2002) wrote that ‘[m]ore recently, the army has revealed its intention to acquire tanks, other vehicles and ground to air missile systems worth R16 billion’. Regional and international status was identified as the driving force behind these military acquisitions (Harris, 2002). The South African government’s military expenditure is reflective of the state’s desire for military power (which is one of the key requirements that realists acknowledge as critical for international power and the promotion of state interests).

Despite its declared support for liberal, multilateral institutions, South Africa’s response to the crisis in Zimbabwe was representative of Mearsheimer’s ‘no effect’ discernment of international institutions. Zimbabwe was party to SADC and AU declarations that called for good governance, and that stipulated that action would be taken in response to non-compliance. Zimbabwe disregarded this commitment and South Africa followed suit in its response of quiet diplomacy to violations of regional treaties in neighbouring Zimbabwe.

2.3 Structuralism

According to Kegley and Wittkopf (2001), structuralism consists of two strands, namely the dependency theory and the modern world system theory. Both theories are concerned with the relationships of dominance and dependence between states of the Global North and of the Global South. Balaam and Veseth (2001:469) defined structuralism as

> [the theory that] accounts for the political-economic interconnectedness (structural relationship) between any number of entities: the bourgeoisie and proletariat, the core and periphery, the North and South. A number of ties bind these entities to one another, including trade, foreign aid, and direct investment.

The cardinal understanding of structuralism is that the structures of the global economy are responsible for the apportionment of power and wealth. The international structure and the creation of international institutions are inherently biased, resulting in growing disparities between states of the North and South. This is comparable to the Marxist view that within a capitalist society, the multiplying profits accrued by the bourgeoisie occur at the expense of the proletariat. According to Balaam and Veseth (2001), the North's exploitation of the South exists in all four structures of the international political economy (identified by Strange, 1988), i.e. production, knowledge, finance and security. In brief, developing states are dependent upon the United States and international organisations for security, they are dependent on developed states for finance, they do not enjoy the same degree of technological innovation. Therefore, their knowledge and production structures are inferior in comparison.

The structuralist perspective is also known as the Singer-Prebisch theory and converges on the notion that the world economy is divided into two clusters: the first consists of the developed, technologically advanced, wealthy states of the North (the core); the second group comprises developing or less-developed poorer states of the South (the periphery). Technological innovation in the North increases the productivity and economic growth of these states. Thus, the creation of an uneven playing field is detrimental to the South as limited access to advanced technology undermines growth and productivity, thereby creating an ever-increasing divergence between the core and periphery. Furthermore, as the core advances, the terms of trade for primary commodities (on which the peripheral economies lean) deteriorate. Subsequently, the impecunious peripheral states need to export increasing quantities of primary commodities in order to finance the importation of manufactured products from the core (Gilpin, 1987).

The creation of international organisations which promote the interests of the periphery (e.g. UNCTAD), the adoption of policies (e.g. commodity stabilisation programmes), and prompt industrialisation have been proposed to reduce discrepancies between North and South. Declining terms of trade have been cited as a further cause of unequal growth, yet this is difficult to measure and to reverse. However, Gilpin (1987:278) additionally suggested the need for domestic reforms to redress inequalities: '[t]o the extent that the less developed economies do suffer from unfavourable terms of trade, the most important causes are internal to their own economies rather than in the structure of the world economy'. A combination of domestic reforms, industrialisation, favourable terms of trade and foreign investment in the manufacturing sectors of peripheral states may bridge the gap between the 'haves' of the North and the 'have-nots' of the South.

2.3.1 Marxism

Balaam and Veseth (2001:464) defined Marxism as

> An ideology that originated in the works of the German sociologist Karl Marx…Generally, Marxism is a critique of capitalism (as distinct from economic liberalism). Marxism holds that capitalism is subject to several distinctive flaws. Marxism tends to view economic relations from a power perspective (capital versus labour) as opposed to the cooperative relationship implicit in economic liberalism.

While economic liberals and mercantilists respectively deem the individual and the state the primary units of analysis, Marxists believe that economic classes are the primary units of analysis. Whether national or international, the economic classes are perceived as the impetus behind the operation of the international political economy; i.e. the developed North is the driving force of the global economy. These structures further provide the pretext for the moral critique of the exploitative nature of intra-state and inter-state relations.

This ideology imputes economics and technology to be the catalysts for the unfolding of history. This is portrayed as the 'materialist conception of history' or 'historical materialism'. Historical materialism is the understanding that, consistent with Marxist thinking, economics underlines the establishment of political and social institutions (Balaam & Veseth, 2001:461). According to this theory, at any stage in history, society has contained productive powers which control and direct the labour force. The productive forces in society determine the mode of production; i.e. available knowledge and technology are the driving forces behind the formation of the system of the political economy. The relations of production are the economic classes (i.e. the North and the South), and these determine the ethical and social structures of a society. According to Marx, the conflicting interests between the forces of production and the relations of production create revolutionary tendencies. Revolutionary change causes historical change as one system of economic structures and relations supplants another (Balaam & Veseth, 2001; Honderich, 1995).

In abstract, historical materialism describes the antagonistic economic forces of a system that results in conflict and revolution. This ultimately facilitates the creation of a new epoch in history. Examples of different epochs include slavery, feudalism and capitalism. Finally, a similar change in epochs was envisaged by Marx in the form of the eventual vanquishing of capitalism by socialism (Honderich, 1995:356).

Marxism is synonymous with the class struggle, i.e. the conflictual relations between the owners of production (the bourgeoisie) and the working class (the proletariat). The exploitative nature of the productive structure and the conviction that the state simply prevailed to uphold the interests of the bourgeoisie (rulers), led to a dissatisfied working (ruled) class. 'Each system of production creates ruling and ruled classes. Each epoch is marked by a particular way of extracting income for the rulers' (Balaam & Veseth, 2001:71). Class dissent and eventual revolution were merely the expected outcome of events as fewer owners of production accumulated wealth (thus creating a concentration of wealth), while the working class became discontented. As Marx and Engels (authors of <u>The Communist Manifesto</u>) wrote:

> Not only are [the proletariat] slaves of the bourgeois class, and of the bourgeois states; they are daily and hourly enslaved by the machine, by the overlooker, and above all, by the individual bourgeois manufacturer himself. The more openly this despotism proclaims gain to be its ends and aim, the more hateful and the more embittering it is (from Balaam & Veseth, 2001:71).

Thus, it is apparent that – reminiscent of historical materialism - the revolutionary tendencies of the proletariat would be fuelled by the expansion of the forces of production. The oppressive bourgeoisie would be unsuccessful in perpetuating the class division as the proletariat grew (Honderich, 1995:365).

Lenin transposed the class struggle, exploitation and inequality that emanated from Marx's interpretation of the economic structures to an international level.

> The essence of Lenin's argument is that a capitalist international economy does develop the world, but does not develop it evenly. Individual capitalist economies grow at different rates and this differential growth of national power is ultimately responsible for imperialism, war and international political change (Gilpin, 1987:39).

Lenin argued that as capitalist economies faced declining rates of profit, they sought expansion into poorer, undeveloped states which would provide raw materials, investment sites and large, untapped markets (Gilpin, 1987:39). Thus, the division between the bourgeoisie and proletariat was extended to an international level. Capitalist aspirations for the accumulation of wealth would lead developed economies to expand into underdeveloped regions in the world, and infiltrate and exploit these embryonic regions. The direct outcome of this penetration would be the establishment of a world proletariat comprising these underdeveloped states (Gilpin, 1987; Balaam & Veseth, 2001; Honderich, 1995).

2.3.2 Modern world system theory

Kegley and Wittkopf (2001:133) defined the world system theory as

> a theory that claims the perpetual and widening inequity among states [which] is explained by capitalism's international division of labour and production, which over time allows the wealthy core countries to become richer while the peripheral states supplying raw materials and cheap labour become poorer.

Gilpin (1987:69) wrote that central to the modern world system theory is the division of the world economy into a 'dominant core' and 'dependent periphery'; the core and periphery 'interact and function as an integrated whole'. Thus, this theory reflects the Marxist-Leninist view that in a capitalist economic system, the accumulation of wealth by the bourgeoisie results in a concentration of wealth while the poor proletariats become impoverished. A further mirroring of Marxism and the primacy of the economic system is theorists' classification of the world as a 'structural whole' and as 'the appropriate unit and level of analysis' (Gilpin, 1987:68).

The semi-periphery is considered an economic and political intermediary which performs the function of a 'transmission belt through which flowed the surplus that was [siphoned] off from the periphery to the core'. Moreover, the semi-periphery can be divided into two groupings: the first comprises states in which there exists a combination of activities characteristic of core and peripheral states; the second group consists of states 'in which there is a predominance of activities which are at intermediate levels with regard to the current world-system distribution of capital-intensive/labour-intensive production' (Grugel & Hout, 1999:7-8).

In essence, the cynosure of the modern world system theory is the understanding that the world economy functions as a coalesced entity in which the developed, unrivalled core states shift surplus and derive wealth from dependent peripheral states; while the semi-periphery operates as a buffer.

2.3.3 Dependency theory

Dependency is defined as

> a condition of retarded economic growth believed to result from the Global South's subordination and structural exploitation by the Global North's advanced capitalist market economies, making the Global South especially vulnerable to cycles of expansion and contraction (Kegley & Wittkopf, 2001:146).

Dependency theory is defined as 'a perspective that perceives the international economic structure as responsible for the less developed Global South countries' dependence on, and exploitation by, the wealthy Global North countries' (Kegley & Wittkopf, 2001:G-4). The authors supplement this with the following explanation: the nature of the economic structure is such that the South is dependent on the North due to the capitalist policies intrinsic to the North; the North additionally ensures the exploitative character of international trade and production (Kegley & Wittkopf, 2001:145). Lastly, the Global North is 'a term used to refer to the world's wealthy, industrialised countries located primarily in the Northern hemisphere'; the Global South is 'a term now often used instead of 'Third World' to designate the less-developed countries located primarily in the Southern hemisphere' (Kegley & Wittkopf, 2001:126).

Leading dependency theorist Theotonio dos Santos wrote:

> By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development (Gilpin, 1987:282).

This theory reflects Marxism in that the capitalist world system is believed to promote this dependency and it is consistent with Lenin's interpretation of imperialist expansion. It does, however, also nominally reflect elements of economic nationalism as the state and the distribution of wealth between states are relevant to this theory (Gilpin, 1987).

Congruent to the modern world system theory, dependency theorists attribute the developed states' exploitation of developing and underdeveloped states in the global economy to capitalism and the associated avarice for increasing profits. Surplus and declining rates of profit necessitated expansion into peripheral states resulting in a dominant-subordinate relationship between the developed states of the North and the developing and underdeveloped states of the South. Gilpin (1987) identified three standpoints of dependency theory, namely the exploitation theory, the theory of imperial neglect and the notion of dependent development. The exploitation theory is based on the understanding that the South is impoverished due to systematic exploitation, i.e. economic surplus has been depleted from the South by the North due to trade and investments, and this has magnified the North's wealth. The theory of imperial neglect is based on the notion that during colonisation, colonised states benefited from infrastructural development and international trade and investment. Consequently, states that were circumvented did not reap the benefits of the associated gains from the 'capitalist penetration'. The third theory of dependent development recognises that economic growth may be viable within a specific context, irrespective of dependency (examples cited included Taiwan and South Korea); however, this development is implicitly flawed as it is not considered to be an authentic approach to development due to the inability to guarantee independence (Gilpin, 1987:284-5).

Repercussions of the South's dependency on the North include the following: reliance upon the exportation of raw materials; intra-state socio-economic inequalities; the destruction of domestic entrepreneurship and technological modernisation due to the presence of multinational corporations; the 'crowding out' of domestic industries; the utilisation of untimely technology; the establishment of an unfair, unequal international division of labour; hindrances to self-determined, domestic development; unnecessary unemployment and waste due to labour market distortions; and dependence on foreign capital (Gilpin, 1987:286).

In consonance with Marxism, dependency theorists believe the exploitation of the South and its subsequent dependence on the North necessitates revolutionary change to counter the power of the bourgeois states over the proletariat. Moreover, they advocate the adoption of socialism as a preferable substitute for capitalism. The argument that guides dependency theorists is that a socialist world system redresses economic and social inequality and advances the establishment of an industrialised, 'self-reliant' state governed by 'the new elite [who would] create a just and strong state' (Gilpin, 1987:287).

2.3.4 Marxism and structuralism in the international political economy

It is incontrovertible that the existing capitalist structure of the international political economy has produced the perpetuation and escalation of disparities between states. Hence, consistent with structuralism, the economic structure has determined the allocation of wealth and power in the international political economy. Moreover, as a consequence of this supremacy and prosperity, international financial institutions merely reflect the interests of the wealthy, advanced core states. African states, as well as Asian and Latin American states – which palpably fall into the category of peripheral states – face deteriorating terms of trade, increased socio-economic challenges, debilitating debt, and dependence on the core for security, financial aid and capital, and technological assistance.

Thus, the world is clearly divided into antagonistic groupings of the international bourgeoisie and proletariat. In line with the definition of the modern world system, it is apparent that the international division of labour that is espoused by capitalism has secured the accumulation of wealth and influence by the North at the expense of the South, which is being exploited for its natural resources and inexpensive labour. The result of this is the prolonged marginalisation of the periphery (Kegley & Wittkopf, 2001).

2.3.5 The Marxist state

Marxist states are concerned with the inequality and exploitation that arises in the economic structure of the state and the international political economy. Thus, state control in political and economic life is synonymous with the Marxist state; similarly, state-owned enterprises are equated with the Marxist state. The state aims to bridge the gaps between the bourgeoisie and the proletariat, and between the international bourgeoisie and proletariat (the North or core, and the South or periphery). The Marxist state is associated with autocracy and communism. Therefore, the state is central in politics and economics. Internationally, advocates of Marxism and structuralism are concerned with redressing the dependency of the South on the North. Therefore, they promote industrialisation (so as to reverse dependence on agricultural commodities), favourable terms of trade, and the attraction of FDI. Moreover, in order to boost the economies of the South, structuralists encourage entrepreneurship and technological innovation.

The prime example of a Marxist state is China. Freedom House (2003b) determined that the state is 'not free'. The Chinese Communist Party maintains control (it has been in command since Mao Zedong assumed power in 1949). Political reform is prohibited and although eight smaller political parties exist, these are under the control of the Chinese Communist Party (CIA, 2003). Freedom House (2003b) reported that 'China is one of the most authoritarian states in the world' as the Chinese Communist Party maintains control over the judiciary, and Chinese citizens do not enjoy basic rights and liberties.

In terms of its economic policies, the Chinese government has opted for 'a more market-oriented system… within a political framework of strict Communist control' (CIA, 2003). Privatisation is on the increase as is China's participation in international affairs. Marxist states are expected to reduce inequality yet, according to Freedom House (2003b), income inequality, escalating unemployment and a dissatisfied labour force (illustrated by protests) are visible in China.

At an international level, the South African government appears to pursue structuralist objectives: the reversal of the South's dependency on the North, and of the North's domination of international trade and financial institutions. The South African government appears to be particularly concerned with the marginalisation of African states in world trade. In his address at the Doha Ministerial Conference in 2001, South Africa's Minister of Trade and Industry identified the need to restructure the existing trade regime which 'clearly prejudice[s] the interests of developing countries' (Erwin, 2001). With regard to protectionism in the agricultural sector, he stated that '[r]edress is fundamental to a development agenda'.

2.4 Theory and the contemporary state

In the above-mentioned examples of liberal, realist and structuralist states, characteristics of each type were evident in South Africa's domestic and international policies. In his book Talk Left, Walk Right (2004), Patrick Bond illustrated the impartiality of the South African government to these theories. He wrote that Mbeki is an advocate of the 'Washington Consensus', 'post-Washington Consensus' and 'Third World nationalism'. The Washington Consensus resembles economic liberalism; the post-Washington Consensus mirrors aspects of structuralism, i.e. reforming the 'capitalist framework' and opposition to 'U.S. unilateralism'; Third World nationalism similarly reflects aspects of Marxism (e.g. 'increased global integration', 'rhetorical anti-imperialism' and 'Third World unity') (2004:23).

The hybrid or 'schizophrenic' nature of South Africa's policies was reiterated by Bond (2004:32):

> the South African government entered the 21st century slogging through the ideological swamp that is world politics. Pretoria politicians often deployed Third World nationalist rhetoric amongst friends, but post-Washington advocacy was the preferred global discourse, with the application of Washington Consensus philosophy at home and anywhere South African business interests were at stake in Africa.

It is apparent that South African political and economic policies are of a hybrid nature. The government is an advocate of the liberal tenets of freedom, tolerance and constitutionalism. The government supports liberal economic policies of free trade and open markets. The South African government wields immense economic and military power relative to its Southern African counterparts. As a result, it has a preponderance of power and is able to further its own interests. Regardless of its participation in multilateral institutions, and its acceptance of these institutions' declarations and treaties, the 'no effect' thesis of international institutions has been witnessed in the case of South Africa's response to Zimbabwe. The interests of the government reflect Marxist thinking as it is challenging the existing economic structure and is striving to reduce the South's (specifically Africa's) dependency on the North. Increased African participation in international trade will create a greater market for South African goods, thereby stimulating economic growth in South Africa and expanding the state's economic strength (which is, once again, exemplary of realism). The table below provides a summary of the major characteristics of liberal, realist and Marxists states. Certain characteristics of each theory (as presented in the table) are applicable to South Africa, thus, the political and economic policies of the South Africa are clearly diverse.

Three theories of international relations		
Liberalism	**Realism**	**Structuralism**
• Prioritise individuality and equality • Freedom (of association, expression, etc.) • Constitutionalism[3] • Tolerance • Universal participation • Effective electoral process and system • Participation in multilateral institutions (political and economic) • Minimal state intervention in the economy • Free trade • Open markets • Economic growth	• Prioritise the state • Secure military and economic strength • Expand power • Indifference towards multilateral institutions (political and economic) • State plays important role in economy (interlinked state and market) • Economic self-sufficiency • Promote industrialisation and technological innovation • Adoption of protectionist methods	• Critique of economic structure • Promote equality at domestic and international levels • Bridge gaps between North and South • Reduce dependence on the North or Core • Encourage domestic reforms, industrialisation, favourable terms of trade, FDI, entrepreneurship, technological innovation • Redress reliance on agricultural commodities

Figure 1

[3] A constitution protecting and promoting equality, freedom, justice, and free and fair democratic processes is cardinal to liberal states.

2.5 Conclusion

This chapter provides a detailed description of liberalism, economic liberalism, realism, mercantilism, economic nationalism, Marxism and structuralism. This is necessary as an assessment of the international political economy – and specifically South Africa's hegemony – requires a basic understanding of the tenets of these theories and ideologies. The establishment of international institutions is consistent with liberalism; the adoption of protectionist policies is representative of mercantilism; the marginalisation of African states and their dependency on developed states is indicative of structuralism. Although the applicability of liberalism, realism and structuralism will be dealt with in greater detail in the ensuing chapters, this chapter offers a brief illustration of the suitability of these theories. It is clear that each theory can be utilised to assess the international political economy, and that these theories are not mutually exclusive. For example, within the trade structure, the quad has implemented protectionist policies consistent with realism while advocating trade liberalism; external debt has created a relationship of dependence between the North and the South; and FDI requires the adoption of liberal political and economic policies as a means to attract foreign capital. Thus, for the purpose of this research an eclectic approach will be adopted.

Chapter 3: Hegemony

Introduction

Hegemony requires the amalgamation of a preponderance of military and economic power, enticing and affirmed norms and values, and the means and intent necessary to contribute collective goods. Hegemony is defined as

> the holding by one state of a preponderance of power in the international system or a regional subsystem, so that it can single-handedly dominate the rules and arrangements by which international and regional political and economic relations are conducted (Adebajo & Landsberg, 2003:173).

In line with the hegemonic stability theory, the ascendance of a hegemonic state is akin to the attainment and maintenance of an epoch of stability and prosperity; the decline of a hegemonic state is associated with international insecurity and economic stagnation. In this chapter, concepts relating to hegemony are defined and explicated. The prerequisites for hegemony (viz. power, capabilities and influence) will be discussed, followed by a detailed discussion of hegemony, legitimate hegemony, the provision of public goods and hegemonic stability. Benevolent and selfish hegemony will be compared and contrasted. To conclude the chapter, two current examples of hegemony will be examined: the first deals with the rise and intimated decline of the international hegemon (the United States); the second explores the role of a regional hegemon (South Africa).

3.1 Power, capabilities and influence

Power is defined by Holsti (1995) as 'the general capacity of a state to control the behaviour of others'. Moreover, in the literature pertaining to power, there is an apparent consensus, i.e. that power is the ability of one actor to induce a second actor to act according to the first actor's interests and wants. Goldmann and Sjöstedt (1979:9) defined power as follows: 'A exercises power over B: A causes B to behave in the way A wants'. Holsti (1995:118) wrote that 'A seeks to influence B because A has established certain objectives that cannot be achieved unless B does X'. Rapkin (1990:54) underlined this understanding of power: he wrote that 'one of the most profound forms of the exercise of power occurs when A is able to influence B's behaviour by changing the way that B thinks about his goals and the norms that guide his actions'. Strange (1988) classified this type of power as relational power. However, she suggested that relational power is subordinate to structural power as structural power is the ability to determine the rules of the game. Strange (1988:25) expounded this form of power as 'the power to decide how things shall be done, the power to shape frameworks within which states relate to each other, relate to people, or relate to corporate enterprises'. Thus, '[t]he relative power of each party is more, or less, if one party is also determining the surrounding structure of the relationship' (1998:25).

Power is interlinked to capabilities as these capabilities are considered 'preconditions for the possession of power' (Goldmann & Sjöstedt, 1979:15). Capabilities are defined as 'resources of whatever kind – physical, human, intellectual – a government may choose to employ, or not employ, to aid it in the pursuit of its external goals' (Goldmann & Sjöstedt, 1979:87). Military supremacy and colonial ascendancy were previously regarded as the primary requirements for international power. More recently, however, economic power and technological innovation are acknowledged as being preferable to territory and the concurrent acquisition of population and natural resources (Nye, 1990).

The possession of tangible power resources which can be utilised to influence other actors are described as the means of 'hard power' or 'command power'. This manifestation of power is correlative to the espousal of threats ('sticks') or rewards ('carrots'). The antithetical form of hard power is interconnected to intangible elements such as ideas, ideologies, cultural beliefs and values. This form of non-coercive, ideologically-based soft power creates a situation whereby a dominant state succeeds in attaining its objectives by 'getting others to want what [it] want[s]' (Nye, 1990:181). Therefore, the hegemon's ability to determine the rules of the game is linked to its capacity to 'shape the preferences that others express' (Nye, 1990:181, 2000; Kegley & Wittkopf, 2001).

Holsti (1995:127) noted that the possession of capabilities is not sufficient as power should be converted into influence. Thus, powerful states may employ one or more of the six tactics he identified: persuasion, the offering of rewards, the granting of rewards, the threat of punishment, the infliction of non-violent punishment, and the threat of force (Holsti, 1995:127).

3.2 Types of Hegemony

Liberals' perception of hegemony is a positive one as the hegemon supplies indispensable collective goods (e.g. peace, stability, free trade). Consequently, hegemony is considered a 'positive-sum game' as 'the international system function[s] more efficiently' (Balaam & Veseth, 2001:58). The structuralist perspective of hegemony suggests that within the capitalist international system, core states continuously dominate peripheral states, either in the form of a hegemon or in the form of a balance of power (whereby the power is wielded by core states). Therefore, '[h]egemony in this view is neither benevolent nor selfish as much as it is part of the nature of capitalist international relations' (Balaam & Veseth, 2001:60). In an international system that is characterised by both anarchy and the unequal distribution of power, realists anticipate that states seek to augment their relative power so as to protect national interests. The asymmetrical allocation of power has resulted in the ascendancy of a militarily- and economically-dominant state that assumes a leadership role in the international system.

Leadership and hegemony are identified by Rapkin (1990) as interchangeable terms. Kegley and Wittkopf (2001:256) defined hegemony as 'the ability of one state to dominate rules and arrangements governing international economics and politics'. This is recapitulated by the explanation that hegemony implies 'being able to dictate, or at least dominate, the rules and arrangements by which international relations, political and economic, are conducted' (Nye, 1990:186). The term hegemon is defined as 'a single dominant military and economic state that uses its unrivalled power to create and enforce rules aimed at preserving the existing world order and its own position in that order' (Kegley & Wittkopf, 2001:432).

Since the inception of the state system in 1648, Gilpin (1987) wrote that there are only two instances where hegemony has been observed. The first was between the Napoleonic Wars and the First World War, when Britain assumed a hegemonic role (this period is known as the Pax Britannica); the second recognised hegemon has been the United States which rose to power at the conclusion of the Second World War (this period has been termed the Pax Americana). Balaam and Veseth (2001) included the United Provinces (the Netherlands) as the hegemon in the eighteenth century; Wallerstein (in Nye, 1990) suggested that the Netherlands was illustrative of modern hegemony between 1620 and 1650; similarly, Christopher Chase-Dunn (in Rapkin, 1990:225) referred to the Netherlands, Britain and the United States as '[t]he three hegemons [that] have acted to support and maintain the interstate system'. However, Gilpin (1987) argued that although the Netherlands was unquestionably the dominant economic power during the seventeenth century, its inability to translate its power into influence, i.e. to utilise this power to determine and reform the rules and arrangements of the international system, prevented it from being comparable to Britain and the United States as a hegemon.

Hegemonic states in the international system must be endowed with adequate military and economic capabilities necessary to maintain international stability and security. The provision of collective goods is a crucial function of the hegemon. Hence, economic and military wherewithal are essential prerequisites for hegemony. In addition to this, Rapkin (1990:5) noted that hegemons 'serve as the source of innovations (especially in transportation, communications, and information), dynamism, and growth for the world economy'. Economic proficiency encompasses the ability to ensure open markets and an open trading regime, countercyclical capital flows, and fulfilling the role of lender of last resort. Due to their military and economic superiority, hegemons control natural resources, markets, capital, technological advantage, as well as prestige and moral supremacy (Rapkin, 1990; Gilpin, 1987). The preconditions of moral authority and international prestige are invaluable for hegemony. Rapkin (1990) referred to these aspects as 'non-material bases' (i.e. 'ideology and norms'), the possession of which ensures legitimate hegemony.

3.2.1 Legitimate hegemony

Gilpin (1987:73) wrote that 'other states accept the rule of the hegemon because of its prestige and status in the international political system'. The ability to promote a set of principles, ideas and values is central to the authenticity of a domineering state. Gadzey (1994) noted that legitimate hegemony is equated with efficient hegemony; furthermore, legitimate hegemony is considered 'far more effective than naked domination' (Rapkin, 1990:49). According to the Gramscian view,

> hegemonic leadership emerges only when the economic material base of a dominant state is set squarely in a uniquely, inspiring philosophical world view. A hegemon leads the world

> not by its economic brute force, but by the persuasion of its philosophical and moral world view; and the hegemon's resource pre-eminence is therefore useful only if it is employed to propagate a moral directive for the weaker states to follow (Gadzey, 1994:29).

Gadzey (1994:31) wrote that power and hegemony were unsustainable during periods of slavery, colonisation and 'military occupation of foreign lands' as this power was dependent on physical, military strength. In contrast, hegemony that is ideologically and normatively founded appears to flourish. Two examples are British and American hegemony. 'The emergence of legitimate domination contributed significantly to the longevity of British rule in India… and to the lasting effect of the British presence on Indian political culture' (Rapkin, 1990:65). Although the British initially relied on military strength to dominate India in the nineteenth century, the dissemination of values and ideas produced the non-coercive, legitimate authority of the British in India. British ideas of justice, secular rule, greater equality and productivity infiltrated a society which was typified by 'religious affiliation and practice, the caste system, and strong local and regional allegiances' (Rapkin, 1990:66). The ascendancy of an efficacious Indian elite, upholding and emulating British values, played a significant role in the penetration of British ideals into Indian society, and therefore, in the legitimatisation of British hegemony (Rapkin, 1990).

American hegemony, at the conclusion of the Second World War, was an additional instance of legitimate hegemony. As Henry Luce (quoted in Rapkin, 1990:61) said:

> Because America alone among the nations of the earth was founded on ideas which transcend class and caste and racial and occupational differences, America alone can provide the pattern for the future. Because America stands for a system wherein many groups, however diverse, are united under a system of laws and faiths that enables them to live peacefully together, American experience is the key to the future… America must be the elder brother of the nations in the brotherhood of man.

The justification of American hegemony hinged on the propagation of ideas such as liberal multilateralism, cooperation (under the auspices of the United Nations) and a liberal, impartial trading and financial regime. The implementation of the Marshall Plan led to the accelerated economic recovery of war-torn European states. Thus, American ideals were correlated to economic growth (Rapkin, 1990). Greater cooperation, a single market and a free trade area are associated with the European Union. Thus, economic prosperity, peace and stability are akin to the ideologies and values of the members of the European Union. The Southern African Development Community is aspiring towards similar outcomes. Thus, the spread of South African-endorsed Western ideas of good governance, democratic values and greater economic integration is representative of legitimate hegemony.

3.2.2 The provision of collective goods

‘Hegemonic activity within the international system is said to be the basis of stability and general economic prosperity and peace’ (Gadzey, 1994:18). International hegemons are expected to provide collective or public goods for all states in the international system. These include an open and free trading system, peace, stability, security, hegemonic order and a sound system of international payments (Rapkin, 1990; Balaam & Veseth, 2001). Gilpin (1987:74) added that the trade regime should be based on liberal tenets – ‘the Most-Favoured Nation principle of non-discrimination and unconditional reciprocity’ – and that a ‘stable international currency’ is considered an additional collective good. As the hegemon is expected to provide public goods which are inclusive of all states and based on non-rivalry, it follows that smaller, ‘subordinate states can obviously take advantage of this situation’ (Odén, 2001:169).

With regard to the provision of collective goods, the hegemon bears the greatest costs and this paves the way for the problem of free riders. The free rider problem is defined as ‘the [d]ifficulty associated with public goods, where an individual is able to enjoy the benefits of a good or service without paying for them’ (Balaam & Veseth, 2001:460). However, as Balaam and Veseth (2001:57) wrote,

> The hegemon benefits so much from the growth and success of the world economy that it is willing to bear the costs of providing international public goods to smaller or weaker states which find it in their interest to cooperate in order to preserve their “free ride”.

Japan’s relations with the United States during the Cold War were categorised by Balaam & Veseth (2001:281) as a free-ride. They identified three reasons for this: first, as the United States absorbed the costs of security for Japan, the opportunity arose for Japan to focus its resources on industrialisation rather than defence; second, Japan was the recipient of ‘cheap technology transfers’ from the technologically-advanced United States; third, the United States’ commitment to a free trade regime created the impetus for Japan’s economic growth. In short, in order to prevent the spread of communism, it proved to be in the United States’ interests to preserve Japan’s free ride during the Cold War.

3.2.3 Benevolent and selfish hegemony

Hegemonic states possess the ability to utilise their wealth and power to serve their own interests, or to serve the interests of the international system. Thus, a hegemon's leadership may be perceived as being benevolent or selfish. Odén (2001) wrote that '[hegemony] implicitly assumed benevolence on the hegemon's part'. In contrast to this, Gadzey (1994) suggested that according to the realist notion of hegemony, hegemonic power provides the opportunity for the dominant state 'to pursue economic adventurism abroad at the expense of its weaker rivals'. The provision of public or collective goods is applicable to both selfish and benevolent hegemons; what separates the two with regard to the provision of public goods is that the benevolent leader absorbs the greatest costs (if not all the costs) while selfish or coercive hegemons '[force] smaller states to contribute to the international economic infrastructure and, at the extreme, to bear the entire cost' (Odén, 2001:171). Reflecting Snidal's views (1985), Odén (2001) identified the link between absolute size and the hegemon's interest in providing a public good, i.e. a greater absolute size is indicative of greater interest in providing collective goods. This leads to the correlation between the growth of the hegemon and the stability of the hegemonic regime.

Focus, cost absorption, implementation of sanctions and methods of influence allow for the differentiation of benevolent and selfish hegemony. The former concentrates on interest while the latter's focus is on capabilities. With regard to the provision of public goods, due to its power, the benevolent hegemon absorbs the greatest costs; the selfish hegemon utilises its power to 'force subordinate states to make contributions' (Odén, 2001:169). Both types of hegemons employ sanctions, however, the benign state makes use of positive sanctions or rewards while the coercive state opts for negative sanctions or threats. The mode of influence adopted by hegemons differs: the benevolent leader's influence is based on cooperation in contrast to the selfish leader's domination through control. In short, a high degree of cooperation, positive sanctions and unilateral cost absorption is characteristic of a benevolent hegemon. Conversely, a greater extent of control and enforcement, negative sanctions and shared cost absorption is symptomatic of selfish hegemony (Odén, 2001).

A benevolent hegemon is defined as a state

> which acts in the long-run interest of a regime as a whole and guarantees the provision of collective goods, in a manner useful to all countries within the regime. The level of enforcement from the benevolent hegemon will usually be low although a benevolent hegemon must sanction free-riders and possibly also may convince the weaker partners to pay part of the costs for the collective goods. In doing so it normally relies on positive sanctions rather than negative sanctions (Odén, 2001:172).

Balaam and Veseth (2001:58) interpolated that this hegemon is directed by 'enlightened self-interest': it has recognised that in order to advance its own interests, it must maintain 'the security and prosperity of others'. Benevolent hegemony mirrors liberal thinking.

Selfish hegemony echoes the realist school of thought. In an anarchic world system, realists classify self-interest as the guiding force behind states' actions. Thus, the pursuit of self-interest ensconces selfish hegemony. States that have accumulated relative wealth and power exercise this power to determine the rules of the game or to set the agenda of the international regime. The agenda merely reflects the interests of the hegemon and its allies. Moreover, the agenda is created to ensure a preponderance of wealth and power for the self-interested leader (Balaam & Veseth, 2001). If one considers the example of free trade, selfish hegemony is illustrative of 'free trade stability [not being perceived] as a pure pubic good the powerful provide gratuitously, but essentially as an instrument of national preservation or as a means to accumulate power (Gadzey, 1994:44).

The table below distinguishes elements of benevolent and selfish hegemony. Hegemony can be assessed based on its power, interests, provision of public goods, and the type of sanctions and influence it exerts.

Benevolent and selfish hegemony	
Benevolent hegemony	**Selfish hegemony**
• Focuses on interest, while capability is secondary: ‘because a [benevolent hegemon] has a dominant interest in a cooperative outcome it also has the [capabilities] to ensure its emergence’[4]	• Focuses on capabilities as interest is derived from capabilities: ‘the [selfish hegemon] focuses on capability, implying that interest in providing the public good follows from the distribution of capabilities’[8]
• Possesses absolute power: the benevolent hegemon’s interest in providing a collective good is directly related to the absolute size and absolute power of the hegemon. The benevolent hegemon is more likely to unilaterally absorb costs if it has the most at stake; thus, its extensive or absolute power is directly related to its interests in maintaining stability and prosperity as this serves the hegemon’s interests and preserves its power.	• Exerts relative power: as the selfish hegemon relies on its ‘ability to force subordinate states to make contributions’, it depends ‘primarily on the relative power of states’[9]. Power is an indispensable precondition for hegemony. Although absolute and relative power are not mutually exclusive to benevolent and selfish hegemony, respectively, the selfish hegemon must, at the least, possess relative power.
• • Absorbs the greatest costs in the provision of public goods	• Shares the costs in the provision of public goods
• Applies positive sanctions (rewards)	• Applies negative sanctions (threats)
• Influence is based on cooperation	• Influence is based on control and enforcement

[4] Odén, 2001:170

[5] The United States’ absolute power was confirmed by Gadzey (1994:117): ‘Only the [US] could initiate the postwar recovery by pumping capital into the other countries suffering every kind of shortage’.

[6] The United States’ role in Europe ‘was driven by positive inducements’ in the form of ‘US capital and material resources’ (Rapkin, 1990:65).

[7] ‘[S]uch norm change would require the [US] to refrain from the direct and coercive use of power’ (Rapkin, 1990:62).

[8] Ibid.

[9] Odén, 2001:169

• Consistent with liberal ideals • The United States' interest in rebuilding Europe after the Second World War is indicative of benevolent hegemony: its aspiration towards the spread of liberal multilateralism was the underlying interest in the implementation of the Marshall Plan; the United States had an absolute advantage in terms of capital and resources, and due to the impact of the War, possessed absolute power[5]; the United States unilaterally absorbed the costs of the Marshall Plan; it offered rewards to European states[6]; the adoption of American ideas was indicative of cooperation rather than coercion[7].	• Consistent with realism • The United States' invasion of Iraq is illustrative of selfish hegemony: due to its military superiority, it was able to induce a regime change in Iraq; its relative power is evident and it was, therefore, able to generate support from allies such as Britain and Spain (similarly it was able to act in contravention of the United Nations Security Council); the presence of American allies indicates that the hegemon did not unilaterally absorb costs; negative sanctions were employed against Iraq in the form of economic sanctions prior to the invasion; a military invasion is indicative of control and enforcement.

Figure 2

3.3 Hegemonic Stability Theory

A hegemonic regime is associated with stability and security. Gadzey (1994) wrote that there is an apparent interrelationship between hegemonic regimes and epochs of stability. Consequently, hegemonic stability theory is the theory predicating that when a dominant state assumes a hegemonic role in the international system, this period is characterised by economic growth and prosperity at an international level. However, when hegemonic decline occurs, the international political economy suffers from stagnation or decline. Balaam and Veseth (2001:102) simplified the rise and fall of a hegemon and the resultant theoretical explanation:

> Out of a period of disorder there arises one country that is the richest and most powerful. This nation-state, if it assumes the rights and responsibilities of the hegemon, organises the world system, supplying public goods... in return for whatever benefits it gains from its position at the centre of the world system. Inevitably, however, its greed or its obligations begin to overreach its resources… it loses its great wealth and its moral authority. Meanwhile, other contenders rise up and gain strength… the hegemon cannot preserve the peace and chaos rules again… [The cycle repeats itself] but with a new hegemon in place.

The presence of a hegemon and the resultant peace and economic stability is underlined by Nye (1990:188): 'economic stability historically has occurred when there has been a sole hegemonic power… Without a hegemonic power, conflict is the order of the day'. Britain and the United States possessed adequate power to ensure stability and implement a liberal economic international system. The eras of their respective rule where suitably termed the Pax Britannica and Pax Americana.[10] It is commonly accepted that hegemonic stability theory is equated with long cycles of approximately one century. According to Modelski (in Nye, 1990), these century-long cycles commence with war, followed by the emergence of a single, dominant state. This dominant state legitimises its ascendancy and supplies public goods in the form of security and order. The eventual decline of the dominant state begins with the loss of legitimacy and the diffusion of power. Ultimately, a new war begins; the war concludes with a new, emerging, dominant state. Modelski noted that this new power is not necessarily the same state that challenged the hegemon prior to the outbreak of the war (e.g. Britain's main rival was Germany, yet the United States dominated the international system at the conclusion of the Second World War; similarly, the Soviet Union appeared to be the main opponent of

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[10] *Pax* is the Latin term for peace – thus, these periods of hegemony were synonymous with the preservation of peace.

the United States, yet, with the supposed decline of the United States the anticipated contemporary rival power are Japan, China and the EU).

According to Gilpin (1987), in an international system that is composed of nation-states it is expected that these states will act in a manner that advances their interests (thereby reflecting realist thinking). Subsequently, '[t]he security and political interests of states are primary and determine the international context within which economic forces must operate' (Gilpin, 1987:85). In the presence of a hegemon, the international context is tantamount to a liberal international economic order as this is necessary to maximise 'the full development of a world market economy' (Gilpin, 1987:86). Gilpin's (1987:88) standpoint stipulates the need for a hegemon in order to maintain a liberal international economy, and, 'in the absence of a dominant liberal power, international economic cooperation has been extremely difficult to attain or sustain and conflict has been the norm'. At the cessation of the Second World War, the emergence of the United States was associated with the introduction of the Bretton Woods Institutions, the Marshall Plan and the General Agreement on Tariffs and Trade. The United States pursued liberal economic ideals.

In line with Modelski's cyclical interpretation of hegemonic stability, the emergence of the United States occurred at the conclusion of the Second World War, and the state legitimised its power through the Marshall Plan, Bretton Woods Institutions and the establishment of the United Nations. The United States provided the public goods of security and order. Self-serving policies adopted in the 1960s, 1980s, and at the start of the millennium have led to a loss of legitimacy for the United States. These policies include the Vietnam War and the budget deficit in the 1960s; the adoption of protectionist policies in the 1980s (Gilpin, 1987:90); the instability of the dollar; the war in Iraq and invasion of Afghanistan at the start of the twenty-first century. The United States has proven that it is difficult for a declining hegemon to maintain a liberal international economic order (yet, this does not imply that rival powers are not similarly interested in maintaining a liberal international economic order). The ascendancy of states such as Japan, China and dominant members of the European Union are indicative of the dispersal of power that occurs during hegemonic decline.

Hegemonic stability theory is synonymous with the adoption of a liberal international economic order (as advocated by the hegemon) and the resultant peace and stability. This liberal economic order is implemented by the hegemon which arises at the termination of a major international war; and this dominant state fulfils an invaluable function in the maintenance of international security and order. Hegemonic decline produces instability and leads to conflict (e.g. the demise of Britain as the world hegemon induced the First World War, and the disintegration of the liberal international economic order). In brief, hegemonic stability theory is the cyclical delineation that a hegemon appears during a stage of instability and generates international peace and stability. However, the inevitable decline of the hegemon is coupled with the resurgence of volatility until a new powerful state shoulders a hegemonic function and stability resumes.

3.4 The United States as the world hegemon

At the conclusion of the Second World War, the United States arose as the world hegemon. The state had adequate economic resources to unilaterally absorb the costs of rebuilding Europe through the Marshall Plan. The United States possessed the necessary absolute economic and military power to alter the rules of the international system and centred its efforts on the creation of a liberal international order which comprised of multilateralism. The establishment of the Bretton Woods Institutions, the centrality of the dollar to international finance, and the creation of a security organisation (NATO) ensured a period of economic stability and security.

In line with hegemonic stability theory, a period of disorder (the Second World War) was superseded by the emergence of a dominant state in possession of military and economic resources necessary to warrant the resumption of peace and stability. The United States arose as a hegemon whose liberal ideals were reflected in the establishment of liberal institutions (e.g. the International Monetary Fund and General Agreement on Tariffs and Trade). ‘Beginning in 1947, the Marshall Plan became the central vehicle not only for Europe’s economic renewal, but also for its political reconstruction along lines congenial with U.S. normative designs’ (Rapkin, 1990:62). This statement indicates how the adoption of liberal values came to be associated with economic growth. Due to this perception, the United States did not rely on coercion to implement its agenda. Instead, its hegemony was legitimate and the public goods it provided (an open trading regime, stable currency and relative peace) merely promoted the endorsement of liberal multilateral institutions. For the United States, '[a] long-range perspective of self-interest and profitability was adopted, enabling the United States to accept the burdens of leadership' (Rapkin, 1990:108).

The United States continues to espouse liberal values of freedom and democracy despite the contradictory nature of its actions as the state pursues realist aspirations of wealth and power and has exploited international institutions to facilitate these aspirations, thereby perpetuating the structural character of global economic interactions. Secretary of State Colin Powell stated that the United States '[seeks] a world in which liberty, prosperity and peace can become the heritage of all peoples, and not just the exclusive privilege of a few' (Ferguson, 2004:7). President Bush recapitulated this commitment to liberal tenets (which initially ensured the legitimacy of the United States' hegemony):

> We will actively work... to bring the hope of democracy, development, free markets, and free trade to every corner of the world… America must stand firmly for the nonnegotiable demands of human dignity: the rule of law, limits on the absolute power of the states; free speech; freedom of worship; equal justice; respect for women; religious and ethnic tolerance; and respect for private property (quoted in Ferguson, 2004:23).

The decline of American hegemony was identified at the conclusion of the 1980s and start of the 1990s. Gilpin (1987:344) elucidated this decline: in the 1950s when the United States arose as world hegemon, its population was equivalent to 6 percent of the world population yet its gross domestic product amounted to 40 percent of the gross world product; three decades later it was accountable for only 18 percent of the gross world product. The Vietnam War, increased international competition in the production of technological innovation, the preference for a flexible exchange system and the oil crises are pinpointed by Gilpin (1987) as causes for the hegemonic decline. Some authors suggest the United States is experiencing an absolute decline, others propose that the hegemon is facing a relative decline. The former alludes to the inability of the United States to act as world hegemon due to economic stagnation; the latter presents a deviating argument, namely that other states have increased their economic power bases and, therefore, pose a threat to the hegemon.

Irrespective of this, however, the United States continues to operate as world hegemon. As Cafruny (in Rapkin, 1990:116) wrote, '[it] has not completely renounced or abrogated leadership, which remains evident in its determination to contain international monetary turbulence and manage the international debt crisis, and in the extension of the GATT to new sectors of the world economy'. Similarly, Balaam & Veseth (2001:446) challenged the absolute decline of the United States as

> This viewpoint was particularly prominent in the late 1980s and early 1990s when the U.S. economy was stagnant. Support for the absolute decline argument faded, however, when the United States entered a prolonged period of economic expansion during the Clinton administration.

However, as the war in Vietnam was categorised by Gilpin (1987) as a cause of the United States' decline, the invasion of Iraq in 2003 may be perceived as producing similar outcomes, viz. the eventual descent of a purportedly declining world hegemon.

Ferguson (2004:286) challenged the prevailing perceptions that the United States is experiencing a decline as the world's hegemon. Although he conceded that the state has struggled to enforce its ideology despite its invasion and occupation of other states, Ferguson (2004:286) wrote

> The United States today is an empire – but a peculiar kind of empire. It is vastly wealthy. It is militarily peerless. It has astonishing cultural reach. Yet by comparison with other empires it often struggles to impose its will beyond its shores. Its successes in exporting American institutions to foreign lands have been outnumbered by its failures.

The United States remains a dominant economic and military force in the international system. In terms of its military superiority, the United States accounts for between 40 and 45 percent of military spending in the world and has

> [toppled] three tyrannies within four years… Since 1999 Slobodan Milošović, the Taliban, and now Saddam Hussein all have been overthrown… What makes this so remarkable is that it comes little more than a decade after a wave of anxiety about American decline (Ferguson, 2004:261).

Economically, the strength of the United States is unrivalled.

> All we can say with certainty is that in 2002 American gross domestic product, calculated in international dollars and adjusted on the basis of purchasing power parity, was nearly twice that of China and accounted for just over a fifth (21.4 percent) of total world output – more than the Japanese, German and British shares put together (Ferguson, 2004:18).

Thus, champions of the United States (such as Ferguson) have contested claims that the international hegemon is experiencing a decline. The state remains the pre-eminent military and economic power in the international system and continues to advocate the liberal ideology that ensured the legitimacy, and strength, of its hegemony. To conclude, Ferguson (2004:301) wrote:

> I believe the world needs an effective liberal empire and that the United States is the best candidate for the job… [It] has good reasons to play the role of liberal empire, both from the point of view of its own security and out of straightforward altruism. In many ways too it is uniquely well equipped to play it.

3.5 South Africa as Africa's hegemon

The last decade of the twentieth century proved to be a crossroads for the international community, and especially for Southern Africa. The conclusion of the Cold War transformed the bipolar power structure that had prevailed and, as a result of the Soviet Union's demise the United States arose as the sole superpower. For the African continent, the termination of the Cold War meant the cessation of superpowers vying for alliances on the continent. Of greater significance to the Southern African region, however, was the abolition of apartheid in South Africa. The militarily, economically and infrastructurally superior state needed to be absorbed into the African community. The apartheid regime's relations with its African neighbours were perceived to be 'of an aggressive nature' due to 'a process of destabilisation and military intervention in neighbouring countries'; correspondingly, limited economic interactions were noted and where they did take place, they obviously favoured South Africa (Kromberg, 1996:5).

The young democratic South African government feared parallels being drawn between its predecessor's bullying antics and itself. Thus, it was reluctant to assume a hegemonic or leadership role on the continent. However, its supremacy in military and economic terms, as well as the moral authority of its leaders and of the state itself, created an opening for South Africa to bear the onus for addressing political and socio-economic challenges in Africa. As Foreign Affairs Minister Zuma (2003) said in her address to the London Solidarity Conference, 'South Africa has both a responsibility and an obligation to contribute to the continent's renewal in building a peaceful and prosperous continent'. Moreover, Deputy Minister of Foreign Affairs, Aziz Pahad, asserted that South Africa has an invaluable role to play on the African continent due to its location and its relative power. He added that '[South Africa's] survival and development are determined by the development of neighbouring countries' (Kromberg, 1996:5). Its responsibility to the African continent was reiterated by Salim Ahmed Salim, former Secretary-General of the Organisation of African Unity, who stated that 'South Africa must, for Africa's sake, begin to play a more decisive role… on the continent as a whole' (Kromberg, 1996:5).

The South African government's ability to acquire legitimate hegemony is evident in its advocacy of democratic values and good governance and the endorsement of these ideals by African leaders as signatories of the Constitutive Act of the African Union. As Adebajo and Landsberg (2003:178) suggested, President Mbeki is deemed an 'ideas, values, and norms man… He has stressed values and norms, such as democratisation, negotiations, and peaceful resolution to disputes'. In terms of its economic power in Africa, Ahwireng-Obeng and McGowan (1998) indicated an absolute advantage in terms of South Africa's gross domestic product and exports. In 1995, South Africa's population was equivalent to 5 percent of the total sub-Saharan African population and its GDP was commensurate to 44 percent of sub-Saharan Africa's total GDP. South African corporations have rapidly expanded into the African continent, and this is evident in various sectors (including mining and banking).

South Africa and its leaders have, furthermore, been involved in negotiating peace agreements on the continent (e.g. former President Mandela's mediating role in Burundi). As Zuma (2003) stated, '[South Africa has] undertaken a lot of conflict resolution responsibilities'. The South African National Defence Force's presence in peacekeeping missions (e.g. in the DRC, Sierra Leone, Burundi and Ethiopia) exemplify that the South African government is concerned with the creation and maintenance of a peaceful, stable and secure continent. The government's influential part in the reform of the Organisation of African Unity into the African Union denotes that it is representative of what Adebajo and Landsberg (2003:174) refer to as a 'constructive hegemon' (i.e. '[a state that] is able to promote solidarity and stitch alliances'). Schoeman (2003:359) underlined South Africa's leadership position by stating that

> South Africa is perhaps slowly gaining recognition as a leader on the continent [because of] its role in the establishment and development of the African Union of which it became the first chair… [and] officially offered to host the AU's Pan-African Parliament (in 2004, it was decided that the Pan-African Parliament will be hosted by South Africa).

The state has espoused liberal values and has indicated its commitment to redressing the structural arrangement of international interactions that preserve the marginalisation of African states. The state has also been a central force in the design of the New Partnership for Africa's Development, thereby indicating its interest in assuming a leadership role in ensuring sustainable development, stability, and prosperity on the continent. South Africa has been actively engaged in challenging the agenda of the World Trade Organisation so as to prevent further marginalisation of African states in the international trade regime; simultaneously, the government has sought international support for the cancellation of Africa's incapacitating debt burden.

At first glance it appears that South African hegemony is primarily of a benevolent nature. It appears that the state is concerned with interests as opposed to capabilities, as South Africa 'has a dominant interest in a cooperative outcome [and] also has the [capabilities] to ensure its emergence' (Odén, 2001:170). These interests are reflected in the statement by Zuma ('South Africa has both a responsibility and an obligation to contribute to the continent's renewal in building a peaceful and prosperous continent'). Similarly, South Africa's interests were the driving force behind the reform of the African Union and the creation of the NEPAD. The fact that the South African government possessed the capabilities to create these institutions was of lesser importance. With regard to its power on the continent, it is accepted that South Africa is superior to other states, yet Pahad referred to South Africa's power as relative to its counterparts; if the state possessed absolute power, the suggestion of Nigeria as a potential hegemon on the continent would be judged with indifference.

South Africa has been influential in altering the existing trade regime, creating free trade areas in the Southern African region, lobbying for debt cancellation on the continent, and promoting FDI and the establishment of an investor-friendly climate in Africa. These actions indicate that in terms of the provision of economically-oriented public goods, South Africa is primarily absorbing the costs. However, the state has sought assistance with regard to the provision of peace and stability in Africa. Although South African leaders have been actively involved in mediation, and members of the South African Defence Force have been involved in peacekeeping missions around the continent, the conflicts in Liberia, Burundi and the Democratic Republic of Congo illustrate that South Africa is sharing the costs of providing peace and security. In Liberia, South African troops assisted a West African peacekeeping mission; in Burundi, South African troops were aided by Mozambican and Ethiopian troops; and in the DRC, South African troops were deployed to assist a UN-led peacekeeping mission. Thus, although South Africa is sharing the costs in the provision of this collective good, the state has indicated increased engagement in peacekeeping missions around the continent. These operations span the continent and South African troops are currently participating in peacekeeping missions in the DRC, Burundi, Ethiopia and Eritrea (IrinNews, 2004).

Moreover, the government has indicated that it remains committed to the creation of peace in Africa and '[will] not only continue to be involved in peacekeeping operations, but [will] also assist in the post-conflict demobilisation and disarmament on the continent' (IrinNews, 2004).

South African relations with the continent are based on cooperation and positive rewards in contrast to control and negative sanctions. The state's adversity to the employment of negative sanctions was evident in its response to the crisis in Zimbabwe where the South African government opted for quiet diplomacy rather than the imposition of sanctions. Its support for cooperation on the continent is illustrated in the voluntary assent of African leaders to the Constitutive Act of the African Union, NEPAD and the African Peer Review Mechanism.

If South Africa possessed absolute power on the continent and greater financial resources, it is likely that the state would opt to unilaterally absorb the costs of providing public goods. Thus, although it does not meet all the requirements of benevolent hegemony, South Africa appears to remain loyal to the establishment of a stable and prosperous continent. Therefore, the African hegemon appears to ascribe to Balaam and Veseth's (2001:58) exposition of a benevolent hegemon as the South African government is guided by enlightened self-interest and it has recognised that in order to secure its own gains, it is imperative that it maintains the security, stability and prosperity of the African continent.

The underlying interests of the state may, however, prove to undermine the benevolence of South Africa's supremacy. As mentioned, the South African government has espoused the liberal values of democracy and good governance, as well as free trade and equality in the international political economy. Similarly, the leaders of the state are challenging the unfair practices within the WTO, they are urging foreign creditors to cancel Africa's debt, and through NEPAD, they are ratifying and facilitating the establishment of an environment conducive to FDI inflows. Thus, these actions indicate that South Africa is opposed to the structural relationship within the global economy, wherein African states are undoubtedly classified as peripheral states or as belonging to the South. Rhetorically, the African hegemon is a champion of liberalism and structuralism. The ensuing chapters will illuminate that through its behaviour, it is apparent that South Africa is acting in its own interests. The state's commitment to free trade, debt relief and FDI inflows are augmenting South Africa's wealth and power. Thus, the realist tendencies, reflecting selfishness, challenge South Africa's position as a benevolent hegemon on the continent.

Hegemonic states are synonymous with the attainment and maintenance of stability and prosperity. Moreover, in order for the hegemon's status to be considered legitimate, its values must be accepted and acceded to. A hegemonic state may possess either absolute or relative power and it must be the supplier of public goods. South African efforts at peacekeeping, debt cancellation, attracting FDI, trade promotion and advancing good governance in Africa are indicative of its commitment to the attainment of stability and prosperity. South African-affirmed Western values, ideas and ideologies have been subscribed to by African leaders who endorse the Mbeki-led ''revisionist/reformation' bloc'. States adhering to the values and ideologies put forward by South Africa include Senegal, Egypt, Botswana, Mozambique and Tanzania (Fourie & Vickers, 2003:18). Through its promotion of debt cancellation, creating an investor-friendly environment, the presence of peacekeeping forces and the reform of the international trade regime, South Africa is supplying substantial public goods for African states. In conclusion, Ron Brown, former American Secretary of Commerce, stated that 'there is no question that South Africa is the key to the economic success of Southern Africa, indeed, in my opinion, the key to the renewal of the rest of the continent' (Ahwireng-Obeng & McGowan, 1998:25).

3.6 Conclusion

The United States and South Africa have both been in possession of the necessary military and economic power, as well as the moral authority, to fulfil hegemonic functions at international and continental levels, respectively. Due to the possession of structural and relational power, and the subsequent ability to determine the rules of the game, the concept of hegemony may infer negative connotations of bullying and domination. However, the provision of collective goods (namely prosperity and stability) and the acceptance of these hegemons' ideologies explicitly challenge this cynicism. In the subsequent chapters, the discourse will construct an evaluation of South Africa's hegemony. An analysis of South Africa's utilisation of trade reform, debt cancellation and promotion of FDI inflows (as well as South Africa's concealed interests) will ascertain whether the African leader should be regarded as a benevolent or a selfish hegemon.

Section 2

The second section of this dissertation is divided into three chapters. Chapter 4, 'South African hegemony and the international trade regime', deals with the international trade regime, the biased nature of international trade organisations, the power of the quad, African participation in international trade, South Africa's role in unifying and representing the South in trade issues, South African trade agreements and the implications of these agreements for the rest of the continent (and particularly the Southern African region), and South Africa's role as continental hegemon in the context of international trade. Chapter 5, 'The African debt crisis and South African hegemony', defines debt, explains the causes of the debt crisis as well as African indebtedness. The extent and implications of Africa's debilitating debt burden is discussed along with the role of international financial institutions, proposed solutions and South Africa's role in reducing Africa's debt. Finally, chapter 6, entitled 'Foreign Direct Investment in Africa', defines foreign investment and deals with the costs and benefits for home and host states, the background of foreign investments and the role of the International Finance Corporation and Foreign Investment Advisory Service. The risks of investing in Africa are discussed, as is the extent of FDI on the continent. Finally, South Africa's role in FDI as both a recipient and investor are evaluated.

Chapter 4: South African hegemony and the international trade regime

Introduction

The international trade regime is the manifestation of discordance. Within the system, the power- and wealth-wielding North gains from favourable terms of trade, market access and technological innovation. These developed states further benefit from the domination of the most prominent international trade institution, namely the World Trade Organisation. As champions of a liberal trade regime, these developed states implement antagonistic policies that reflect realist ambitions. The adoption of these policies exacerbates discrepancies between North and South. The perpetuation of disparities has necessitated the ascendancy of a power in the South to challenge the structural bias of the trade regime. South Africa has assumed this duty. The institutionalisation of an entity advancing the interests of the South, in the shape of the United Nations Conference on Trade and Development, has proven to be inferior to the World Trade Organisation, thereby creating the catalyst for a South African-led initiative. South African leaders have actively elevated the importance of cohesion between states of the South as a means to redress an unfavourable regime that sustains poverty, underdevelopment and inter-state inequality.

4.1 The international trade regime

The current trade structure is characterised by the presence of a Northern-dominated World Trade Organisation; and a relatively ineffective body representing the interests of the South, i.e. the United Nations Conference on Trade and Development. Within the trade regime, four dominant entities (the quad) wield undisputed power which enables them to act in contravention of liberal policies and rules stipulated by the WTO. For the South, and particularly African states, this preponderance of power has been detrimental to economic growth due to marginalisation and a negligible market share in international trade.

4.1.1 The World Trade Organisation (WTO)

The WTO was established in 1995 as the successor of the General Agreement on Tariffs and Trade (GATT) and congruent to the final agreement of the Uruguay Round.

GATT was created in 1947 and comprised 23 member states. GATT was constructed on three underlying assumptions: first, membership was unrestricted, second, these states were committed to free trade; and third, the United States was pivotal and assumed the leadership role in the organisation (Gadzey, 1994:99). As the world hegemon after the Second World War, the United States espoused liberal multilateralism – evident in the formation of the Bretton Woods Institutions and GATT. The creation of this institution was consistent with the security and economic interests of the United States:

> free trade was… a response to geopolitical and international economic considerations. U.S. enthusiasm for free trade and its role as a very generous actor in the GATT system in the 1950s and 1960s was closely related to its concern for containment of the Communist threat in Europe and Asia (Rapkin, 1990:32).

GATT was based on the principles of MFN, reciprocity and non-discrimination. Analogous to the concept of non-discrimination, the most-favoured nation (MFN) principle is the dictum of not differentiating between trading partners. Balaam and Veseth (2001:464) defined this principle as '[t]rade status under GATT where imports from a nation are granted the same degree of preference as those from the most preferred nations'. Reciprocity is the practice 'whereby trading partners simultaneously reduce trade barriers, providing each greater access to foreign markets' (Balaam & Veseth, 2001:467). Finally, the principle of non-discrimination refers to the equal treatment of products from all states, i.e. '[t]he products of a specific nation cannot be discriminated against under this rule' (Balaam & Veseth, 2001:465).

Changes to the trading system, the reduction of tariffs and the promotion of free trade were the result of various GATT Rounds. The Rounds that took place between 1947 and 1979 (concluding with the Tokyo Round) led to overall reductions in tariffs. The Tokyo Round closely considered trade-related concerns between the developed states: according to Gilpin (1987:196) '[t]he primary goal of the Tokyo Round was to [stabilise] trading relations among the advanced OECD countries'. The Uruguay Round – commencing in 1986 – deliberated over issues relating to agriculture and textiles, subsidies, trade-related intellectual property rights, and trade-related investment measures (Balaam & Veseth, 2001; WTO; Gilpin, 1987; Rapkin, 1990). The WTO was created in 1995 congruent to the final agreement of the Uruguay Round and '[t]he WTO's overriding objective is to help trade flow smoothly, freely, fairly and predictably' (WTO, Internet Source).

The Uruguay Round was deemed 'unbalanced and inequitable in favour of developed vis-à-vis developing countries' (Jomo & Nagaraj, 2001: 62). According to Khor (in Jomo & Nagaraj, 2001) liberalisation was encouraged by developed states in areas where they were dominant, i.e. trade-related investment measures and trade-related intellectual property rights. Uniform intellectual property rights favour developed states which already possess the competitive edge and leading technology while developing states, with inadequate technology, will toil to compete with developed states. In the agricultural sector, developing states are encouraged to liberalise their economies yet they continue to face barriers to the developed states' markets. In addition, Khor (in Jomo & Nagaraj, 2001:65) added that reforms to agricultural agreements would negatively impact on developing states which would also be expected to 'reduce domestic subsidies to farmers and remove non-tariff controls on agricultural products'. The consequences of this would include farmers' inability 'to compete with cheaper imports' and '[a]gricultural [liberalisation would] also raise world food prices' (Jomo & Nagaraj, 2001:65).

> The Uruguay Round is proof again that the developing world continues to be sidelined and rejected when it comes to defining areas of vital importance for their survival… The countries of the Third World have been put in a situation in which they already paid the price of accepting the new terms in different areas of interest for the industrialised countries, without obtaining in exchange satisfactory conditions of market access… According to some estimates, the industrialised countries, which make up only 20 percent of GATT membership, will appropriate 70 per cent of the additional income that will be generated by the implementation of the Uruguay Round. It would seem that this does not allow one to conclude that the Uruguay Round will translate into a positive balance to developing countries… Unquestionably, the developing countries are the losers both individually and collectively[11] (Jomo & Nagaraj, 2001:62).

Proponents of the WTO illustrate that the WTO plays an invaluable role in the international system. 'GATT and the WTO have helped to create a strong and prosperous trading system contributing to unprecedented growth' (WTO, Internet Source). The WTO currently comprises 148 member states (of which three quarters are developing or less developed states) and it accounts for 97 percent of world trade. It is responsible for negotiating trade deals, dispute settlement, providing technical assistance to less developed states, assessing state trade policies, and creating a platform for trade negotiations (WTO, Internet Source).

[11] Passage from the address by Luis Fernando Jaramillo, former Chairman of the Group of 77, in response to the outcomes of the Uruguay Round.

In light of increased concerns of unfair and unequal trade by states of the South, the Doha Development Agenda was inaugurated in 2001. The Doha Agenda is converged on non-agricultural tariffs, barriers relating to anti-dumping and subsidies, intellectual property, difficulties with the implementation of WTO rules, investment, competition policy, facilitating trade and ensuring transparency in government acquisitions (WTO, Internet Source). The Trade Commissioner for the European Union, Pascal Lamy (2004), asserted that the Doha Development Agenda reflected that the WTO is committed to development despite developing nations' concerns that development is not adequately promoted in the new Agenda. Moreover, he stated that the developing states have to bear the responsibility of expanding trade between developing states and that 'developing states should also consider quickly how they can contribute to successful market-opening and better rules' (SARPN, 2004a). Lamy identified trade facilitation and transparent government procurement as primary areas of consequence for the European Union. Furthermore, considering the dependence of developing states on agricultural commodities, Lamy suggested that although the Common Agricultural Policy will remain intact, EU members have committed themselves to reducing import tariffs and 'trade distorting farm support' as well as eliminating export subsidies 'for products of interest to developing countries' (SARPN, 2004a).

The WTO (like GATT) was established on the basis of adopting a liberal trading regime (requiring free trade, open markets, and minimal state involvement). However, as this institution is dominated by developed states of the North, it merely reflects the interests of these states. States of the North prioritise national security and the accumulation of wealth; hence, mercantilist policies (in the form of protectionism) facilitate the safeguarding of national security by preventing dependence on other states. If these states were to adopt liberal policies, these objectives would be abandoned. This is evident in the continuation of protectionist policies which affect products on which developing states are dependent. Although in theory this organisation promotes tenets of economic liberalism, actions are contradictory and states have given preference to mercantilist policies. The effect of these policies is increased dependence of the South which, in essence, mirrors the structuralist considerations of inequality, increased disparities between North and South, reliance on agricultural commodities and dependence on core states.

4.1.2 The United Nations Conference on Trade and Development (UNCTAD)

In 1964, UNCTAD was created as 'a multilateral strategy for systematic economic reform that would provide Third World countries with greater trade access and better terms of trade than were available under the GATT' (Gadzey, 1994:111). As envisaged by Raul Prebisch (head of the Economic Commission for Latin America, and first Secretary-General of UNCTAD) an organisation needed to be established to fill the void relating to the representation of the interests and needs of the South. Prebisch denoted the importance of establishing an organisation that did not perpetuate the interests of the developed states but rather reflected the common pursuits of Third World states. The Group of 77[12] was responsible for the creation of UNCTAD and 'sought to make UNCTAD a mechanism for dialogue and negotiation between the Less Developed Countries (LDCs) and the developed countries on trade, finance, and other development issues' (Balaam & Veseth, 2001:326). Prebisch's intention for founding an international organisation with the cardinal objective of reversing the marginalisation of the South embodies the structuralist school of thought.

Prebisch was concerned with the 'structural bias in world trade'. Developing states faced barriers in the trade regime which affected their exports, yet Prebisch observed that free trade would not rectify the disparities between North and South as 'benefits [would] be reaped disproportionately by [the North] as a consequence of structural differences between countries at different stages of development' (Walters & Blake, 1987:45). Deteriorating terms of trade, i.e. the decline in the value of primary (agricultural) commodities relative to the value of secondary (manufactured) commodities, were of pronounced bearing for developing states which remain dependent on the production and export of primary commodities.

Three fundamental changes to the trade regime were advocated by Prebisch and advanced by UNCTAD. The first was the generalised system of preferences which was implemented in the 1970s. The promise to unilaterally revoking tariffs on manufactured products exported by developing states (initially for a period of 10 years but this was extended) was made by 19 developed states. The WTO defined the generalised system of preferences as the 'programmes by developed countries granting preferential tariffs to

[12] The name given to the original grouping of seventy seven developing states; membership now exceeds 130 states.

imports from developing countries' (WTO, Internet Source). Despite being champions of liberal ideals and a system of free trade that was characterised by the most-favoured nation principle, non-discrimination and reciprocity, these developed states indicated their inclination to contravene these principles in order to assist developing states.

The second reform – the integrated commodity programme - was implemented from 1976 until 1980 under the patronage of UNCTAD. In the 1980s, 93 LDCs depended on commodities (excluding oil) for over 50 percent of their export earnings (Walters & Blake, 1987:49). The integrated commodity programme endeavoured to provide the means to control fluctuating prices and average price levels of these commodities. Three quarters of developing states' exports comprised 18 commodities. Of these 18 commodities, 10 were recognised as being 'suitable for stockpiling'. Subsequently, these commodities 'lend themselves to the creation of buffer stocks as a means of influencing the market when it approaches the floor and ceiling prices established through individual commodity agreements' (Walters & Blake, 1987:50). A common fund was created to finance buffer stock and at the apex of the integrated commodity programme a common fund of $400 million was created in order 'to finance buffer stocks in association with commodity agreements' (Walters & Blake, 1987:51).

Finally, as a means to ensure export earnings for developing states (irrespective of declining terms of trade, crop failures, or reduced demands from developed states) Prebisch promoted compensatory financing. This refers to 'financial transfers from advanced industrial states to less developed countries through grants or low-interest loans' (Walters & Blake, 1987:52). These three proposed solutions represented Prebisch's attempts to confront the structural arrangement of the trade regime in order to integrate states of the South.

In the 1980s, greater economic interdependence magnified pressure on developing and less developed states to privatise state-owned enterprises and to adhere to trade liberalisation requirements. These reforms were expected to be implemented at a time when these states faced debilitating debt burdens. Thus, UNCTAD focused its efforts on providing technical assistance and promoting sound macroeconomic management, trade efficiency and increased South-South cooperation. UNCTAD adopted a development-oriented stance – evident in the declaration 'The Spirit of Bangkok'. This declaration was adopted in February 2000 and was designed 'as a strategy to address the development agenda in a [globalising] world' (UNCTADXI, 2004). In brief, UNCTAD represents the interests of the South; this institution has adopted various policies (including the generalised system of preferences, integrated commodity programme and the Spirit of Bangkok) to decrease the marginalisation of the South in an integrated global economy. By elevating a development agenda, UNCTAD aims to bridge the gap between the North and the South.

4.1.3 The North-South Divide

The significance of the creation of UNCTAD – i.e. an organisation representing the interests of developing states – illustrates that the current trade regime is discriminatory and that the division between states of the North and states of the South predominates. The developed, industrialised, advanced core states of the North possess the economic and military means necessary to dominate the primary international trade organisation (the WTO), and the means to exploit this institution to further their own interests. 'The industrialised nations used the GATT and now the WTO… to bring down [developing states'] tariff barriers, exposing their infant industries to competition with the more mature industries of the industrialised nations' (Balaam & Veseth, 2001:123). The developing (and less developed) states of the South are subject to the rules and agreements advanced by the North, and as Khor (Jomo & Nagaraj, 2001) wrote, 'it would be very difficult, if not impossible, for a developing country member to change the WTO rules, or to avoid compliance of obligations'. This compelled states of the South to beget an organisation (UNCTAD) that not merely expressed the needs of developing states but also fostered solidarity between them.

Proponents of economic liberalism suggested that 'by the late-1980s [developing states] had become so well integrated into the international trade system that international economic integration was breaking down the North-South divisions between nations' (Balaam & Veseth, 2001:123). However, the 1989 World Bank Report, 'Sub-Saharan Africa From Crisis to Sustainable Growth', indicated the contrary. According to the report, African exports decreased by 0.7 percent from 1970 to 1985 – and African exports accounted for merely 1.7 percent of world trade. Moreover, the report stated that terms of trade deteriorated rapidly in the 1980s. Thus, the 1980s were not indicative of increased integration between the North and African states (as liberals asserted).

Consistent with structuralism, states of the North have created an international trade system which allows the developed states to exploit developing states. This is evident in the protectionist policies adopted by the North, at the expense of the South. Moreover, despite awareness of the South's economic plight, the North has been unwilling to reverse the marginalisation of developing states by nullifying subsidies and other protectionist methods. According to the Johannesburg-based Inter Press Service (2004), the portion of least developed states' trade drastically decreased from 1.7 percent in the 1970s to 0.6 percent in 2002. Furthermore, African states accounted for merely 0.62 percent of world trade in 2003. Figures from the WTO's overview of world trade in 2002 (WTO, Internet Source) illustrated the disparities between the North and the South. In 2002, the African continent accounted for 2 percent of world merchandise exports while Japan accounted for 6.6 percent; and the European Union accounted for almost 40 percent of world exports. Only three African states (South Africa, Algeria and Nigeria) featured on the list of the top 50 exporters in 2002 (although other developing states featured: Brazil was ranked 27th and India 30th); and South Africa was the single African state that was ranked among the top 50 importers (in 41st position). Thus, the North has not taken action to redress the situation of the South and instead the South has recognised that in order to attain economic growth states must diversify their economies and increase South-South trade. In the liberal spirit of trade liberalisation, it is to be expected that the WTO would redress the growing trade differentiation between the North and the South. However, it is pertinent to note that this liberal institution is not characterised by equality among member states; instead, it is dominated by the four greatest trading bodies: the quad.

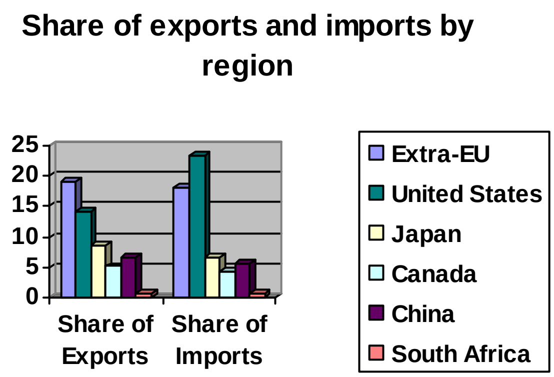
4.2 The quad

The quad is the title accorded to the four largest trading entities, i.e. the United States, the European Union, Japan and Canada. Due to their relative economic superiority, these four groups are the most powerful and most influential within the international trading system. Their importance is evident in the following comment by Mike Moore (former Director General of the WTO) in response to the impending Round of trade talks: ‘Mr Moore said it was vital for Canada, the European Union, Japan and the United States to agree on the way forward in launching such a round’ (WTO, 2000). Although Moore added that the agreement of the quad was not the single requirement and that all member states needed to accept the new Round, the acceptance of talks by other members of the WTO was not deemed ‘vital’.

Thus, the quad’s acquiescence indicates that, as these four entities are in possession of both relative and structural power in the international trading system, they have the ability to determine the rules of the game and to set the agenda. Their agenda-setting capacity is illustrated by the statement by Moore: their acceptance of a Round determines whether or not the Round will occur. Moreover, their structural and relative power undermines the ethos of the WTO as a liberal institution. Member states are not equal as they are subject to the rules introduced by the dominant trading powers, the quad. It is imperative in a liberal trade regime that free trade ensues. This is only possible if free trade ‘[is] preceded by greater equality between states, or at least a willingness on their part to share the benefits and costs associated with trade (Balaam & Veseth, 2001:113).

4.2.1 The preponderance of power

The extent of the quad’s power in the international trade regime is distinct as the quad is responsible for the greatest portion of trade. These four entities are the leading importers and exporters (the only other state that has comparable volumes of exports and imports is China). According to the WTO’s 2002 world trade overview (WTO, Internet Source), the quad accounted for over 60 percent of exports in 2002, and for almost 65 percent of imports. Similarly, in the WTO’s calculation of ‘Leading exporters and importers in world merchandise trade, 2002’, principal EU-member states, the United States, Canada and Japan ranked in the top 10 major exporters and importers (the only other state that featured in the 10 most prominent importers and exporters was China which ranked fifth and sixth, respectively). The same was incontestable in the ranking of superior exporters and importers excluding trade within the EU. For this tabulation, the WTO combined extra-EU trade. The results once again displayed the strengths of the quad – these four entities ranked in the top five with the EU commanding exports and the United States prevailing in imports (see figure below).



Source: 'World trade in 2002 – OVERVIEW', WTO

Figure 3

Hence, the superiority of the quad in international trade, and the resultant power they possess, are illustrated by these figures. As realists assert, wealth is a prerequisite for power and, as the quad possess an absolute advantage in international trade, it is unlikely that they will adopt liberal policies which will lead to a decline in their wealth, and therefore, in their power.

4.2.2 The agenda-setting capacity

As the quad is responsible for the greatest portion of world trade – i.e. approximately two-thirds - it follows that their structural power affords them the opportunity to determine the rules of the game. The statement by Moore illustrated the prominence of these states in the launching of trade Rounds. Similarly, the magnitude of power possessed by these states allows them to select which WTO agreements they will comply with. Although the WTO is expected to advance free trade, the dominant quad continues to implement mercantilist policies. Thus, the superior quad does not abide by the WTO's commitment to free trade, and their absolute power allows them to act in contravention of WTO principles without facing penalties or sanctions. The most controversial policies adopted by the quad relate to subsidies which prevent developing states from competing in international markets, in sectors where they possess a comparative advantage[13], due to the uneven playing field.

4.2.3 The embracing of protectionism

In rhetoric, the quad has indicated its commitment to a multilateral, liberal trading regime, and, therefore, to the reduction of protectionist measures. In a press release in 1995, then Director-General of the WTO, Renato Ruggiero, said the following:

> I very much welcome the reconfirmed commitment by the Ministers of the world's four largest trading entities of the World Trade Organisation… As the Ministers point out, there is a vital and urgent need to broaden support for the multilateral system and trade liberalisation (WTO, 1995).

Ruggiero's successor, Moore, said in an address in 2000 that 'the four largest trading entities – Canada, the European Union, Japan and the United States – have proposed "to implement both tariff-free and quota-free treatment, consistent with domestic requirements and international agreement…for essentially all products originating in least-developed countries"' (WTO, 2000).

Despite these undertakings, the quad has signalled the antithesis in their actions. According to Spanu (2003) the quad is responsible for implementing high tariffs on products such as meat, milk, sugar, tobacco, fruits and vegetables, clothing, footwear and textiles. Estimates indicate that tariffs adopted by the quad are exceptionally high, exceeding 343 percent in Canada; 252 percent in the EU; 171 percent in Japan; and 121 percent in the United States[14]. Spanu (2003) wrote:

> In the last year or so, there is more understanding in the world that the [industrialised] countries' protectionist trade policies are at the expense of developing countries, in particular of the least developed countries. The World Bank, IMF, UNCTAD change their focus from imposing [liberalisation] of trade on developing countries to eliminating tariff and non-tariff barriers in developed countries, especially in Quad countries – Canada, the EU, Japan, and the United States.

The Japanese government was criticised for adopting protectionist trade barriers in various sectors including the steel, electronics, robotics, telecommunication, computers

[13] David Ricardo introduced the liberal notion of comparative advantage. 'A nation has a comparative advantage in production of a good or service if it can produce it at a lower cost, or opportunity cost, than other nations (Balaam & Veseth, 2001:457).

[14] Figures quoted in Spanu (2003), taken from 'Tariff Peaks in the Quad and Least Developed Country Exports' (2001) by the World Bank Development Research Group and the Centre For Economic Policy Research.

and fibre optics industries (Walters & Blake, 1987:24). Hypocritically, these protectionist methods 'are cited repeatedly by private and public officials in the United States and Europe as evidence of a neomercantilist assault by Japan on the liberal international economic order that enabled it to achieve its economic miracle' (Walters & Blake, 1987:25). The European Union and the United States are similarly notorious for their Common Agricultural Policy (CAP) and Farm Act, respectively. Protectionist policies are particularly harmful to developing and least developed states as they are reliant upon agricultural exports, yet the prevalence of subsidies in developed states prevents these states from competing in international markets in the sectors where they possess the comparative advantage. According to a report in Business Day (2004d), Africa possesses only 2 percent of the global market in agricultural goods – of the potential $1.2 trillion in agricultural trade, Africa accounts for merely $20 billion. Cotton, sugar, maize, wheat, steel and beef are examples of the products affected by subsidies adopted by the quad. The quad has utilised mercantilist policies to protect infant industries – illustrated by Japan's adoption of protectionism in numerous industries. These realist policies of quad states guarantee a degree of self-sufficiency and competitiveness, thereby ensuring the maintenance of security as these states are not dependent on other states.

The cotton industry illustrates how subsidies in the developed states hamper economic growth in developing states. The importance of cotton exports for African states is tangible as some of the poorest states in the world are dependent on cotton exports. In Mali, Benin, Togo and Burkina Faso, cotton exports correspond to 80 percent of exports; twenty one African states have been affected by cotton subsidies in the North; and the elimination of subsidies would increase the market price by up to 12 percent (ActionAid, 2004; The Herald, 2004; Business Day, 2004a). Moreover, CEO of Cotton SA, Hennie Bruwer, stated that 'subsidies depress world prices and in the process cause havoc. They have led to the production of cotton that is not influenced by the principles of supply and demand' (Business Day, 2004c). The sugar industry is similarly affected. In South Africa – which is considered one of the cheapest locations to grow sugar – sugar exports are threatened by subsidies adopted by developed states (Business Day, 2004c).

Exports from developing states are additionally affected by dumping. The subsidised EU sugar producers flood the markets of developing states: in Southern Africa, Swaziland has recognised the impact of dumping as South African businesses have opted to purchase cheaper sugar from the EU rather than from their former supplier, Swaziland. Likewise, small-scale beef producers in Namibia are grappling with subsidised imports from the EU: 'rural inhabitants have largely suffered as their main market is saturated… leading to a loss of livelihood on their part' (IISD, 2003:14). South Africa faces the same fate in the steel industry. Protectionist policies adopted by developed states include '[subsidisation] of exports, dumping on international markets, import restrictions and the emergence of national and regional cartels' (IISD, 2003:14).

In essence, the growth of developing states' economies is hindered by the South's inability to compete with the North in international trade due to the adoption of protectionist policies by developed states. In order for developing states to increase their market share in international trade, developed states must abide by the crux of the WTO, i.e. trade liberalisation and the advancement of free trade. The examples of cotton, sugar, beef and steel illustrate that developing states are unable to compete in markets where prices are distorted due to subsidies and dumping.

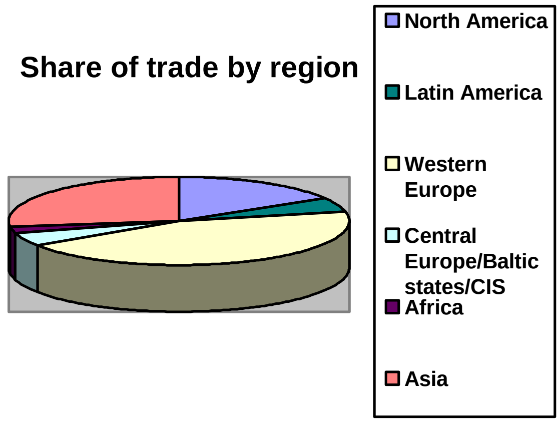
4.3 The African condition within the international trade regime

The 1980s proved to be dire for African economies: this was termed the lost decade for Africa. In the 1989 World Bank Report, two of the six trends identified pertain to Africa's inadequate trade performance. The first trend identified was termed 'weak growth in productive sectors' and illustrated the inability of African economies to diversify, and consequently, their dependence on agricultural products. What is more, droughts, urbanisation, cheap imports and inadequate research and development in the agricultural sector contributed to the decline in agricultural production. The second pertinent trend – 'poor export performance' – showed that in the 1960s African exports increased, but the 1970s and 1980s were characterised by stagnation and, eventually, decline. According to the Report, exports decreased from 2.4 percent of world trade in 1970 to 1.7 percent in 1985. Moreover, the Report added that the inability of African economies to diversify (with the exceptions of Kenya and Mauritius) hindered economic growth; and primary commodities accounted for 88 percent of the continent's total export earnings in the 1980s.

Subsequently, African states have indicated greater success in the diversification of their economies. In a report by the International Trade Forum (2004), it was noted that African states are now competing in a variety of sectors including cut flowers, frozen fish, footwear and semi-conductors. Tunisia has enjoyed success in diversifying its exports and is now able to compete internationally in the clothing and electronic components sectors; South Africa and Morocco are competitive in the textile industry; and the sub-Saharan African region is a main exporter of fresh and processed food. Moreover, the report stated that since 1994 African exports have increased by 5 percent per annum.

4.3.1 African dilemmas

The African market share is still marginal in comparison to the market share of developed states. In the WTO's 2002 trade overview, African exports accounted for merely 2.2 percent of the total world exports, and imports were equivalent to 2 percent of total imports. With regard to commercial services, Africa accounted for almost 2 percent of exports, and for 2.5 percent of imports. The WTO ranked the world's 50 leading exporters and the only African states that featured were South Africa (38^{th}), Algeria (44^{th}) and Nigeria (49^{th}). South Africa was the only African state that ranked in the world's 50 leading importers; it was ranked 41^{st}. In a calculation of the 50 leading exporters and importers, excluding intra-European Union trade, South Africa was ranked 27^{th} out of the fifty, and Libya and Morocco were listed along with South Africa, Algeria and Nigeria in the ranking. In terms of importers, South Africa was accompanied by Egypt, Morocco, Algeria and Tunisia. African states do not appear to be able to compete in commercial services and none of the African states featured in the list of the top 50 exporters or importers of commercial services in 2002 (WTO, Internet Source).



Source: 'World trade in 2002 – OVERVIEW', WTO

Figure 4

The predominant African exports remain primary products, e.g. diamonds, cocoa, coffee, cotton, crude oil, gold, petroleum and tobacco [15]. The top African exporters (Nationmaster, 2004i) were (in order) South Africa, Algeria, Nigeria, Libya and Angola. The ranking of leading African exporters of manufactured goods once again illustrated the dominance of North African states (with the exception of South Africa and Madagascar) as Tunisia was calculated as the leading exporter in this sector, followed by Morocco, South Africa, Madagascar and Egypt. Finally, African economies – despite facing barriers to entry – are engaged primarily in trade with the quad, especially EU member states and the United States. Other export partners include China, India, Thailand, Brazil and Saudi Arabia.

4.3.1.1 South Africa's situation

South African trade has persistently been on the increase since the early 1990s. According to the figures provided by the South African Department of Trade and Industry (2004), South Africa's total trade turnover quadrupled from 1992 until 2001. In 1992, total trade was estimated at R115 438 145 000, while in 2001 total trade reached R467 362 482 000 (DTI, 2004b). In the WTO's 2002 trade overview, South African exports and imports ranked 27th and 28th respectively (equivalent to 0.6 percent of the market share

[15] CIA, 2003 (available on the internet – www.nationmaster.com)

for both imports and exports) in the calculation of leading exporters and importers in world merchandise trade, excluding intra-EU trade. South Africa's primary trading partners are the United States, Japan, the EU and China. In the DTI's (2004a) ranking of South Africa's export and import partners, Zimbabwe (the eminent African importer of South African products) ranked twelfth; and the only other African states that ranked in the top 20 were Mozambique (15th) and Nigeria (20th). Furthermore, South African imports from its regional and continental counterparts were marginal in comparison to imports from the United States, the EU, China and Japan. Only four African states ranked in the leading 50 exporters to South Africa: they were Nigeria (25th), Zimbabwe (27th), Zambia (44th) and Malawi (50th). South African exports include gold, diamonds, platinum, minerals and metals, and machinery and equipment. The state's main imports include machinery and equipment, chemicals, petroleum products, scientific instruments and foodstuffs (CIA, 2004b).

South Africa is a member of the Southern African Customs Union and, thereby, enjoys free trade with other SACU members (i.e. Botswana, Lesotho, Namibia and Swaziland). It is in the process of establishing a Free Trade Area with the Southern African Development Community; and was the signatory of a free trade agreement (the Trade, Development and Co-operation Agreement) with the EU in 1999. Along with other SACU members, talks were initiated in 2003 regarding the establishment of a Free Trade Area between SACU and the United States. South Africa is currently negotiating trade agreements with other states of the South, namely India, Nigeria, Egypt, Brazil and other Mercosur members, and with EFTA states (Norway, Switzerland, Iceland and Lichtenstein). In addition to these agreements and impending agreements, South Africa enjoys preferential treatment through a generalised system of preferences with Norway, Switzerland, Hungary, Japan, Canada, the United States and the Czech Republic (SouthAfrica.info, Internet Source; Global Trade Negotiations, 2004).

4.4 South Africa: champion of the South

The dominance of the North in international trade necessitated the need for states of the South to challenge the international trade regime in two ways: first, by increasing South-South cooperation; and second, by reforming the trade regime in order to place the interests of the South on multilateral agendas. The South African government has stated that it is committed to both South-South cooperation and reform. It has taken a leadership role in its international endeavours to represent the continent and redress the inequalities that the trade regime perpetuates. In order for South Africa to succeed in reforming the trade regime, it is imperative that the South challenge the North as a unified entity. Thus, as the continental hegemon, it is invaluable to assess South Africa's participation in South-South cooperation, and its reformist initiatives.

4.4.1 Advocate of South-South cooperation

South Africa has utilised its chairpersonship of regional, continental and international organisations to advance South-South cooperation in contesting the dominant forces of the global economy. In an address to the Non-Aligned Movement (NAM) in 1999, President Mbeki said: '[I]t is vital that the NAM and the Group of 77 plus China should have a common, co-ordinated and strategic approach in their interactions with organisations of the North such as the G-8 and European Union' (Nel, Taylor & Van der Westhuizen, 2001:60). Through the NAM, UNCTAD, the G-77, SADC and the African Renaissance, South African leaders have promoted increased South-South cooperation and coordination. Mbeki and his Ministers have enjoyed support from other African leaders, notably, Obasanjo (Nigeria), Chissano (Mozambique), Mubarak (Egypt), Bouteflika (Algeria), Museveni (Uganda) and Gaddafi (Libya). Moreover, other states of the South (e.g. Brazil, India and China) have supported Mbeki's undertakings at consolidating the South (Nel, Taylor & Van der Westhuizen, 2001).

Increased support by the South for the formation of a unified body is apparent. According to Minty (in Heine, Mills & Porter, 1998:140),

> There has been a robust resurgence of interest, willingness and determination among developing countries in pursuing South-South cooperation… [This] has sparked a strong movement to introduce strategic and innovative approaches and modalities into the South-South co-operation process… so that South-South co-operation becomes more dynamic and realistic… South-South co-operation deserves adequate international support in order to enable developing countries to forge a genuine partnership with developed countries… The primary responsibility, however, for the development and integration of the countries of the South into the global economic system rests with the developing countries.

Mbeki's discourse regarding his obligations to the African continent was evident in an address to the Scottish Parliament in 2001: 'Our approach in South Africa is to strengthen regional and continental co-operation and unity, so that we are better equipped to engage the broader international community in the age of globalisation' (Mbeki, 2002:112). This statement underpins that Mbeki identified African consolidation as a necessary requirement for redressing global inequalities. At the launch of the African Union in 2002, Mbeki accentuated the need for a consolidated African response to the international community:

> the peoples of our continent have made the unequivocal statement that Africa must unite! We as Africans have a common and a shared destiny! … The first task is to achieve unity, solidarity, cohesion, cooperation among peoples of Africa and African states… We must deepen the culture of collective action in Africa and in our relations with the rest of the world (Mbeki, 2002:186).

Despite its advocacy of the African Renaissance and its rhetorical commitment to the African continent, South Africa's position in trade talks (i.e. Seattle, Doha and Cancun) were not reflective of African interests (although they were in line with the interests of the South on the whole). Despite advocating the need for a unified South, there appeared to be a distinct split in the South. South Africa moreover opted to align itself with the G-20 as opposed to the African bloc. For the duration of the Seattle Round in 1999, South Africa claimed to 'promote a development agenda with the interests of Africa at heart', yet continued to participate in exclusionary meetings with the quad (Keet, 2001). South Africa's participation in these Green Room talks was condemned by African leaders who were critical of the absence of transparency during the Round (Bond, 2004). During the Doha Ministerial meeting in 2001, former South African Minister of Trade and Industry, Alec Erwin, was dismissive of African interests professing that African representatives 'merely articulate extremely basic positions and very seldom get beyond that' (Bond, 2004:53).

Throughout the WTO's Cancun talks in 2003, South Africa – aligned with India, China and Brazil – formed an amalgamated unit confronting the developed countries' unfair trade practices in the agricultural sector. Although a separate African bloc was created, these two blocs shared common interests and the African bloc conceded that South Africa's alliance with the G-20 could be beneficial to the African group pertaining to opposition to barriers in the North. Indian representative K.M. Chandrasekhar said that coordinated action between the African bloc and the G-20 would emerge as these developing states shared similar concerns 'so [they] could work together on all these issues'. The issues were identified by Chandrasekhar as 'the three pillars of farm trade negotiations, domestic support, export subsidies and market access' (Global Information Network, 2003).

South Africa has been identified as the leader of the South in the international trade system, and specifically in the WTO. South Africa, moreover, 'expressed a desire to play a mediating role between North and South' (Nel, Taylor & Van der Westhuizen, 2001:69). Nevertheless, South Africa's alliance with the G-20, as well as its participation in the Green Room talks during the Seattle Round, undermined its responsibility to African states. During these talks, South Africa – like the North – was responsible for the marginalisation of African states. Nonetheless, South African engagement in the trade talks may have been based on South Africa's desire to establish itself as a spokesperson for the South, and as a reliable, credible ally of the North. Thus, it could utilise this status to represent African interests in the long-run.

Keet (2001) was critical of South Africa's position in the trade talks. She wrote that South Africa's endorsement of a broad-based agenda indicated its disregard for other African states which 'have been stating for years that they could not cope with and do not want a new and complex multi-dimensional Round' (Keet, 2001). Moreover, Keet (2001) wrote that South Africa should support Africa's position in trade talks as a unified African position is 'essential to development and stability'. Thus, South Africa may be concerned with the union of the South, but its actions indicate that binding the South does not essentially depend upon the partnership of other African states (with the exception of SADC[16]). These actions undermine South Africa's position as the continental hegemon and illustrate that South Africa's relations with the rest of the continent regarding trade are not based exclusively on cooperation and consensus.

4.4.2 Reformer of structural prejudice

> Mbeki and his internationally oriented cabinet colleagues… locate their own (national) ambitions as well as the continent's potential transformation not in lucrative personal accomplishments or western-style bourgeois decadence, but rather in the further

[16] During the Doha Round, 'South Africa led a [SADC] breakaway from the consensus of key African countries' (Bond, 2004).

> integration of Africa into a world economy that – they themselves would concede – is itself in need of better regulation and fairer economic rules. The project, therefore, is to reform interstate relations and the embryonic world state system (Jacobs & Calland, 2002:54).

This statement explicitly reflects South Africa's position with regard to the international trade regime. According to Taylor (2001), Mbeki aspired to reform the international system by establishing a common position, solidarity and co-ordination among states of the South as such an alliance '[would] be taken more seriously than the G-15, G-22 and G-77 groupings' (Nel, Taylor & van der Westhuizen2001:61). Moreover, an affiliated South as an adversary to the North is 'the cornerstone of South Africa's multilateral policies regarding global trade' (Nel, Taylor, Van der Westhuizen, 2001:68). Central to the Mbeki Global Initiative for Africa is the desire to hold the North accountable to the trade liberalisation policies it advocates for the South.

Reform of the international system includes the integration of African economies into the global economy; the promotion of developmental issues; the democratisation and transformation of multilateral institutions (specifically the WTO); the promotion of Southern interests in multilateral agendas; and the need to ensure the North abides by the liberal policies it promotes. Globalisation aggravated the marginalisation of African economies due to their inability to diversify their economies; their inadequate share of world trade; fluctuations in world trade; political instability; unfavourable terms of trade; and unsustainable levels of external debt (Cheru, 2002; Kennes, 2000; Saasa, 1991). Moreover, these states do not posses the capacity to oppose the process of globalisation, and as Tito Mboweni (Governor of the South African Reserve Bank) stated: 'good luck to those who want to demonstrate against globalisation. I would rather people spent time on how they can maximise the benefits of globalisation' (in Nel, Taylor & Van der Westhuizen, 2001:62). The South African government has recognised that it cannot contest the course of globalisation and, therefore, is concentrating its efforts on gaining support from the North for the integration of the marginalised South. Both integration and the adoption of a developmental agenda are illustrative of South Africa's efforts at putting issues of concern to the South on the agendas of multilateral institutions.

The South African government has endorsed the need for the implementation of a developmental agenda in the WTO. In his address at the Doha Ministerial Conference, Alec Erwin stated that existing protectionist polices in the North are exacerbating underdevelopment in the South, and that '[r]edress is fundamental to a development agenda' (2001). Moreover, development features in 'A Broad South African Approach to the New Multilateral Trade Negotiations in the World Trade Organisation' (DFA, 2001): it is written that developing countries have acknowledged that they require a trade regime that will advance developmental issues.

The reform of the WTO is a critical area of attention for Mbeki's reformist policies. South Africa, and other African states, are expected to liberalise their economies and abide by the rules and regulations of the WTO. Nevertheless, the South African government has condemned the dominant powers in this multilateral body (i.e. the quad) as these states continue to execute mercantilist policies rather than the liberal policies that they advocate. Due to incoherent action and rhetoric (from the North, as well as from the WTO), Erwin (2001) stated that 'the WTO is seen by a wide variety of social groups as the embodiment of the evils of globalisation'. Liberalising African (and Southern) economies are facing barriers to trade in the form of agricultural subsidies, dumping, tariffs, and tariff peaks in sectors where African states possess the comparative advantage (e.g. in agriculture, textiles and clothing, and leather).

Thus, South Africa seeks the equal and unprejudiced treatment of all members of the WTO. Currently, South African views '[are] built upon the premise that liberalisation has not gone far enough and the North needs to accept the logic of its own rhetoric regarding free trade' (Nel, Taylor & Van der Westhuizen, 2001:68). Director-General of Foreign Affairs, Sipho Pityana, succinctly stated the motivations for South African efforts at reform:

> We seek acknowledgement of the fact that, with the global village as our marketplace, there cannot be continued selective protection of access to markets or political motives. We therefore also call for the full implementation of the Uruguay Round commitments to dismantle trade barriers. We are not calling for charity for developing countries. What we are rather calling for are enhanced export opportunities for developing countries and improved market access, in order that they might improve their living standards through strong export growth to the levels enjoyed by the industrial world (quoted in Nel, Taylor & Van der Westhuizen, 2001:70-1).

Reforms to the WTO need to extend beyond the adoption of free trade. The North's ability to disregard WTO policies indicates that the WTO needs to democratise; 'imbalances', 'deficiencies' and 'prejudicial' rules need to be redressed. '[M]ultilateral rules need to be designed – and re-designed – to become more responsive to the trade and development interests of developing countries and to achieve more equitable objectives' (DFA, 2001). Apropos to the democratisation of the WTO, talks should not require the consent of the quad: 'Mr Moore said it was vital for Canada, the European Union, Japan and the United States to agree on the way forward in launching such a round' (WTO, 2000). Instead, the WTO should afford equal power, status and authority to all its members – and member states 'must pursue the democratic future of the WTO as embodied in the "one country, one vote" system of operation of the Organisation' (DFA, 2001). The South African Departments of Foreign Affairs and Trade and Industry lucidly represent the interests of the South African government – they seek the democratisation of the WTO, the preferment of equality of all members, and compliance by all member states with the rules and regulations of the WTO.

South African representatives have advanced these reformist ideals in bilateral and multilateral engagements. These consultations have included dialogue with the United States, the United Kingdom, Scotland, Japan, Nordic states, and the EU (Mbeki, 2002; Nel, Taylor & Van der Westhuizen, 2001). Mbeki and his Ministers have pinpointed the role they believe the North should play in the reform of the international trade regime; this role was outlined in Mbeki's address to Scottish leaders in 2001:

> We recognise the need to democratise decision-making in the international arena. This includes, as a priority, the restructuring of key multilateral organisations such as the UN, the international financial institutions and international trade organisations. So while parliaments are the custodians and promoters of democracy, human rights and human development in their own countries, they have to play a role in promoting this agenda in the international institutions of governance as well. The imperatives of globalisation oblige us to do this (Mbeki, 2002).

4. 5 South African trade agreements

South Africa has signed numerous bilateral trade agreements. Correspondingly, it reciprocally benefits from bilateral trade agreements with Norway, Hungary, Switzerland, Japan, Canada, the United States and the Czech Republic due to the adoption of a generalised system of preferences which affords South African exports access to these markets. As a member of the Southern African Customs Union (SACU), South Africa profits from the removal of all trade barriers with other SACU member states. At the conclusion of the twentieth century, the South African government signed two salient free trade agreements, the first with EU members states; and the second with SADC member states. Although trade agreements with India, Brazil and Mercosur, EFTA, and China are in the pipeline, the existing free trade agreements with SACU, the EU and SADC will be discussed.

4.5.1 Southern African Customs Union (SACU)

SACU, established in 1910 as the Customs Union Agreement, was revised in 1969 and comprises five members: South African, Botswana, Lesotho, Namibia and Swaziland (commonly referred to as South Africa and the BLNS states). According to the South African Department of Foreign Affairs (2004), the underlying objective of SACU is the maintenance of 'the free interchange of goods between member countries'. Within the customs area, there exists a common external tariff and a common excise tariff, and revenue generated from these tariffs is placed in a pooled fund (of which South Africa is the custodian) and is shared among member states in accordance with an agreed formula. For Botswana, Lesotho, Namibia and Swaziland, revenue generated by SACU is an indispensable source of income for the respective governments. In 2003, the common pool generated almost R23 billion (Business Day, 2004b). Moreover, Swaziland and Lesotho's dependence on revenue generated by SACU is evident as this revenue accounts for almost 50 percent of these states' GDP: in 2001, this revenue amounted to 51 percent of government revenue in Lesotho, and 54 percent of government revenue in Swaziland (corresponding to 4 percent of South African revenue) (Kirk & Stern, 2003:5).

As the dominant SACU state, South Africa was accused of acting autonomously, and 'all of SACU's decisions [were] being made by [South Africa's] trade and industry department' (Business Day, 2004b). This perception impelled the revision of the previous SACU agreement through the democratisation of the Union and the abatement of the pre-eminence of South Africa. A meeting held in Pretoria in 2000 initiated changes to the SACU agreement, including the institution of a Council of Ministers, Commission, Tribunal and Secretariat (thereby preventing domination by South Africa and improving the democratic processes of the Customs Union). The revenue-sharing formula required adjustment (revenue for members would be calculated based on three aspects: a share of the customs pool, a share of the excise pool and a share of a development component[17]).

In addition, SACU's inadequate trade policy harmonisation and economic integration were identified as straggling behind other customs unions; and the revised agreement advanced the need for harmonised industrial development. These modifications were introduced as a means to improve the democratisation of SACU and increase integration and cooperation. Furthermore, the need to redress the dependence of smaller SACU member states on revenue generated from customs and excise (especially owing to the impending free trade agreement with the United States which will drastically affect import tariffs; and due to the effects of South Africa's free trade agreement with the EU) was highlighted in a recent article in Business Day (2004b); '[I]t is hoped that regional integration, as envisaged in the new SACU agreement, will stimulate economic development in smaller countries in the union and reduce their dependence on the common pool'.

The SACU agreement – signed in 2002 – included the following objectives: the promotion of integration into the world economy; the facilitation of cross-border movement of goods between SACU members; the establishment of 'effective, transparent and democratic institutions which will ensure equitable trade benefits to the Members'; equitable revenue allocation; the promotion of fair competition, expanded investment and economic development; and 'the development of common policies and strategies' (Kirk & Stern, 2003:7). In the previous agreement, South Africa determined the external tariff and excise duties, whereas the new agreement stipulates that this is to be done by consensus. In terms of the revenue sharing formula, customs revenues will be allotted in accordance with members' intra-SACU trade. Botswana accounts for the greatest portion of intra-SACU trade and will, therefore, be the recipient of the greatest share of the customs component (i.e. 27 percent). Revenue generated from excise is calculated according to members' 'share of total SACU GDP'; therefore, South Africa, with the largest economy in the Customs Union, will receive the greatest proportion of revenue from the excise pool, namely 93 percent. However, the developmental component stipulates that the greater the revenue generated from excise duties, the

[17] Department of Foreign Affairs, 2004.

greater the contribution to the developmental component – therefore, South Africa will supply 93 percent of the developmental component (Kirk & Stern, 2003).

4.5.1.1 SACU-US free trade agreement

In June 2003, talks regarding a free trade agreement between SACU member states and the United States began. This trade agreement stems from the African Growth and Opportunity Act (AGOA), which assures the duty-free access of African exports into the American market. However, access is conditional and some African states have been denied access. In brief, AGOA was initiated in 2000 by former President Bill Clinton. More recently, President Bush has described AGOA as 'the cornerstone of the Administration's policy toward Africa' (AGOA, 2004). AGOA affords African states 'the most liberal access to the U.S market available to any country or region with which the United States does not have a Free Trade Agreement'; and the 37 eligible states were granted preferential access due to their 'continued progress toward a market-based economy, the rule of law, free trade, economic policies that will reduce poverty, and protection of workers' rights' (AGOA, 2004; White House, 2003). All SACU member states have indicated their compliance with the above-mentioned requisites.

The free trade agreement between the United States and SACU is founded on AGOA. Increased trade between SACU and the United States led to the formation of the free trade agreement and the shift from 'preferences to full partnership' (USTR, 2003). In 2001, SACU was accountable for approximately 70 percent of non-oil exports (from sub-Saharan Africa) to the United States; and South Africa is the greatest exporter of non-oil goods to the United States. Lesotho is the largest sub-Saharan African clothing exporter to the United States; and the gains reaped by Swaziland, Botswana and Namibia are explicit: their exports to the United States escalated by between 40 and 75 percent in one year (USTR, 2003).

The free trade agreement will extend beyond tariff reduction and will cover issues such as services, investment, government procurement, electronic commerce, environment and labour (USTRADE, 2003). The formation of a free trade agreement allows SACU states to compete in international markets; increased integration in the global economy is conducive to the creation of an investor-friendly environment; and SACU states will gain from technical assistance provided by the United States. Furthermore, increased regional cooperation and integration have been identified as spillover effects of the potential US-SACU free trade agreement. Similarly, this agreement 'also offers an opportunity to further link trade to the region's own economic growth, development and poverty alleviation strategies' (USTR, 2003). Potential benefits for the United States include similar market access to exporters from the European Union as a free trade agreement with SACU 'will help to level the playing field in areas where U.S. exporters are disadvantaged by the European Union's free trade agreement with South Africa' (USTRADE, 2003).

However, a free trade agreement will necessitate the removal of tariffs on imports from the United States, which will severely affect the revenue generated from the SACU customs and excise tariffs. In 2003, imports from the United States were equal to 10 percent of South African imports (DTI, 2004a). Thus, SACU would lose one tenth of the revenue generated from South African tariffs alone. Imports from the United States may threaten infant domestic industries as cheaper goods will be available from the United States; farmers in South Africa, Botswana, Lesotho, Namibia and Swaziland will be unable to compete with imports from the United States where agricultural goods are heavily subsidised; and 'Southern African governments will actually stand to lose their ability to regulate investment, ensure access to affordable medicines, and guarantee food security and the livelihoods of poor farmers' (Oxfam, 2003). Ultimately, the costs of a SACU-US free trade agreement cannot be disregarded despite the immense gains that will accrue to SACU members under AGOA. The cancellation of tariffs on imports from the United States has severe implications – however, SACU states unequivocally gain from increased access to the foreign market. Therefore, until these states find substantial, alternative sources for revenue, preferential access to markets (as opposed to free trade agreements) may be the best option for SACU.

4.5.2 Southern African Development Community (SADC)

On 24 August 1996, the SADC Protocol on Trade was signed by the governments of 12 SADC member states, namely Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Ratification of this Protocol requires the liberalisation of 'intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements'. Moreover, it indicates the commitment of these states 'to establish a Free Trade Area in the SADC Region' (SADC, 1996). The creation of a Free Trade Area within the SADC region is perceived as a prerequisite for the ultimate objective of establishing a common market in Southern Africa:

> The overall objective of the SADC Trade Protocol is to attain a Free Trade Area as a step towards achieving a Customs Union and subsequently a Common Market. On the whole, the SADC trade policies and strategies are consistent with the objectives of eliminating obstacles to the free movement of capital, labour and goods and services and the improvement of the region's economic management and performance through regional cooperation with the ultimate goal of eradicating poverty (RISDP, Internet Source).

According to the Protocol on Trade, tariffs and non-tariff barriers to trade within the SADC region are expected to be eliminated within eight years of the implementation of the Protocol, i.e. by 2008. Likewise, import duties on products from SADC member states are to be eliminated, as are export duties. As stipulated in the Protocol, non-tariff barriers are to be reduced and eventually nullified, and no member state may impose new non-tariff barriers; quantitative import and export restrictions are to be eliminated; and SADC members may not grant subsidies that will have an impact on competition in the SADC region. Safeguard measures may be applied if domestic industries are vulnerable and, in order to protect infant industries, states may 'suspend certain obligations of this Protocol' (SADC, 1996). Finally, consistent with international norms, in their intra-regional agreements SADC member states are expected to ensure respect for the most favoured nation principle.

South Africa and other SACU member states have indicated their commitment to the creation of a Free Trade Area in the SADC region. SACU states committed themselves to the immediate reduction in tariffs on textiles and clothing by 40 percent; by 2004, they pledged to eliminate all tariffs on these products; by 2005, they vowed to eliminate all tariffs on fabrics; by 2006, SACU states have promised to cancel tariffs on household textiles; and finally, by 2007, SACU has committed itself to the elimination of all tariffs on clothing. Therefore, SADC members will enjoy greater access to SACU markets, despite SACU members not enjoying similar access to the markets of other SADC states.

Moreover, greater access to the regional economic giant will result in positive gains for SADC members. As Marina Mayer (1999) wrote:

> For SADC member states, South Africa represents the largest market with the highest purchasing power in the region. Hence, preferential access to the South African market will have direct and positive implications for employment and industrial development.

Despite the potential gains associated with greater and (initially) unilateral access to the South African market, SADC members still have reservations about the free trade agreement. These concerns pertain to the free trade agreement between South Africa and the European Union. SADC members are concerned that the EU will exploit its free trade agreement with South Africa and utilise its increased access to the regional power's market 'to make inroads into other Southern African markets' which will threaten domestic industries and infant industries as Southern African producers may be unable to compete with European producers (Africa Recovery, 1999). In response to these concerns, Prega Ramsamy (SADC Deputy Executive Secretary) stated that the reduction in tariffs by South Africa will favour SADC states rather than EU members as 'cuts in tariffs will be deeper'. Ramsamy identified other advantages of the South Africa-EU trade agreement: in order for South Africa to compete in foreign markets, it will need to acquire current technology, and technological advancements are likely to filter through to the region; increased South African-European trade will increase South Africa's integration into the world economy, and as South Africa has committed itself to the SADC region and a Free Trade Area, enhanced South African integration will have a spill-over effect for the entire SADC region (Africa Recovery, 1999).

4.5.3 South Africa-European Union free trade agreement

The Trade, Development and Co-operation Agreement (TDCA) was signed by the EU and South Africa in October 1999. The agreement came into effect in 2000, and aims to generate free trade between South Africa and the EU by 2012. Over a 12 year period, South Africa is required to open 86 percent of its market to goods from the EU; and the EU is required to open 95 percent of its market to products from South Africa over the next 10 years. The free trade agreement applies to products from all sectors, as well as to 'the liberalisation of trade in services and the free movement of capital' (SACOB, 1999). This agreement will potentially act as a model for future free trade agreements with other African states. The significance of the agreement is evident in the following: ‘The EU remains South Africa’s most important economic trade partner, accounting for over 40 percent of its imports and exports, as well as 70 percent of foreign direct investment’ (SouthAfrica.info, Internet Source). In addition to this, despite a decrease in overall EU trade by 0.3 percent in 2001, South African exports to the region increased by 11 percent (SouthAfrica.info, Internet Source; Africa Recovery, 1999; Mayer, 1999).

It is anticipated that, due to the free trade agreement and the resultant amplification in South African trade, South Africa’s growth rate could increase by 1 percent annually. The TDCA was signed after four years of negotiations and 22 rounds of talks. Issues of contention included the EU’s agricultural subsidies under the Common Agricultural Policy (as South African exporters will struggle to compete with subsidised agricultural products in the EU); fishery agreements (South Africa indicated its reluctance to grant EU fisherman access to South African waters); and wines and spirits (Spain and Portugal were persistent that South African producers phase out the use of the terms ‘sherry’ and ‘port’). The EU made a concession by allowing South Africa to maintain barriers that protect sensitive products (e.g. textiles) (BBC News, 1999; Africa Recovery, 1999; Mbekeani, 1999).

The free trade agreement may provide South Africa with immense opportunities as the continental power augments its share of international trade and advances its participation in the world economy. Proponents of the free trade agreement stated that the TDCA ‘could prove a model for EU relations with the group of former European colonies in the developing world, the African, Caribbean and Pacific countries who currently benefit from special trade privileges’ (BBC News, 1999). However, South Africa’s neighbours and continental counterparts have identified numerous negative outcomes of the free trade agreement between the continent’s hegemon and the EU. Some concerns include reduced revenue for BLNS states due to the elimination of tariffs on EU products; South Africa prioritising its free trade agreement with the EU over its agreement with SADC; the inability of farmers in Southern Africa to compete with subsidised imports from the EU; and the vulnerability of regional industries due to their inability to compete with technologically advanced producers in the EU.

4.5.4 Implications of South Africa's trade agreements

For Botswana, Lesotho, Namibia and Swaziland, entering into free trade agreements with other states will have serious consequences. As revenue generated from tariffs adopted by SACU accounts for a momentous proportion of government revenue in Lesotho, Namibia and Swaziland (51 percent, 30.4 percent and 54.1 percent, respectively) the elimination of tariffs resulting from free trade agreements will drastically reduce government revenue. Revenue in these three states is expected to decrease by between 8 and 15 percent due to the TDCA (Mbekeani, 1999; Africa Recovery, 1999). Similarly, when the free trade agreement between the United States and SACU is signed, these states will witness a further substantial decrease in revenue – 50 percent of Namibia's imports are from the United States – thus, Namibia would contribute 50 percent less than it does now to the common revenue pool (CIA, 2004a).

The loss of revenue from the free trade agreement between the EU and South Africa may be countered by compensatory packages from the EU: Swaziland received $1.3 million from EU members in order to reduce the effects of the free trade agreement between South Africa and the EU. The motive behind this package was to cushion the effects of reduced income as a result of the elimination of tariffs on EU imports. Swaziland was not the sole recipient of compensatory packages as the EU provided additional support to the other SACU states that would be adversely affected by the trade agreement (i.e. Botswana, Lesotho and Namibia) (Africa Recovery, 1999).

The import of EU products (both industrial and agricultural) will have severe impacts on all African states. Due to the implementation of subsidies, dumping and the proprietorship of more advanced technology, European exporters are able to produce goods at a lesser cost than their African competitors. Therefore, these producers will have the upper hand as their exports enter the South African market. South African consumers are more likely to purchase cheaper products from the EU. Thus, both the agricultural and industrial sectors are vulnerable: 'Intra-SADC trade currently ranges between 10-20 percent and is likely to be reduced with the advent of cheaper EU products through South Africa' (SARDC, 1999).

South Africa will enjoy duty free access for over 99 percent of its industrial exports to the EU by 2006, and both the textile and clothing, and automobile industries (which were classified as sensitive industries) will be placed on the reserve list (i.e. tariffs facing EU exports for these goods will be gradually eliminated, thereby protecting South African industries). In contrast, South Africa is granting SADC states preferential access to the clothing and textile markets, and has guaranteed the elimination of tariffs in this sector by 2007 (Mayer, 1999). Thus, SADC states will have the initial advantage over EU states in the clothing and textile industry. As EU exports gain increased access to the South African market, Southern African producers may struggle to compete with European producers due to unequal and incommensurate technology.

Infant industries in Africa will be unable to compete with established European producers. This is critical to the growth of African economies as they have recognised the need to diversify their economies so as to reduce over-reliance on agricultural commodities. For the SACU economies, the diversification of their economies has led to the creation of industries which have the potential to be drowned out by European competitors. These industries include refrigerators, televisions, umbrellas, denim, polyester, clothing and motor vehicles (Mbekeani, 1999). Mbekeani (1999) added that increased competition in the industrial sector will contribute to deteriorating social conditions in African states as 'changes in the competitive environment will lead to the closure of enterprises, [and] unemployment'. Competition in the newly diversified industrial sector has been identified as a major concern for African producers.

The EU is notorious for its Common Agricultural Policy, which provides prodigious grants to farmers in the member states. Despite facing competition from goods that are heavily subsidised, South African negotiators accepted that only 62 percent of South African agricultural exports will benefit from tariff eliminations. Generously, South Africa has pledged to eliminate tariffs on 81 percent of agricultural products from the EU. Subsequently, South African producers in the agricultural sector will endure escalating vulnerability as cheaper EU imports enter South African markets. The impact on the continent, and particularly on the Southern African region, will be detrimental to African economic growth. 'The flood of imports of [subsidised] EU agricultural products will definitely impact negatively… [as] up to 70 percent of the population in the SACU region is employed in agriculture' (Africa Recovery, 1999).

Although the agreement between the EU and South Africa protected the Namibian beef industry and Swaziland's sugar industry, these industries continue to face competition due to subsidies in the North and the subsequent ability to dump these products in African markets. '[T]he exclusion of beef from the free trade agreement will not protect Namibia's beef sector from cheaply priced EU beef products'. Similarly, 'Swaziland's sugar producers also find it difficult to compete with EU sugar sold in the region at artificially cheap prices' (Africa Recovery, 1999). For SACU states, sensitivity to EU imports will extend to the following industries: dairy, canned fruit, jam, asparagus, flour-based products, and fresh fruit and vegetables (Mbekeani, 1999; Africa Recovery 1999).

Competition between African and European producers in both industrial and agricultural sectors is likely to favour European producers who benefit from subsidies and the technological edge. The table below provides examples of products that are produced in both regions (information attained from the CIA World Factbook, 2004) and, therefore, where the EU will be endowed with the capacity to flood African markets with cheaper products, thereby encumbering African production.

African and European producers		
Product	**African producer(s)**	**EU producer(s)**
Fish	Uganda, Kenya, Namibia	Denmark, Spain, Italy
Potatoes	Ethiopia, Malawi	Ireland, Austria, Portugal
Wheat	Tanzania, Lesotho, Kenya	Germany, France, Sweden
Olives	Tunisia, Morocco	Spain, Greece
Meat and meat products	Namibia, Zambia, Burundi	Denmark, Sweden, Spain
Cereals	Ethiopia	France
Corn	Swaziland, DRC	Greece
Fruit and vegetables	Egypt, Djibouti, Tanzania	Italy, Netherlands, Belgium
Oilseeds	Ethiopia	UK
Tobacco	Zimbabwe, Angola, Malawi	UK, Italy, Belgium, Greece
Diamonds	Botswana, Angola, DRC	Belgium
Motor vehicles	Lesotho	Germany, Italy, Austria
Metals	Zambia, South Africa	Germany, Belgium
Machinery and equipment	South Africa	France, Belgium, Portugal
Chemicals	Tunisia	Netherlands, Ireland

Figure 5

In international trade, according to Mayer (1999), the South African government favours the Southern African region as the state's interests are served by 'the existence of strong linkages between the domestic and regional economy'. The preservation of the Customs Union and the establishment of a Free Trade Area under the auspices of SADC illustrate this. However, the pending free trade agreement between the United States and SACU and the existing TDCA illustrate the contrary, therefore, a contradiction exists between government rhetoric and government action. The free trade agreement with the EU undermines the state's commitment to the Southern African region (and the continent as a whole). The government cannot assert that reducing the revenue of the BLNS states is favourable to these states; nor can the government asseverate that competition in both industrial and agricultural sectors with technologically advanced and highly subsidised European (and American) producers will be beneficial to African producers. These agreements hinder African states' need to diversify their economies, and hamper economic growth due to unequal competition.

The free trade agreements that the South African government has ratified may be in the spirit of liberalism, and are in line with the liberal tenets of open markets and free trade. The dominant states of the quad are encouraging South Africa and other African states to adhere to trade liberalisation and ensconce free trade agreements. However, they too are guilty of antagonistic rhetoric and action: the existence of protectionism is representative of these states' observance of mercantilist policies. Although under the TDCA and SACU-EU free trade agreement South African and Southern African producers may have expanded market access, they will be unable to compete in these foreign markets. Moreover, they will face the same fate in their domestic markets as subsidised goods entering from the EU and United States will be cheaper, and, therefore, preferred by consumers.

Under the liberal guise, structuralism will be perpetuated. Free trade will not equate to economic growth due to the prevalence of mercantilist policies, and small African industries, and farmers, will be drowned out. Consequently, in international trade, if selected tenets of liberalism coincide with aspects of economic realism, the international system will continue to be representative of structuralism; it will be dominated by the North (particularly the quad), and the divide between North and South is unlikely to be curtailed. Free trade and open markets can only serve as a source of economic growth and prosperity if all states in the international trade regime adopt liberal policies; and if multilateral institutions certify equality between, and abidance by, all member states. As illustrated by the implications of South Africa's free trade agreements, dissimilar policies merely perpetuate the structural arrangement of the international system.

4.6 Africa's hegemon in the international trade regime

South Africa's hegemony in the international trade regime elucidates attributes of both benevolence and selfishness. South Africa has voluntarily undertaken the liability of establishing a confederated South, ameliorating the prejudiced trade structure, and confronting the North's unfair trade practices. In its consultations with foreign leaders, South Africa has unilaterally absorbed the costs of hosting and participating in talks. Within the trade regime, the greatest costs will fall on the developed states if South Africa's efforts are successful as these states will suffer losses from reductions in tariffs and other barriers to trade. Moreover, the North (especially the quad) will forfeit their superiority and influence if the WTO is restructured so as to ensure democracy, accountability, transparency and equality as these states will no longer dominate the institutors, nor will their non-compliance be tolerated.

It is manifest that an international trade regime that embodies free and fair trade is a public good; and the implementation of such a regime will not compel unilateral cost absorption by a single state. Thus, South African-endorsed rectifications to the trade regime are not representative of selfish hegemony as South Africa is not '[forcing] subordinate states to make contributions' (Odén, 2001:169). On the African continent, the only contributor to these reforms is South Africa as the state has assumed the onus of engaging in dialogue and mediating and facilitating negotiations. South Africa's predisposition for assuming a facilitative role is explained by Taylor (Nel, Taylor, Van der Westhuizen, 2001:69):

> In line with the Mbeki Initiative, South Africa has expressed a desire to play a mediating role between North and South. As a state classified by the WTO as developed but at the same time a leading nation in the developing world, this mediating position is perhaps to be expected.

An additional measure of cost absorption has been undertaken by all SACU states in the enforcement of the Free Trade Area with SADC states; South Africa and the BLNS states have assured the instantaneous truncation of barriers to the entry of textiles and clothing by 40 percent; SACU's eventual guarantee is the eradication of all tariffs on clothing and textiles by 2007. SACU's sureties are markedly generous, especially as these states will not reap corresponding benefits in other SADC states. However, African states will bear the costs associated with escalated competition with EU producers as a consequence of the TDCA. These states will face intensified competition with EU exporters in the South African market, and this may have the hazardous effect of obliterating African farmers and industries. The outcomes of South Africa's free trade agreements illustrate that, although South Africa is assuming the primary onus for cost absorption on the continent with regard to reform and consolidation, African states will shoulder the costs of decreased market access and expanded competition. Thus, South

Africa is acting benevolently as a rectifier; yet the free trade agreements indicate selfishness on the part of the hegemon.

The development of a Free Trade Area in the SADC region is an exemplification of South Africa's application of positive sanctions. As Southern African states adopt liberal principles of free trade and open markets, they will gain from free access to the largest market on the continent. Moreover, the adoption of these tenets is a requisite for the ultimate objective of establishing a Common Market. If African leaders consider the immense gains that have accrued to members of the EU due to the organisation of a Common Market, this goal is a further example of a positive sanction or reward. Conversely, Gadzey (1994:44) wrote that 'free trade stability [should not be perceived] as a pure pubic good the powerful provide gratuitously, but essentially as an instrument of national preservation or as a means to accumulate power'. Thus, although South Africa is not employing negative sanctions to ensure a cooperative outcome, the establishment of a Common Market will merely expedite South Africa's quest for increased power on the continent.

In line with the Mbeki Initiative and 'A Broad South African Approach to the New Multilateral Trade Negotiations in the World Trade Organisation', South Africa is advancing a development stance; it is proposing to place issues of concern to the South on multilateral agendas; it is calling for the removal of barriers to trade; and it is seeking the democratisation of the WTO. These feats are symptomatic of South Africa's acknowledgement that its own prosperity is inextricably bound up with the fate of the continent. Thus, emulating Balaam & Veseth's (2001:58) definition of a benevolent hegemon, South Africa is 'guided by what we might call enlightened self-interest – its self-interest is best served by maintaining the… prosperity of others'.

South Africa has utilised both consensus (characteristic of benevolent hegemony) and coercion (symbolic of selfish hegemony) in its endeavours at amending the current trade structure. The revisions of the SACU agreement – i.e. democratisation and diminished South African autonomy – implicitly illustrate attempts at attaining consensus in the operation of the Customs Union. Similarly, the voluntary acquiescence of SADC states to the Protocol on Trade (with the ultimate purpose of instituting a Common Market) exemplifies consensus. Thus, in its recent trade agreement with its regional counterparts, South African leaders have pursued consensual assent. However, beyond regional agreements, South African support has been constructed upon control.

The South Africa-EU free trade agreement stipulates the enforced elimination of tariffs by all SACU members. The TDCA was a bilateral agreement, thereby obstructing the inclusion of the BLNS states. Subsequently, the agreement to eliminate tariffs was not founded on consensus. Bond (2004) cites additional examples of South African engagements that portray control and enforcement. During the Seattle Round, South Africa's participation in exclusionary Green Room talks were criticised by other African leaders due to the absence of transparency. Thus, the concerns of African leaders indicated that any discussions held during this Round were not representative of African interests and, therefore, would produce agreements that would require enforcement. The lack of consensus was apparent; despite South Africa's presence during dialogue, Vijay Makhan (African Union commissioner for trade, industry and economic affairs) stated: 'Everybody knew the African position. But what disturbed us was that it was not taken onboard…Africa will have to take a political decision, whether it is worthwhile to stay in an organisation that is not proving its worth' (Bond, 2004:64). Restricted talks at Seattle undermined South Africa's dedication in attaining consensus and to a representative, unprejudiced, and fair institution.

South Africa's control was further embodied in Alec Erwin's dismissal of the capabilities of African representatives at the Doha conference. Erwin's statement that African delegates 'merely articulate[d] extremely basic positions and very seldom [got] beyond that'; and his repute within the WTO for '[acquiring] very useful African leadership' denoted that Erwin was not concerned with a consensual African approach (Bond, 2004:53). The lack of concurrence was reiterated by Keet's (2001) assessment of Doha:

> [Erwin] advised [the African, African-Caribbean-Pacific, and LDC bodies] that they had no choice but to accept the text, which was "the best possible outcome for them in the circumstances". According to participants and eyewitnesses, there were a number of angry responses to the South African minister, some even asking rhetorically who he represented and whose interests he was serving (quoted in Bond, 2004:54).

South Africa exhibits elements of both benevolent hegemony and selfish hegemony. Thus, its endeavours at establishing a unified South in order to redress the structural bias of the trade regime are both self-serving and beneficent. South Africa's actions are inherently contradictory. This incongruity is not dissimilar to the international hegemon –

the United States – that preaches free trade but practices protectionism. South Africa is advocating liberalism; yet its actions are aiding its accumulation of wealth and, therefore, power.

4.7 Conclusion

The trade regime embodies disparities apparent in the structural discrepancies between the North and the South (and specifically between the quad and African states); and in the prioritisation of mercantilist policies despite the rhetorical advocacy of liberalism. Undeterred by its status as a patron of the South, South Africa acted in a manner that has undermined its commitment to the African continent; its has participated in exclusive, discriminatory talks; and it has displayed characteristics synonymous with selfish, coercive hegemony. Within an anarchic international system, principal states at both international and continental levels espouse liberalism (calling for free trade and open markets). In actuality, superior states appear to act to accumulate wealth, preserve their power, and exploit a system that is conducive to the safeguarding of their interests. The product is the perpetuation of structural discord. As Africa's hegemon, South Africa is preserving its power by pronouncing its loyalty to the continent and pledging itself to a prosperous Africa while engaging in trade agreements and negotiations with the North that will further contribute to its economic growth and, therefore, to the maintenance of its power in Africa.

Chapter 5: The African debt crisis and South African hegemony

Introduction

The debt crisis experienced by African states reflects the same structural divide in the international political economy as international trade – a manifestation of discordance. The debt crisis of the developing world finds its origins in both internal and external factors. The ramifications of the crisis permeate beyond the borders of the developing states. The developed states possess the means but not the will to guarantee complete debt relief. Thus, international debt is a replica of international trade – a marginalised South dependent on the goodwill of an opulent, opportunistic North. The indebtedness of states is varied, as is the capacity of states to service debt obligations, and the factors behind debt accumulation. These obligations have induced African states to squander indispensable capital resources. Hence, as the continental hegemon, the South African government has endeavoured to secure the development of Africans states. The state has undertaken to forward the collective requisitions of the continent: South African representatives have endorsed the amelioration of African indebtedness by prescribing debt relief and the reform of international financial institutions.

5.1 Third World debt and the debt crisis

Since Mexico defaulted on debt repayments in 1982, the international community has paid increasing attention to the incapacitating debt burdens of the developing world. Debt servicing is depleting resources that are the *sine qua non* for the development of these states, and the social and economic costs of repaying debts are extensive. Although the total amount of South America's debt greatly exceeds that of Africa, African states do not enjoy similar levels of economic growth and are, therefore, deluged by their external debt. Debt, the debt crisis and African indebtedness will be explored.

5.1.1 What is debt?

Total external debt is defined as 'debt owed to nonresidents repayable in foreign currency, goods, and services. It is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt' (World Development Indicators, 2004). The World Bank (2000:XV) defines long-term debt as '[having] an original or extended maturity of more than one year…, owed to residents and repayable in a foreign currency, goods or services'. Short-term debt 'includes all debt having an original maturity of one year or less and interest in arrears on long-term debt' (World Development Indicators, 2004). Debt service is defined as

> The amounts of funds set aside for the payment of interest and amortization charges with debt. Because the interest charge in many cases fluctuates with current international rates, a small rise in the interest rate can greatly increase the debt service (Cheru, 1989:xi).

Debt and the subsequent debt service obligations are the result of 'loan accumulation over the years'. Moreover, debt is the imminent outcome of overborrowing, which in turn, 'is rooted in overlending' (Bouchet, 1987:xv).

5.1.2 The debt crisis of the developing world

August 1982 marked the beginning of the debt crisis when Mexico defaulted on debt repayments. Since the 1950s, numerous events have shaped the fate of the developing world. In 1955, debt owed by developing states was estimated to be $9 billion. The following year, through the Paris Club, Argentina was able to renegotiate its debt servicing. The 1960s were prominently characterised by the decolonisation of most African states, and inexperienced leaders have been criticised for poor public sector management (Gélinas, 1998). The interventionist nature of African leaders 'strongly [affected] the overall efficiency of resource use. There are countless examples of badly chosen and poorly designed public investments' (World Bank, 1989:27). Poor management was coupled with irresponsible borrowing by African leaders.

The 1973 oil crisis created false hope for developing states of procuring the power to alter the globalising world economy to further their interests. With the exception of oil-exporting states, most developing states did not possess commodities that were suitably powerful to influence international prices. During the oil crisis, the collective increase in the price of oil by OPEC member states, accompanied by a 25 percent reduction in oil shipments and oil embargoes against the United States and the Netherlands, ensured that oil producing nations successfully attained fair prices for their exports. The second oil crisis in 1979 occurred during a worldwide recession and had a greater impact on African states than the crisis in 1973. According to Cheru (1989:32), it 'further undermined Africa's weak institutional capacity to respond properly to the economic crisis (Gélinas, 1998; Balaam & Veseth, 2001; Cheru, 1989)

In the 1980s, the desired resolution of the mounting debt crisis led to the design of two plans to resolve the crisis, namely the Baker Plan (1985) and the Brady Plan (1989). Neither plan succeeded in solving the debt crisis and, at the conclusion of the 1980s, the combined debt of low- and middle-income economies exceeded $1350 billion. The crisis had permeated the Latin American region and by the end of the decade, Argentina (1984) and Brazil (1987) had defaulted on their debt service obligations (Altvater, Hübner, Lorentzen & Rojas, 1991). In response to the escalating crisis, the Heavily Indebted Poor Countries Initiative was introduced by the IMF and World Bank in 1996. This Initiative does not appear to have materialised as a successful mode for solving the international debt crisis as World Bank figures indicate: the total external debt of low- and middle-income economies in 2002 was over $2340 billion (World Development Indicators, 2004; Gélinas, 1998).

As Bouchet (1987) understood, the debt crisis is rooted in overborrowing and overlending. Gélinas (1998) reiterated the role of overlending as a cause of the debt crisis, and he attributed the crisis to '[i]rresponsible lenders [who] lend for profit to credit-addicted and often unrepresentative governments' (1998:38). Other causes acknowledged by Gélinas (1998:36-38) include:

- lobbying by international financial institutions and development agencies
- the liquidity surplus of commercial banks
- state-guaranteed export credit lines
- the creation of an 'overdraft culture' stemming from the oil crises (1973 and 1979)
- IMF- and World Bank-endorsed structural adjustment loan policies.

Riley (1989:4) did not pinpoint irresponsible lending as the cardinal cause for the debt crisis. Instead, he identified three equally conceivable components: first, similar to Gélinas (1998) and Bouchet (1987), he recognised careless lending as a source of the crisis; second, he considered the impact of the two oil crises in the 1970s and other international disturbances in the global economy on external debt; third, unlike the previous components, he identified internal inefficiencies (i.e. 'bad internal policies and practices pursued by debtor states') as a significant contributing factor behind the plight of developing states. Developing states, therefore, cannot escape responsibility for their disconcerting debt burdens. It is undeniable that the debt crisis impinging upon the South is the product of both internal and external factors. Consistent with the views of structuralists and dependency theorists, the unsustainable debt burdens facing the South continue to separate the North from the South. Moreover, the South is dependent on financial aid and debt relief from the North. As states of the South have received inadequate assistance in dealing with their external debt, resources necessary for their development are wasted on repaying debts, and the inability to concentrate their efforts and resources on development further divide the two dissimilar groups in the international political economy.

5.1.3 African indebtedness

In November 1987, the Organisation of African Unity adopted a common position on the debt crisis confronting African states. In recognition of the fact that external debt 'will continue to jeopardise future development prospects' and that 'Africa is the most impoverished continent in the world', member states ratified the 'African Common Position on Africa's External Debt Crisis' (Africa Institute, 2002:214). African leaders defined Africa's external debt as

> all its external financial obligations outstanding at a particular point in time. These financial obligations are those contracted either by the government or are guaranteed by the government for a public corporation, or are contracted directly by a corporation and by the private sector. This definition is understood to cover such items as principal on public and publicly guaranteed debts; long, medium and short-term commercial loans and credit; suppliers' credit; private non-guaranteed debts; undisbursed debts; obligations to multilateral institutions including the International Monetary Fund and the World Bank; arrears on interest; and other related payments (Africa Institute, 2002:217).

African leaders acknowledged that Africa's external debt reached critical proportions as, at the end of 1986, the continent's collective external debt was equivalent to 45 percent of the continent's GDP, and constituted 293 percent of Africa's export earnings (Africa Institute, 2002:217). Yet, the external debt of Latin American states is immense in comparison to that of their African counterparts. Brazil alone accounts for over $220 billion. Moreover, the combined amount of external debt of the 15 largest African debtor nations is less than Brazil's[18]. The debt crisis of Latin American states was of greater international concern than the crisis afflicting African states, as the debt burdens of African states were not deemed potentially hazardous to the international economy. The debt crisis facing Latin American states, by contrast, undermined international prosperity and financial stability (Abbott, 1993).

However, African debt is of momentous concern as these states do not have passable economic growth, nor do they hold the revenue to repay their debts. The table below draws a comparison between Africa and South America[19]. Although the amount of debt in South America exceeds that of Africa, these states have a higher average GDP, and GDP growth in South America exceeds African growth. Hence, on the whole, South American states are wealthier as they own the funds to repay their external debts. Moreover, in Africa a larger population living below the poverty line and a lower human development index illustrate that these states do not possess the resources to ensure the economic and social development of their people. As a result of incapacitating external debts, resources that should be allotted to redress inferior social conditions are instead utilised to service debts. Zambia provides an example: the state is ranked 164th on the UNDP's Human Development Index and in 2002, 8.3 percent of the state's GDP was used to service debt; only 1.8 percent of GDP was expended on education; and three percent of the GDP was allotted to health care (UNDP, 2004b).

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[18] The combined external debt of Egypt, Nigeria, South Africa, Algeria, Morocco, Sudan, Tunisia, the DRC, Ivory Coast, Angola, Cameroon, Ghana, Tanzania, Zambia and Kenya is $220.8 billion; Brazil's external debt is $1.6 billion greater (figures available on Nationmaster, 2003).

[19] Data taken from Nationmaster (2002 & 2003) and the total for each region is provided.

External debt: a comparison between Africa and South America		
Indicator	**Africa**	**South America**
External debt	$288.22 billion	$561.62 billion
GDP	$1.81 trillion	$2.58 trillion
GDP growth between 1975 and 2000	0.13 percent	0.71 percent
Population living below the poverty line	46.15 percent	34.31 percent
Human development index	0.5	0.77

Figure 6

As Riley (1989:1) wrote, 'very few African states are in fact repaying their debts on a regular basis'. This failure is evident in the current cases of Zimbabwe and Liberia. The IMF currently comprises 184 member states. Of these, only African states (i.e. Zimbabwe and Liberia) have lost their voting rights (IMF, 2004b). Liberia's debt repayments have been in arrears for two decades and in 2001 the state's medium- and long-term debt was equal to approximately 480 percent of its GDP (IMF, 2002). In 2003, Zimbabwe's voting rights were suspended as the state 'had not sufficiently strengthened its cooperation with the IMF in areas of policy implementation and payments' (IMF, 2003f). Debt repayments have been in arrears since 2001. Having reviewed Zimbabwe's unsettled financial responsibilities, in December 2003 the IMF

> decided to initiate the procedure [of] the compulsory withdrawal of Zimbabwe from the IMF, after having determined that Zimbabwe had not actively cooperated with the IMF. The IMF regrets that the authorities have not adopted comprehensive and consistent policies needed to address Zimbabwe's serious economic problems (IMF, 2003d).

5.1.3.1 Causes of a debilitating debt burden in Africa

The sources of African debt can be found in both internal and external origins. Abbott (1993:32) identified nine internal considerations. First, these states adopted development strategies that were impracticable, irresponsibly grand, and ineffectual. Second, the leadership within these states was characterised by inadequate training and governments were 'top-heavy'. Third, public expenditure was wasteful and resources were unnecessarily utilised by state-owned enterprises. The fourth internal weakness was the absence of satisfactory, effective institutions. Fifth, there existed a deficiency of trained administrative personnel. Sixth, economic policies - i.e. exchange rate, fiscal and monetary policies – were feeble. Seventh, domestic savings and investments were insubstantial. The eighth consideration was the absence of a 'political will to take politically unpalatable decisions'. Finally, African states were not endowed with the competence or procedures required to successfully manage their external debt.

Cheru (1989:33) attached a further internal cause for Africa's position. Reckless military desires channelled resources away from much-needed economic development. The implications of this profligate spending extended beyond hindered economic growth; as Cheru (1989:33) wrote, '[it] erodes the democratic political process required to build development'. Excessive military expenditure remains an internal shortcoming of African states. In 2002, numerous African states misused revenue on defence; military spending exceeded debt servicing in Sudan, Egypt, Uganda, Zimbabwe, Eritrea, Rwanda, Central African Republic, Ethiopia, Mozambique, Burundi and Burkina Faso (UNDP, 2004b).

African states are not wholly responsible for their existing economic circumstances. External factors include deteriorating terms of trade, decreased foreign assistance, and international economic stagnation. African states were confronted by an unfavourable international trade system. These states are dependent on the export of a limited sum of primary commodities, which are sensitive to market forces. Thus, '[a] sharp fall in international prices and a fluctuation in external demands have severe consequences for a country's foreign exchange earnings… [and] developmental process at large' (Cheru, 1989:28). African exporters were not only limited by the types of goods they were able to produce, but also by protectionist barriers adopted by developed states which restricted market entry to African producers. Inadequate exports combined with deteriorating terms of trade produced balance of payments deficits and led to increased borrowing. This overborrowing undermined African states' efforts to reduce their external debts (Cheru, 1989; Abbott, 1993).

The dwindling in international capital flows to African states has been palpable. Cheru (1989) stated that since Mexico defaulted on debt repayments in 1982, the flow of resources to developing states has been dramatically reduced. Abbott (1993:32) wrote that 'net resource flows to [sub-Saharan African] countries declined sharply between 1982 and 1984… when additional resource flows were most needed'. Recent figures reinforce the decline in resources. The average Official Development Assistance to developing states decreased by 0.8 percent between 1990 and 2002 (UNDP, 2004a). Few African states (including states afflicted by conflict, e.g. Burundi, Rwanda, Ivory Coast, the DRC and Sierra Leone) gained from increased resource flows. However, the majority of African states continued to witness decreases in foreign financial assistance. In the following states, the decrease in Official Development Assistance between 1990 and 2002 (measured as a percentage of GDP) was unmistakable: ODA to Equatorial Guinea decreased by 45 percent; Djibouti experienced a decrease of over 33 percent; ODA to Togo and Lesotho decreased by over 12 percent. The table below illustrates the declines in ODA to African states as a percentage of GDP[20].

Reductions in Official Development Assistance			
State	**ODA:1990**	**ODA:2002**	**Total decrease**
Equatorial Guinea	46.0	1.0	45.0
Djibouti	46.4	13.0	33.4
Guinea-Bissau	52.7	29.2	23.5
Cape Verde	31.8	15.0	16.8
Tanzania	27.5	13.1	14.4
Gambia	31.3	17.0	14.3
Togo	16.0	3.7	12.3
Lesotho	23.0	10.7	12.3
Egypt	12.6	1.4	11.2
Central African Rep.	16.8	5.7	11.1

Figure 7

Finally, international economic stagnation has been a contributing force to the circumstances confronting African states. The oil crises of 1973 and 1979 contributed to a worldwide recession. In 1973, OPEC decreased oil exports by one quarter, thereby upsetting developed states. The second oil crisis further crippled an enervated North which was 'experiencing the most severe recession and deflation since the 1930s'

[20] Figures taken from UNDP, 2004. 'Flows of aid, private capital and debt'.

(Cheru, 1989:32). Developed states sought a panacea for their economic infirmity. Accordingly, they raised interest rates, implemented protectionist barriers, and the United States opted for the appreciation of the dollar. Hence, a world recession, aggravated by oil hikes, had an adverse aftermath for Africa (Balaam & Veseth, 2001; Cheru, 1989; Abbott, 1993). Abbott (1993) calculated the costs on Africa's debt: the rise in interest rates magnified the debt of sub-Saharan African states by between $8 and $10 billion, and an unstable dollar augmented debt on the continent by an additional $1 to $2 billion.

The debilitating debt burdens that are endured by African states have their roots in both endogenous and external considerations. Weak governments, administrators and economic policies accompanied by mismanaged economic resources and imprudent military expenditure continue to amplify African states' inability to service debt repayments and to promote exigent economic development. Similarly, the international community cannot be absolved for a causative role in Africa's debt crisis. A disadvantageous trade regime, accompanied by declining resource flows, rising oil prices, interest rates and foreign currencies intensified Africa's external debt predicament. Africans states failed to generate sufficient income from exports due to the unfavourable trade regime. Furthermore, a decrease in capital inflows limited financing available to the state, while additional (scarce) financial resources were utilised to purchase oil and to repay escalating loans due higher interest rates.

The oil crises and the subsequent worldwide recession posed a threat to international economic stability. As oil-producing states attempted to control the prices of their commodity, the ensuing economic stability had grave implications for the South, thereby illustrating the dependence of the South on the North. The South's dependence on international economic stability and official development assistance mirrors the dependency theory that is in line with structuralism. The oil crises reflect realism on the part of oil producing states as they aimed to exert (and make known) their power and influence in the global economy. The response of the North additionally mirrored realism as these states acted to safeguard their economies by adopting protectionist measures, and increasing interest rates; moreover, the United States opted for the appreciation of the dollar. During the recession there was an apparent void in terms of adherence to liberal policies as the North prioritised state interests. The African debt crisis illuminates that the direct result of mercantilism was the worsening of the structural arrangement of the global economy.

5.1.3.2 The extent of Africa's indebtedness

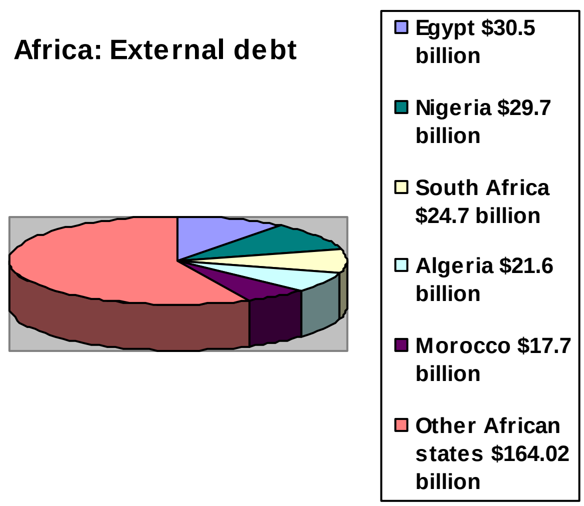
In the conception of the Organisation of African Unity's 'African Common Position on Africa's External Debt', leaders of African states acknowledged their concerns with the extent of member states' external debts, and the impact debt servicing will have on the development of the continent.

> The magnitude of the debt of developing countries (1,020 billion US dollars) and the burden of debt-servicing (250 billion US dollars) are a glaring manifestation of the imbalances currently existing in the international monetary and financial relations which, if not corrected, will continue to jeopardise future development prospects. Africa is the most impoverished continent in the world, with twenty-seven out of the world's thirty-seven least developed countries, and a constantly declining per capita income… The escalating debt burden has progressively grown from bad to worse, to a point where the magnitude of the debt and debt-service obligations have threatened the very foundation of our economies (Africa Institute, 2002:214).

The sensitivity of African states to external debt relative to other states is apparent in the following information: of the ten most overstrained nations identified by the UNDP (Gélinas, 1998:38), all but one (Nicaragua) are in Africa. Although the total external debt owed by the African continent peaked in the mid-1990s (with 53 states owing $324.3 billion), total debt remained comparatively steady between 1990 and the start of the millennium. According to the African Development Report (ADB, 1998:15), 53 African states' total outstanding debt was $284.8 billion in 1990. More recent figures from the CIA (Nationmaster, 2003a) illustrate that the continent has not experienced a dramatic increase, or decrease, in total external debt; according to figures from 2000 to 2003, 51 African states jointly owe $288.22 billion. The greatest proportion of this debt is long-term. Based on 1997 figures, $264.3 billion (i.e. approximately 84 percent) of the continent's $315.2 billion debt was long-term (ADB, 1998:15).

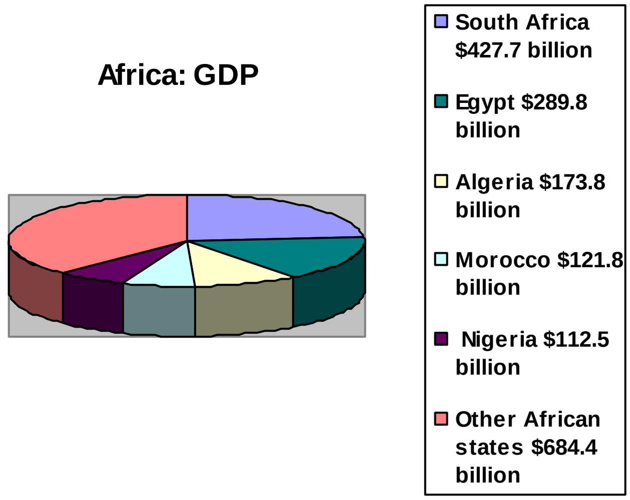
The five most indebted African states (Egypt, Nigeria, South Africa, Algeria and Morocco) are simultaneously the five African states with the highest GDPs. For example, although South Africa's external debt was calculated as $24.7 billion in 2002, its GDP for the same year was $427.7 billion (refer to graphs 3 and 4) (Nationmaster, 2003a). More worrisome is that other African states' GDPs do not exceed their external debts to the same magnitude as the above-mentioned states. For Guinea-Bissau, external debt exceeds its GDP – in 2002, the state's GDP was $901.4 million, and external debt in 2000 was $941.5 million. The example of Guinea-Bissau underlines the apprehension of the international community. States in a similar position to Guinea-Bissau will struggle to repay their external debts, and although debt servicing may take place on a regular basis, the absence of interest-free loans will ensure that debt repayments continue to deplete already restricted government revenue.

Although the magnitude of Guinea-Bissau's external debt is minor in comparison to other developing states (i.e. $941.5 million compared to Brazil's external debt of $222.4 billion), debt servicing is tapping crucial, dissipating revenue. As African leaders suggested, in the design of a common position on debt in 1987, the wherewithal indispensable for the development of the continent are fruitlessly directed towards debt repayments at the expense of the continent's development. Similarly, as Gélinas (1998:34) wrote, 'financial flows between rich and poor countries have reversed: the poor send more money to the rich than the other way around'. The opportunity costs of debt servicing are immense, and the enervating external debt facing African states is destabilising endeavours to foster sustainable development and economic growth in Africa.



Source: CIA World Factbook, 2003. Available on Nationmaster.com

Figure 8



Source: CIA World Factbook, 2003. Available on Nationmaster.com

Figure 9

5.1.3.3 South African debt

South African external debt mounted in the 1980s. Due to disinvestment policies worldwide, the state faced a drastic decline in foreign investment. Between 1970 and 1984, South African loans increased from 40 percent to 70 percent of foreign debt (Library of Congress, Internet Source). The state's external debt reached a perilous stage in 1985 when banks withdrew credit lines and refused to roll over the state's loans. As a result of its inability to finance repayments, the government declared a moratorium. Cautious policies followed and between 1985 and 1990 the state's external borrowing was insignificant. As a result of this prudent response, total debt decreased by $4 billion between 1985 and 1992. Notwithstanding the crisis facing the state in the late 1980s, South Africa was deemed 'an under-borrower by conventional financial criteria' (Library of Congress, Internet Source).

In its 2000 ratings, Standard & Poor measured South Africa's external debt at the start of the millennium as being 'relatively manageable' in light of the anticipated rapid growth (Bond Exchange of South Africa, 2000). Despite the increase in South Africa's debt from 29.7 percent of its GDP to 31.4 percent of GDP between 1999 and 2002, it was expected that the state's external debt would decline to 20.5 percent of GDP by 2004 (IMF, 2004c; Business Day, 2003). According to more recent figures (available from the

South African Reserve Bank), in the first quarter of 2004 South Africa's gross external debt was calculated at $39,115 billion. This was a significant increase from the first quarter of 2003 when gross external debt was $31,660 billion (Reserve bank, 2004).

Under the legal doctrine of Odious Debt, the current South African government is not obliged to repay debts accrued by the apartheid regime. South Africa resembles Nicaragua, the Philippines, Haiti, Congo, Nigeria and Croatia in its exemption from servicing formerly accumulated external debts. According to the law of Odious Debt,

> individuals do not have to repay if others fraudulently borrow in their name… The legal doctrine of odious debt makes an analogous argument that sovereign debt incurred without the consent of the people and not benefiting the people is odious and should not be transferable to a successor government, especially if creditors are aware of these facts in advance (Kremer & Jayachandran, 2002).

However, the South African government has opted to service the external debts amassed by the apartheid government, in spite of the fact that under the apartheid regime a hefty share of loans from foreign creditors were utilised to fund the military and the police force that served to oppress the majority of South Africans. The post-apartheid government assumed the duty of servicing this debt as it was anxious that cancellation under the Odious Debt doctrine would reduce foreign investment in the state. Moreover, the state wants to be acknowledged for adhering to the capitalist-espoused rules of international finance (Kremer & Jayachandran, 2002). The South African government's fear of deterring investors was reiterated by Van der Westhuizen (Nel, Taylor & Van der Westhuizen, 2001:51):

> Debt relief is a double-edged sword. Though it may provide immediate relief for the beneficiary country, it does enormous, albeit intangible harm to that country's image. This affects future investor confidence and access to credit… A good track record of debt servicing inspires investor confidence. A debt-write off though may be the kiss of death for any country that wishes to borrow more.

Although it had the potential to write-off its external debt, the South African government has chosen to repay its foreign loans. Despite this, the state remains an advocate of debt cancellation for other African countries that are afflicted with unsustainable external debt obligations.

5.1.3.4 Ramifications of extreme indebtedness

The African debt crisis has resulted in both economic and social costs. The effects of African states' indebtedness on the economy include reductions in foreign exchange, imports, domestic savings, and domestic and foreign investment. The social costs of debt repayments extend to education, health and poverty. As debt repayments are made in foreign currencies, inadequate foreign direct investment, aid and decreased trade impede African states' ability to generate the required revenue to service their debts. Moreover, fluctuating interest rates and exchange rates along with increased import bills and decreased export earnings resulted in an approximate loss of $43 billion between 1980 and 1984 (Abbott, 1993; Africa Institute, 2002; Serieux & Samy, 2003). Consequently, 'African countries incurred heavy losses of foreign exchange… which seriously undermined [their] capacity… to service [their] external debt' (Africa Institute, 2002:220).

Reduced foreign exchange and insubstantial export earnings also affected the external accounts of African economies. Derisory foreign currency resources hindered African states' capacity to finance imports, and the result was a decrease in imports by 5.7 percent between 1980 and 1987. 'The foreign currency counterpart of debt-service obligations must come largely from export earnings. In the face of decreasing or static export earnings, the net result will be import compression' (Serieux & Samy, 2003:31). Extensive import compression in the late-1980s occurred in Sierra Leone, Nigeria and Liberia which all experienced annual decreases of between 10.2 and 15.1 percent (Abbott, 1993:59). Furthermore, reduced import abilities hampered 'the rate of growth of output' and the average decrease in the rate of growth for African economies between 1980 and 1987 was 2.8 percent (Abbott, 1993).

Gélinas (1998:41) identified 'the downplaying of the role of domestic savings' as an additional economic cost of Africa's external debt. Gross domestic savings were drastically reduced in the 1980s, and numerous African states '[registered] considerable dissavings in 1987' (Abbott, 1993:59). Two examples are Mozambique and Tanzania: the former experienced average gross domestic savings of -10 percent, the latter, -6 percent (Abbott, 1993). Serieux (2003:32) stated that negative savings and investment – the 'debt-overhang effect' – were intrinsic to heavily indebted states as future expectations regarding increased taxation were anticipated to lead to 'capital flight' as people opted 'to invest their savings elsewhere'. Average gross domestic investment decreased by four percent between 1980 and 1987. Analogous to domestic investors, foreign investors feared amplified taxes. They were 'discouraged by the prospect of future currency depreciations that [would] lower the foreign currency value of their investment' (Serieux & Samy, 2003:32; Abbott, 1993).

According to African leaders (Africa Institute, 2002:221), '[i]ncreasing external debt servicing obligations within the present international constraints will result in serious disruption of the present socio-economic, political and cultural structures'. Debt servicing is most likely to be financed by the contraction of government spending. What is more, the '[t]wo areas of government spending most likely to suffer… are social spending (health, education, housing, welfare, social insurance, etc.) and public investment' (Serieux & Samy, 2003). African states are utilising a substantial proportion of their revenue to finance debt repayments, and in many cases, debt servicing is greater than the funding allocated for education and healthcare. Additionally, manifest in African states' poor ranking in the UNDP's Human Development Index, resources are urgently required for socio-economic progress to improve the living conditions of Africans. This is illuminated in the table below, which compares ten African states (with varying GDPs and levels external debts). The states' HDI ranking is provided along with the GDP, percentage of GDP employed for public education, public healthcare and debt servicing[21].

[21] Data accessed from 'Priorities in public spending' – table 19 of the UNDP's Human Development Report (2004). Expenditure on education and health are consistent with 2001 figures; debt servicing is based on 2002 figures. GDP derived from the CIA's 2002 figures; available on Nationmaster (2003).

GDP, HDI ranking and government expenditure					
	GDP	**HDI rank**	**Education expenditure**	**Health expenditure**	**Debt-servicing**
South Africa	$427.7 billion	119	5.7%	3.6%	4.5%
Ghana	$41.25 billion	131	4.1%	2.8%	3.4%
Mauritania	$4.891 billion	152	3.6%	2.6%	6.6%
Gambia	$2.582 billion	155	2.7%	3.2%	5.4%
Senegal	$15.64 billion	157	3.2%	2.8%	4.3%
Guinea	$18.69 billion	160	1.9%	1.9%	4.2%
Ivory Coast	$24,03 billion	163	4.6%	1.0%	7.1%
Zambia	$8.24 billion	164	1.9%	3.0%	8.3%
Angola	$18.36 billion	166	2.8%	2.8%	7.7%
Mali	$9.775 billion	174	2.8%	1.7%	2.7%

Figure 10

African states' poor performances on the Human Development Index indicate the socio-economic crises facing these states; and resources that should be made available to redress this deficient environment are being consumed by continuous debt repayments. The World Bank recognised the socio-economic plight of African states at the conclusion of the 1980s:

> The crisis is taking a heavy toll in human terms. In several countries expenditure on social services is sharply down, school enrolments are falling, nutrition is worsening, infant mortality continues to be high. Open unemployment in the towns, especially of educated youth, is also on the rise. And, threatening Africa's long-term production capacity, population pressure on the land is accelerating desertification and deforestation… (Abbott, 1993:60).

Succinctly stated, African economies are utilising essential resources for economic and social development to service debt repayments to the North.

5.2 The task of financial institutions

In 1944, leaders of the United States and its allies during the Second World War met at Bretton Woods in New Hampshire to examine the formation of the post-war economic order. With aspirations for a stable and flexible international order, and for economic growth and development, three institutions were fashioned: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (also known as the World Bank) and the General Agreement on Tariffs and Trade (GATT). Both the IMF and the World Bank are central institutions in the debt crisis facing developing states. Both institutions have been willing to provide financial assistance to these states, but increasingly since the early 1980s, this assistance has been conditional.

5.2.1 The International Monetary Fund

The IMF currently comprises 184 member states. Balaam and Veseth (2001:148) refer to this institution as the 'central bankers' central bank'. The objectives of the IMF include the promotion of 'international monetary cooperation, exchange stability, and orderly exchange relations'; it is furthermore involved in the strengthening of economic growth and increased employment, as well as fulfilling the role of providing 'temporary financial assistance to countries to help ease balance of payments adjustment' (IMF, 2003a). The IMF acts as a lender of last resort. Thus, it is willing to provide loans to prevent debtor states from folding due to immense debt obligations. However, assistance from the IMF is conditional and if states seek aid, they are likely to have to implement a set of economic reforms.

The functions of the IMF include:

- The promotion of international monetary cooperation by means of a permanent institution with the capacity to oversee international monetary problems.
- The facilitation of expanded and balanced growth in international trade, and the accompanying increases in employment, real income and development.
- The advancement of exchange stability.

- Assistance in the maintenance of a multilateral system of payments pertaining to current transactions.
- The temporary provision of resources to member-states, affording them the opportunity to redress unstable balance of payments without endangering national and international prosperity (IMF, 2003a).

Financial assistance from the IMF is conditional, i.e. states calling for assistance from the IMF are obliged to put into practice a set of reforms aimed at increasing taxes, reducing government spending, eliminating subsidies, controlling inflation, correcting deficits, reducing public sector employment, privatising state-owned enterprises, adopting floating market rates, and depreciating the exchange rate (Balaam & Veseth, 2001; Bouchet, 1987; Riley, 1989). The carrying out of these reforms is required 'to restore soundness to the balance of payments within the context of price stability and self-financing economic growth and without recourse to measures which restrict the freedom of trade and the free flow of capital' (Altvater, Hübner, Lorentzen & Rojas, 1991:33). As developing states are dependent on assistance from the IMF, they have little choice in the conditional loans provided and it is insisted that these states apply the aforementioned reforms.

5.2.2 The World Bank

At the conclusion of the Second World War, the World Bank was primarily responsible for the reconstruction of the war-ravaged European continent. Since the 1950s, the role of the World Bank changed and it now converges on the needs of less developed states by making loans available for their economic development (Balaam & Veseth, 2001). In 1947, the World Bank provided its first loan (to the amount of $250 million) to France in an attempt at reconstruction. The focal point of the World Bank is currently on poverty reduction, evident in the World Bank's Mission Statement: 'Our dream is a world free of poverty'. In addition, the Bank aspires to 'fight poverty with passion and professionalism for lasting results', and to 'help people help themselves and their environment' by providing resources, knowledge and expertise (World Bank, 2003).

The World Bank currently consists of 184 member states. Each state acts as a shareholder, with shares determined by the size of the state's economy. Therefore, the United States is the greatest shareholder in the World Bank, allotted 16.41 percent of votes. The World Bank comprises the International Development Association, the International Financial Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes.

The World Bank is not a bank but a 'specialised agency' of the United Nations responsible for providing finance and technical assistance for developing states. As less developed states are deemed high-credit risks in the international community, loans are rarely granted, and when they are, interest rates are excessively high. Thus, the World Bank fills a void for these states and provides grants, interest-free loans, as well as technical assistance, thereby empowering less developed states and affording them the opportunity to provide services for their respective populations. The Bank's focus on development extends to the construction of schools and clinics, the provision of electricity and water, protection of the environment, and the fighting of disease. Thus, the World Bank is deemed '[o]ne of the world's largest sources of development assistance' (World Bank, 2004).

Both the IMF and the World Bank were established during the United States' quest for liberal multilateralism. The World Bank is evidently aware of the structural nature of global economic interactions as its primary focus is on the development of developing states. Likewise, the IMF has acknowledged the plight of the South as it provides assistance to the South with regard to attaining a sound balance of payments, and debt reduction. However, both these institutions are dominated by states that practice mercantilism. Moreover, these institutions allow the dominant states to maintain their power in the global economy: the United States is one example of this as the state holds 16.41 percent of votes in the IMF. Thus, the organisations created in the spirit of multilateralism facilitates the realist tendencies of the North, thereby sustaining the South's dependence on the North.

5.2.3 The International Monetary Fund and the World Bank in Africa

According to Parfitt and Riley (1989), the IMF has expanded its commitment to African states since 1978. In the early 1980s, IMF assistance became progressively more entwined with austere structural adjustment programmes. Moreover, the significant role of the IMF in the reform of African economies was aided by the IMF's 'ability to endanger or delay other official forms of credit to those African governments it [was] in dispute with' (Parfitt & Riley, 1989:28). Likewise, in the 1980s, the World Bank adopted structural adjustment loans which concentrated on 'policy and institutional reforms'. In 1980, Kenya and Turkey were the recipients of the first loans (Bouchet, 1987:20). The presence of these two international financial institutions in Africa has been greeted with mixed responses.

Former Tanzanian President Julius Nyerere stated:

> The IMF has an ideology of political and social development which it is trying to impose on poor countries irrespective of their own clearly states policies. And when we reject IMF conditions we hear the threatening whisper: "Without accepting our conditions you will not get any money, and you will get no other money" (quoted in Parfitt & Riley, 1989:28).

Contrary to this, African leaders asserted that the implementation of 'economic policy reforms… would have engendered self-sustaining growth and recovery' (Africa Institute, 2002:221). Moreover, according to the IMF (Bouchet, 1987:18),

> The effectiveness of surveillance rests on the ability of the Fund to persuade members of the desirability of changing their policies, and the willingness of members to take the international interest into account. Many countries have, in fact, demonstrated a willingness to take actions consistent with views expressed by the international community.

According to Mistry (1996), the World Bank is the leading multilateral lender to African states. Furthermore, the World Bank gained mounting prominence on the continent between 1980 and 1994. The result of the amplified presence of the World Bank has been the enlarged dependency of African states on the World Bank – and 'too many African countries… find themselves locked in a patron-client relationship' (Mistry, 1996:28). The table below illustrates the extent of the World Bank's exposure in Africa in comparison to other multilateral institutions, as well as the increase in dependency on the Bank over the period commencing in 1980[22]. The eminence of the World Bank in Africa was noted by Mistry (1996:28):

> Overwhelming dominance as a creditor has permitted the [World Bank Group] to become a virtually unchallenged monopoly in driving the adjustment and development agenda in [sub-Saharan Africa]. As such, the [World Bank Group] has become the victim of a fallacy of false expectations.

Debt owed to multilateral institutions by African states				
	1980	**1985**	**1990**	**1994**
Total multilateral debt	**$10.59 billion**	**$23.40 billion**	**$43.82 billion**	**$57.78 billion**
World Bank Group	$5.13 billion	$11.39 billion	$24.97 billion	$33.23 billion
International Monetary Fund	$3.03 billion	$6.73 billion	$6.61 billion	$7.02 billion
African Development Bank	$0.66 billion	$1.84 billion	$6.57 billion	$11.40 billion
Eurolaterals	$0.33 billion	$0.84 billion	$1.62 billion	$2.01 billion
Other multilaterals	$1.44 billion	$2.60 billion	$4.05 billion	$4.12 billion

Figure 11

In 1996, the World Bank and IMF introduced the joint Heavily Indebted Poor Countries (HIPC) Initiative. Subsequent packages aimed at reducing debt have been permitted for 27 countries, of which 23 are in Africa. This amounts to $31 billion in debt service assistance (IMF, 2004a). Despite the fact that the 27 states that are judged to be eligible for assistance will experience a reduction in debt service between 1998 and 2004 exceeding 50 percent, the IMF acknowledged that the HIPC Initiative is not a solution to the debt crisis affecting the developing world, and Africa in particular.

[22] Abridged version of the table available in Mistry (1996:27).

5.3 Resolving the crisis

Since Mexico defaulted on debt repayments in 1982, a number of plans have been proposed to deal with the debt crisis facing developing states. Most of these programmes reflect austere economic policies including trade liberalisation, currency deprecation, anti-inflationary programmes and increased hospitality toward foreign investors. The requirements of both the IMF and the World Bank have pertained to these strategies. In 1985, James Baker (US Treasury Secretary) proposed a solution involving debtors and creditors in the international economy; in 1987, Nigel Lawson (British Chancellor of the Exchequer) acknowledged the plight of African states, and in 1989, Nicholas Brady (US Treasury Secretary) introduced a plan that aided a select group of developing states. As none of these plans succeeded, the IMF and World Bank introduced the Heavily Indebted Poor Countries Initiative for which 38 states potentially qualify. Limited success and negative social impacts stemming from earlier plans provided the impetus for Jubilee – an international campaign supported by a variety of regional groups and organisations - to launch the 'Drop the Debt' campaign at the start of the millennium.

5.3.1 The Baker Strategy

In 1985, US Treasury Secretary James Baker introduced a strategy to deal with the debt crisis. The strategy required $20 billion in new loans from the World Bank for a period of three years, and a further $9 billion from developed states and international institutions for the most heavily indebted states. Baker recognised the relationship between economic development and the mobilisation of capital (both domestic and international). The Treasury Secretary sought to reduce risks associated with loans to developing states and aspired to lessen the risks assumed by commercial banks and foreign direct investors. Thus, Baker advanced a two-fold sharing of the debt burden facing developing states: first, between developing states and creditors, and second, between all creditors (Bouchet, 1987; Altvater, Hübner, Lorentzen & Rojas, 1991).

Baker's strategy comprised three central propositions: first, that international financial institutions substantially increase their total lending; second, that private commercial banks commit themselves to make fresh money available; and third, that debtor states assume the obligation of ensuring the validity of adjustment requirements and reforming mismanaged economic policies. The adjustment requirements mirrored those of the IMF – i.e. privatisation, advancement of foreign investment, trade liberalisation, and austere economic programmes (Altvater, Hübner, Lorentzen & Rojas, 1991). The Baker Initiative did not achieve the desired outcome, thus other potential solutions emanated.

5.3.2 A solution for Africa: the Lawson Plan

In 1987, Nigel Lawson, British Chancellor of the Exchequer, presented a proposal to the joint Development Committee of the World Bank and IMF. As Riley (1989:17) stated, 'the Baker plan was inadequate as far as Africa was concerned'. Thus, Lawson's proposal two years after Baker's strategy indicated that 'Western recognition of the seriousness of the African debt problem was somewhat belated' (Riley, 1989:17). The plan provided a menu of options for states but entailed the instantaneous cancellation of 30 percent of official, and officially-guaranteed, debt and the rescheduling of the debt for an extended period of up to 25 years. Similar to the Baker Initiative, Lawson specified the need for the operation of adjustment policies but if implemented satisfactorily, aid was to be converted into grants. Lawson also instructed creditor states to collectively reduce the interest rate on debt repayments as a means to reduce the overall debt burden facing developing states (Cheru, 1989; Riley, 1989).

5.3.3 The Brady Plan

In 1989, US Treasury Secretary Nicholas Brady proposed the reduction of debt owed by middle-income states to commercial banks. Similar to Lawson, he opted for a menu of options to be made available. The principal aspects of Brady's plan were: (a) securitisation – i.e. 'the swapping of old debt for new collateralised loans at significant discounts'; (b) buy-backs at immense discounts; (c) exchanging old bank debt for new paper at lower interest rates; and (d) the promotion of the exchange of debt paper for equity shares in private enterprises within debtor states. Brady indicated greater concern with debt reduction as opposed to structural adjustment, although his ideas were 'vague about the exact operation of the scheme and on its financial scope' (Currey, 1992:110; Riley, 1989). For Latin American states, the Brady Plan held the most promise, and in 1990 debt-reduction agreements were reached with Mexico, Costa Rica, Venezuela and the Philippines (Currey, 1992:111).

5.3.4 The Heavily Indebted Poor Countries Initiative

In 1996, the IMF and World Bank introduced the Heavily Indebted Poor Countries (HIPC) Initiative. Subsequently, 27 states have met the criteria stipulated by the IMF and World Bank and are expected to receive $31 billion in debt service. Of these states qualifying for assistance, 23 are in Africa. The aim of the HIPC Initiative was to guarantee that developing states do not endure unsustainable debt burdens. According to Boote and Thugge (1999:1),

> The HIPC Initiative is a framework developed jointly by the IMF and the World Bank to address the external debt problems of the heavily indebted poor countries (HIPCs). It is based on the following guiding principles: (1) the objective is to target overall debt sustainability on a case-by-case basis, focusing on the totality of a country's debt; (2) actions should be envisaged only when the debtor has shown, through a track record, ability to put to good use the exceptional support provided; (3) the new measures should build, as much as possible, on existing mechanisms; (4) additional action should be coordinated among all creditors involved, with broad and equitable participation; (5) action by multilateral creditors should preserve their financial integrity and preferred creditor status; and (6) new external finance for the indebted countries should be on appropriately concessional terms.

In order to be considered for the HIPC Initiative, a developing state must face an unsustainable debt burden; it must have authorised a Poverty Reduction Strategy Paper; and it must have a fine track record of economic reform and sound economic policies. The first stage of the Initiative is concerned with the latter requirement of a successful track record. The decision point is reached once the debt relief needs of the state are determined, and the state qualifies for assistance if the external debt ratio exceeds a threshold for the value of debt to exports. The state is then eligible for interim relief during which it must continue to establish a sound track record of excellent performance under structural adjustment programmes and loans. The duration of this period is determined by (a) the time taken by the state to adequately implement key reforms, (b) by the maintenance of macroeconomic stability, and (c) the state concerned must have adopted a Poverty Reduction Strategy Paper for a minimum duration of one year. Once the state reaches the completion point, lenders are expected to ensure full debt relief (as decided during the decision point) (IMF, 2004a; Boote & Thugge, 1999).

Thirty eight developing states potentially qualify for the HIPC Initiative, and as of April 2004 27 states qualified for assistance. For these 27 states, debt service due between 1998 and 2004 will be reduced by over fifty percent (relative to exports and government revenue). 'The Initiative is intended to deal in a comprehensive manner with the overall debt burden of eligible countries to reduce it to a sustainable level within a reasonable period of time' (Boote & Thugge, 1999:9). Thus, the HIPC Initiative mirrors previous attempts by the World Bank and IMF to implement internationally-approved austere economic programmes. It is not a solution to the African debt crisis; it does not advocate the cancellation of debt; and in fact, many African states that are perilously impaired by debt and urgently require assistance are not eligible for the Initiative due to poor governance, civil war and excessively large debt burdens (IMF, 2004a).

5.3.5 Jubilee

> Jubilee 2000 grew from small beginnings to become an international campaign that brought great pressure to bear on G7 leaders to "cancel the unpayable debts of the poorest countries by the year 2000, under a fair and transparent process" (Jubilee, Internet Source).

In 1996, Jubilee (a coalition of local and regional groups and national organisations, supported by 24 million people worldwide) was launched with the aspirations of supporting debt cancellation for the world's poorest states. Moreover, Jubilee aimed to put the quandary of developing states on international agendas: 'we have forced third world debt to the top of the international political agenda; and have helped bring the plight of the poorest countries to the fore of the economic debate' (Jubilee, 2000b). Prior to the millennium, wealthy states pledged to write off $110 billion of developing states' debt by the end of 2000 for fifty two states identified by Jubilee. The group anticipated a lower than promised actual cancellation of $90.1 billion but only $11.9 billion was cancelled. Debt relief continues to be accompanied by IMF- and World Bank-endorsed economic reforms despite the efforts of the Jubilee group (Jubilee, 2000b).

Jubilee campaigners have acknowledged that developing states require internal reforms and are, therefore, advocating improved government transparency and accountability, as well as redressing the large degree of corruption in these states. However, campaigners are additionally advancing the need for international financial institutions to become all the time more democratic and transparent. The group stated that structural adjustment programmes supported by developed states and leading financial institutions are shifting responsibility form the wealthy to the poor. Moreover, funds are being transferred from poor states to rich states rather than the other way around; in fact, for every £1 in aid provided to developing states, £13 is transferred back to developed states in the form of debt repayment (Jubilee; Jubilee 2000a).

In brief, Jubilee 2000 was established as a means to redress imbalances between developed and developing states, to create an awareness of the economic predicaments facing developing states, and to urge creditors to cancel debt owing by the poorest states (which do not possess the means to service debt obligations). If by 1997 the group had achieved their objectives for the 20 poorest states, and if the money had been utilised for health care rather than debt servicing, by the year 2000, 19 000 children would have been saved from diseases on a daily basis.

5.3.6 The difficulty of finding a solution

The proposed solutions for the developing world's debt crisis illustrate that in the absence of universally accepted reforms, the crisis remains unsolvable. Creditors are unwilling to unconditionally provide debt relief for heavily indebted states (as advocated by Jubilee), and developing states are compromising their socio-economic responsibilities by implementing austere economic reform programmes required by the majority of the afore-mentioned plans and initiatives. Moreover, developing states that have attempted these reforms have enjoyed little success. According to Jubilee (2004b), '[t]he 27 countries that have entered the HIPC process continue to pay $700 million a year in debt payments to the International Monetary Fund and World Bank'. Furthermore, it is evident that these solutions originated in the North which appears to act in its own interests. Hence, the altruism of the North in solving Africa's debt crisis is questionable as these states tend to act in line with their own needs.

5.4 The debt crisis within a structural predilection

The debt crisis affecting developing states is a manifestation of the structural divide in the international political economy as portrayed by structuralists. Structuralists are disturbed by the absence of egalitarianism in the international economic structure, and with the divergences between developed and developing states. This remains a characteristic of the economic structure, and as a result of the debt crisis, capital flows are transferred from the North to the South – merely perpetuating existing disparities. In addition, the transfer of resources is prohibiting developing states from developing – resources that are required for the implementation of developmental policies are being absorbed by debt repayments. Structuralists' unease with the South's dependence on the North remains justified in light of the South's debilitating debt burdens that necessitate financial assistance from developed economies.

The international financial institutions correspondingly reflect the structural bias of the global economy. They lack equal representation and reasonable democratic processes. Thus, the liberal multilateralism espoused by the United States as the international hegemon is merely a false promise. If the voting power of the IMF is dominated by the developed states, it is unlikely that the interests of the majority of IMF member states (i.e. developing states) will be placed on the agenda. In 2004, the total voting power of the quad (i.e. the United States, Canada, Japan and the EU) exceeded the African votes by almost 50 percent. It is ironic, then, that the North condemns the undemocratic internal policies of many of the states in the South but that – contrary to the realist aspirations of the North – they demand structural adjustment programmes that reflect economic liberalism, trade liberalisation, economic decentralisation and privatisation.

Developed countries are unlikely to endorse the reform of the international financial institutions that they dominate (i.e. the IMF and World Bank) as these institutions provide a platform for developed states to further their own interests, and augment their absolute wealth and power. Thus, the realist ambitions of the North are reflected in their superiority in the Bretton Woods Institutions. Consistent with realism, the prerogatives of developed countries are the state, and the preservation of economic strength. Therefore, due to the realist avidity of the North, regardless of campaigning for economic liberalism, the prolongation of a structurally slanted global economy serves their welfare. The debt crisis, and the reluctance of developed states and wealthy creditors to write off the enfeebling debt burdens of developing states, evinces divergent interests and aspirations of the North and the South.

As Fidel Castro maintained:

> Though it would undoubtedly ease the situation for many nations, a solution to the problem of the Third World's external debt would still not by any means be a solution to all development problems. Unless we can conquer once and for all the factors which together add up to an unjust system of economic relations and exploitation – unequal exchange, protectionist measures, dumping, a monetary policy based on the economic power of a few nations, excessive loan interest – that is to say, unless a new world economic order is actually established, then after a few years the situation would be just as bad as, if not worse than, it is now (quoted in Altvater, Hübner, Lorentzen & Rojas, 1991:15).

5.5 South Africa in the context of an African debt crisis

> South Africa is unique and should act accordingly. It is not a bankrupt country which needs debt relief and it is not a rich creditor country which can afford to dispense so much charity. It is a proudly-independent not-very-well-off country, struggling to uplift its poor majority (Nel, Taylor & Van der Westhuizen, 2001:52).

South Africa has differentiated itself from other African states. Under the apartheid regime, the state's external debt reached unmanageable proportions yet the post-apartheid government has denounced debt cancellation under the Odious Debt doctrine as they have qualms that it will deter desirable foreign investment. Despite renunciation of the cancellation of its own external debt, South African leaders have pursued debt cancellation for other African states in numerous bilateral and multilateral talks. Furthermore, the state has advanced the value of reforming the IMF and World Bank so as to reverse the marginalisation of African states in these international entities.

5.5.1 South Africa's position on debt forgiveness

Since 2000 the South African government has actively sought debt cancellation from developed states for their poorer African counterparts. The South African government has perceived the importance of debt relief for African states so as to ensure that limited financial resources can be provided for the urgent socio-economic development of the continent. In Japan in 2000, the Minister of Foreign Affairs (Zuma) and her deputy (Pahad) called for the writing off of African debt. Pahad stated: 'Debt should not be seen in isolation, but as a vital part in an overall, enhanced and coordinated package of measures, aimed at developing a new world agenda to integrate the developing world into the global economy' (DFA, 2000a). One month later, the South African Minister of Finance (Trevor Manuel) excoriated developed states for the slow implementation of the HIPC Initiative. In his capacity as Chairperson of the Non-Aligned Movement, President Mbeki addressed the South Summit in Havana in April 2000. Mbeki emphasised the importance of improved relations between the North and the South, and reinforced the need for 'the alleviation of the debt burden carried by many of our countries, including its cancellation' (Mbeki, 2000).

During Mbeki's discourse with the Scottish Parliament in 2001 (Mbeki, 2002:113-114), he stated that 'current efforts with regard to debt relief are not sufficient… we need to look beyond simply debt sustainability'. At the meeting of the Board of Governors of the World Bank in 2002, Manual called for bilateral debt relief in addition to the HIPC Initiative; in addition, he stated that the Development Committee of the World Bank supported the need to resolve the unsustainable debt burdens of the world's poorest states (Manuel, 2002). In March 2004, the Minister of Foreign Affairs intended to secure Africa's debt dilemma on the agenda of the AU-EU Troika; and in July 2004, the South African Minister of Finance asserted that the Commission for Africa would pressurise states of the G8 to cancel Africa's external debt.

Thus, the South African President and his ministers of Finance and Foreign Affairs have upheld the state's policies regarding debt relief for the continent. In line with the Sirte Declaration in 1999, President Mbeki and Algerian President Bouteflika pledged to seek debt cancellation from international creditors on behalf of Africa states. The South African position regarding debt is that servicing consumes resources that are required for development, growth and the eradication of poverty. The South African government has, however, indicated that both developed and developing states have a role to play in debt cancellation: creditors must continue to supply foreign direct investment and developmental aid while reducing debt; debtors must commit themselves to 'economic policy reforms, structural adjustment, liberalisation, and poverty alleviation programmes' (DFA, 2004b). The state supports the annulment of debt as an approach to reduce poverty and promote development and economic growth in Africa:

> An enabling environment for the mobilisation and efficient utilisation of scarce resources, such as the savings from debt relief, must be in place. All attempts should be made to ensure that the basis for

> linking debt relief to poverty reduction is realised, i.e. poverty must in fact be reduced. The linkage should not become just another conditionality. Speedy, flexible and clearly defined eligibility criteria and time frames for graduation need to be reviewed, in order to immediately bring relief to countries faced with an untenable debt overhang (DFA, 2004b).

5.5.2 South Africa's stance on the reform of the International Monetary Fund and World Bank

In addition to seeking debt cancellation, South African leaders are responsive to the inequality, imbalances and the deficiency of democratic processes of international financial institutions. In the IMF, the quad (the United States, Japan, Canada and EU members) account for 56.06 percent of the votes. On the opposite end of the spectrum lies African states; African participation is subsidiary and the combined percentage of African states is merely 6.37 percent of total votes in the IMF (IMF, 2004b). Thus, the developed states (specifically the quad) command the majority of voting power in the IMF. This clearly undermines the democratic nature of this body. 'It is now commonly accepted that the world financial architecture favours the developed world while not being sensitive to the concerns of the developing world' (Mahatey, 2000).

In their addresses to a range of international actors, President Thabo Mbeki, Finance Minister Manuel and South African Reserve Bank Governor Tito Mboweni have all called for the reform of international financial institutions (specifically the Bretton Woods Institutions, i.e. the IMF, World Bank and WTO). Each has highlighted the need for greater representation in these institutions. Moreover, Mbeki acknowledged that in order for African states to increase their participation in international financial institutions, it is imperative that African states act in unison and collectively challenge the structural discrimination inherent in these institutions. In his statement regarding the reform of the Bretton Woods Institutions in March 2004, Mbeki said: 'a stronger voice of developing countries in the Bretton Woods Institutions cannot be separated from our efforts to ensure that Africans do, themselves, speak with a unified voice on all the challenges that face our continent' (SARPN, 2004c). Likewise, Manuel (2000a) said that developing states must unify efforts at reforming the IMF and World Bank as both organisations play an integral part in the world economy. They will, however, achieve greater success 'if they become more representative of the client base that they serve'.

Mboweni (2004) highlighted the need for increased participation of African states in international financial institutions in an address to the IMF in April 2004. He emphasised the weight of augmenting the participation of sub-Saharan African states on the boards of the Bretton Woods Institutions. Similarly, Manuel (2002) addressed the Board of Governors of the IMF and World Bank in 2002, stating that the Development Committee accepted the responsibility of 'broadening and strengthening the participation of developing countries in international decision-making and norm-setting'. Decision-making within these institutions does not reflect the interests of the majority of member states and voting lies in the hands of a restrictive, elitist group of wealthy states. Moreover, the hypocrisy of these institutions is implicit. They stipulate the need for democracy and good governance in their conditional packages yet the institutions they dominate lack these precise criteria (SARPN, 2004). Manuel stated that

> The very tools and instruments that the world has to address poverty and inequality and poor governance are themselves the subject of scrutiny in the field of representivity. If the World Bank, IMF, World Trade Organisation, Financial Stability Forum and the Bank for International Settlements do not represent the voices of the poor and marginalised, [they are] unlikely to correctly analyse the policy choices that can be used to address the concerns of the poor and marginalised (SARPN, 2004b).

5.6 The African hegemon's engagement in debt forgiveness

The South African government's venture of advancing debt relief for the continent and enhancing the equality of international financial institutions are representative of the provision of a public good for the African continent. Rapkin (1990) and Balaam and Veseth (2001) cited the following examples of public goods: an open and free trading system, peace, stability, security, hegemonic order and a sound system of international payments. Thus, the last example of a sound system of public payments is one of the aspirations of the South African government as the continental hegemon. Additionally, although the South African government does not possess the means to cancel the continent's external debt, it has undertaken to promote debt relief in its international engagements. The continual demands on foreign multilateral and bilateral creditors by South African representatives exemplify this. Furthermore, the state has placed the contentious issue of unfavourable, biased institutions on the agendas of these bodies.

The benefits of debt cancellation for the continent resemble positive sanctions. If the African continent accepts South Africa's leadership role in advocating debt relief and democratisation of financial institutions, these states will be able to give consideration to economic development and to social progress for their peoples. However, there exists a degree of uncertainty regarding South Africa's altruism in the context of debt cancellation. The South African government had stated that it had declined the cancellation of its own external debt (available to the state under the doctrine of Odious Debt) due to fears that debt cancellation would disturb credit ratings and, consequently, impede FDI inflows. Thus, the state is detaching itself from the rest of the continent. By advocating debt cancellation for Africa, there is an underlying message that South Africa is not concerned with poor credit ratings and reduced FDI inflows to Africa. Debt relief would exacerbate already poor credit ratings in Africa; poor credit ratings would diminish FDI; lower levels of FDI would further aggravate poverty and underdevelopment. Thus, by advocating debt relief for Africa, South Africa stands to gain as it will be the sole state on the continent with a good credit rating. If investors desire to invest in Africa, South Africa will be the preferred site. Consequently, the egalitarianism of South Africa's endeavours is dubious.

South Africa relies on cooperation from the African continent evident in Mbeki's address in March 2004: 'a stronger voice of developing countries in the Bretton Woods Institutions cannot be separated from our efforts to ensure that Africans do, themselves, speak with a unified voice on all the challenges that face our continent' (SARPN, 2004c). What is more, Manual (2000) specified the need for a unified response from developing states in order to redress the inequalities of the Bretton Woods Institutions. Therefore, South Africa's position on debt relief necessitates cooperation and coalescence from African states. Also, the reform of the IMF and World Bank, and the insistence on the democratisation of these entities, reflect liberal tenets of equality and non-discriminatory participation in multilateral institutions.

In short, in its capacity as the African hegemon, the South African government has explicitly operated in a benevolent manner in terms of its proactive and unequivocal persistence for debt relief and reform of international financial institutions. The state has represented African states on the issue of enervating external debt obligations, it has sought the cooperation of the continent, it has relied on positive sanctions, and it seeks to provide the public good of a sound system of international payments. The hegemon has, therefore, acted in line with Odén's (2001:172) definition of a benevolent hegemon:

> [The South African government has acted] in the long-run interest of a regime as a whole and [has guaranteed] the provision of collective goods, in a manner useful to all countries within the regime. The level of enforcement from the benevolent hegemon [has been] low…

5.7 Conclusion

Since the debt crisis emerged in 1982, resolutions propounded by Baker, Lawson, Brady, the IMF and World Bank, and the Jubilee group, have been unavailing. The South African government, in its capacity as the continent's hegemon, has undertaken to provide the collective good of a sound balance of international payments by advocating debt relief for destitute African states. South African representatives have not merely sought debt relief for the region, but have additionally prescribed the reform of the international financial architecture. The enhanced participation of African states and the reduction in the power of the developed states (evident in the disproportionate voting system in the IMF and World Bank) have been categorically specified by South Africa as mandatory for the betterment of African states' economic quandaries. The capital expended by debt repayments is exigent for the development of African states. Consequently, the African hegemon's actions reveal benevolence as concerns with alleviating Africa's engrossing indebtedness have guided the undertaking of the advancement of debt cancellation and institutional democratisation.

Chapter 6: Foreign Direct Investment in Africa

Introduction

Investment flows in the global economy have escalated since the advent of the twentieth century. Primarily engaging developed economies, this process has perpetuated the structural division of the global political economy – particularly with regard to African states. Thus, an evaluation of FDI can be utilised to assess global economic interactions and the imbalances within the international system. Africa's exclusion from the global economy now extends beyond trade and debt, and is unmistakably characteristic of international investments too. International institutions – taking the shape of the International Finance Corporation and Foreign Investment Advisory Service – have been created with the intention of fostering locations that are conducive to FDI. African states are rich in natural resources and provide a wealth of potential for foreign investments; however, the associated high risks dissuade foreign investors. FDI imparts numerous benefits for host states, thereby motivating African leaders to develop a plan of action to alleviate risks on the continent. The design of NEPAD is one step taken to curtail risks and encourage FDI. South Africa, once again, has been the dominant source of, and location for, FDI in Africa, and NEPAD (and the subsequent rise in FDI) was a vision of President Thabo Mbeki.

6.1 Foreign Direct Investment (FDI)

At this stage, it will suffice to state that FDI is the expansion and presence of firms beyond their homes states' borders. It does not just necessitate a flow of capital but simultaneously requires the flow of technology, managerial expertise, access to foreign markets, and job creation. Firms from home or parent states seek to penetrate host or affiliate markets in order to capture greater markets and maintain an advantage in international competition. In this chapter, FDI will be defined, its effects on both parents and affiliate states will be discussed, a brief background to FDI will be provided and the structural nature of FDI will be investigated.

6.1.1 A definition of Foreign Direct Investment

FDI is defined as '[the purchase] of business assets such as factories, stores, warehouses, and the like, by a foreign firm. [It is an] investment that gives a foreign firm a tangible business presence in a country' (Balaam & Veseth, 2001:460). Foreign investments may take the form of either loans or equity, and equity can be divided into two categories, namely indirect or portfolio investments or direct investments, i.e. FDI. 'Foreign direct investment (FDI) involves more than just buying a share or a security. It is the amount of financing provided by a foreign owner who is also directly involved in the management of the enterprise' (IFC & FIAS, 1997:9). A firm invests beyond its borders in order to maximise profits – as Dunning (1972) suggested, firms seek higher profits, market growth and greater marginal rates of return. Moreover, he wrote that FDI 'is undertaken to advance the interests of the investing institutions – whatever these interests may be' (Dunning, 1972:13).

The gains from FDI are not exclusive to the home or parent state (i.e. that state where the firm originates), but hosts or affiliates similarly benefit from FDI. Some advantages of FDI for the host state include capital flows necessary for growth, access to modern technology, guidance regarding managerial techniques, and greater market access (IFC & FIAS, 1997). As UNCTAD Secretary-General Rubens Ricupero wrote,

> Investment… [has] provided greater freedom to transnational corporations to organise their production activities across borders in accordance with their own corporate strategies and the competitive advantages of host-countries. Countries today view inward foreign direct investment as an important means of integrating their economies with international markets and expect it to contribute to their economic development (UNCTAD, 2003:iii).

6.1.1.1 Host and home states

In an era of escalating globalisation, states can no longer afford to operate in isolation. Dunning (1972) proposed that interdependence and the international division of labour have resulted in the internationalisation of supply and demand. Higher levels of income, enhanced communication and the standardisation of international tastes and preferences have altered demands; while capital-intensive production and increased capital necessary for research and development have required the expansion of firms so as to spread escalating costs. Thus, parent firms seek to expand production and markets. In order to maintain a competitive advantage, firms either transfer production to host states, or they open factories in host states. The underlying reason for this is that firms act defensively as a reaction to incessant competition. If firms did not respond to expanding competition, ‘they would jeopardise their access to foreign markets and perhaps the survival of the entire company’ (Balaam & Veseth, 2001:355).

Advocates of transnational production and FDI assert that it can potentially provide the catalyst for economic growth within the home states, and that the process of internationalising production ensures global integration. Moreover, the diffusion of internationalised products will result in the creation of ‘a world citizen with modern tastes and habits’ (Balaam & Veseth, 2001:355). Similarly, proponents of FDI have identified an additional advantage of foreign investments; they suggested that ‘a more open world economy will foster a more liberal and democratic political order in countries that previously endured authoritarian regimes’ (Balaam & Veseth, 2001:355). In contrast, opponents of FDI are concerned with the ‘deindustrialisation’ of a state’s economy due to escalating international production and investments. The international expansion of a firm undermines employment within the home state. In addition to this, government revenue may be reduced as a consequence of FDI as firms act to minimise taxation and, therefore, invest in states with more favourable tax rates.

Comparable to home states, the costs and benefits of FDI extend to host states. The sites for FDI are determined by the attractiveness of potential host states. Of interest to the home firms are the hosts’ endowments of natural resources, as well as large domestic markets. Due to the numerous benefits from the presence of foreign investors in host states, many states pursue FDI. Gains from FDI include the availability of modern technology, management techniques, greater access to international markets, the simultaneous increase in exports and decrease in imports, rising employment, greater revenue from taxation, and enhanced competitiveness of the host state (Balaam & Veseth, 2001; IFC & FIAS, 1997; CUTS, 2003; UNCTAD, 2003).

Other advantages of FDI include the spillover effects to other industries in the host state. If a foreign firm engages with numerous host-firms, complementary goods may be produced by host-firms. For example, if a foreign firm seeks to invest in South Africa’s motor industry, South African firms may have the opportunity to provide complementary products such as tyres or seatbelts. Similarly, South African firms may be responsible for the advertising and marketing of the vehicles. A further advantage of FDI is that increased foreign capital positively influences the host state's balance of payments. In many developing states – such as South Africa – concerns with inadequate domestic investments are placated by foreign investments in the state (Balaam & Veseth, 2001; CUTS, 2003).

Although the benefits of FDI in host states are immense, the costs of FDI are not negligible. Such costs include concerns with environmentally hazardous technologies and modes of production, the crowding out of domestic firms due superior foreign firms, and the exploitation of the labour force (i.e. low wages, insufficient benefits, and unsafe work conditions). The costs of FDI can be minimised if foreign investors employ local labour (and adhere to the host's labour policies), and if domestic services are utilised (Balaam & Veseth, 2001; CUTS, 2003). In brief, there are both positive and negative aspects of FDI for home and host states. However, irrespective of negative socio-economic impacts, the process of globalisation has necessitated the presence of transnational and multinational corporations worldwide; and their existence is unlikely to be reversed. The South is 'rolling out the welcome mat for global companies in the quest for rapid growth despite the many risks and costs that MNCs' penetrations incur' (Francis, 1997 and Heredia, 1997, quoted in Kegley & Wittkopf, 2001:233).

6.1.2 Background to Foreign Direct Investment

'The story of development almost everywhere includes foreign direct investment, from the Persian Gulf's oil fields to India's tea plantations and Malaysia's rubber plantations' (IFC & FIAS, 1997:11). In addition, FDI has been invaluable in the development of infrastructure, e.g. telecommunications in Spain. Prior to the First World War, states such as the United States, Germany, Britain, Sweden, Switzerland, France and Japan had invested beyond their borders, and by 1914, one third of all investments worldwide (amounting to $15 billion) were in the form of FDI. During this period the United States, Britain and Germany were the largest investors, while the United States was the greatest recipient of FDI. By the start of the Second World War, FDI had more than quadrupled and total FDI had reached $66 billion by 1938. Investors paid intensified attention to the mining and agricultural sectors during this period. After the conclusion of the Second World War, the United States – the international hegemon – emerged as the greatest investor (IFC & FIAS, 1997).

In the 1950s and 1960s, developing states feared both dependency on developed states and interference in the political sphere. The consequence of these reservations was the adoption of inward-oriented development policies; the direct result of these doubts was reduced access to these markets and, therefore, an overall decline in FDI. The oil crises in 1973 and 1979 set the tone for the escalation of commodity prices during the 1970s, and attracted the interest of foreign investors in the oil and gas sectors. The balance of payments surplus that ensued in commodity-exporting states augmented the financial resources that were available for borrowing, leading developing states to select borrowing above FDI. Due to this preference for borrowing, FDI in the developing world stagnated during the 1970s and debt burdens mounted (IFC & FIAS, 1997).

The debt crisis in the 1980s led to the implementation of structural adjustment programmes[23] which required austere economic reforms. In order to redress balance of payments deficits, these programmes stipulated the liberalisation of the business environment and the deregulation of FDI. The direct result of these policies was the acceleration of FDI to developing states in the 1980s. Since then, FDI to the developing world has been on the rise. The effectiveness of private enterprises in developing states reduced governments' opposition to FDI, and in the 1990s FDI was channelled to industrial and infrastructural sectors. The privatisation of domestic firms in developing states (an additional requirement of structural adjustment programmes) created further investment opportunities for foreign firms which were often given the option to take over local firms as a part of the privatisation process. Despite the rise in FDI to the developing world, investors preferred stable developing states as sites for FDI such as Brazil, Mexico and Thailand. The major investing states at the conclusion of the twentieth century were the United States, Britain, Japan and Germany. There appears to be a regional element to FDI – EU member states, for example, invest largely in Eastern Europe and Central Asia; and the United States primarily invests in Latin American states (IFC & FAIS, 1997).

[23] Structural adjustment policies aimed at reducing the power of the state in the economy, and adopting a free market in order to attain sustainable economic growth. These policies were endorsed, and prescribed, by the IMF.

6.1.3 North versus South

There is a decided division between states of the North and South with regard to FDI. As mentioned, the primary investors are developed states – i.e. the United States, Britain, Japan and Germany. However, it is wrong to then assume that the largest recipients of FDI are states of the South.

> One of the common yet understandable misconceptions about FDI is that most of it flows from rich, developed nations to poor, developing ones. Nothing could be further from the truth. FDI is in fact an activity conducted primarily between rich countries (Balaam & Veseth, 2001:348).

To substantiate this statement, the authors recorded that since the Second World War the North has been cardinal as both a source and site of investment. Developed states were the home of 95 percent of FDI and the host of more than 80 percent of FDI (Balaam & Veseth, 2001). Moreover, since the mid-1980s, five states of the North have been playing a central role in FDI, once again in the capacity of home and host. The United States, Japan, Britain, Germany and France accounted for 70 percent of investments, and hosted affiliates of approximately 57 percent of FDI (Balaam & Veseth, 2001).

FDI to the South has fluctuated due to inward-oriented policies[24], and externally enforced austere economic programmes. FDI to developing states has been concentrated in the manufacturing and processing industries, and only a few developing states have been involved in FDI. The least developed states – of which the majority are in Africa – have been marginalised in international investments, and 'are essentially bystanders in this global activity, attracting less than 1 percent of all FDI flows' (Balaam & Veseth, 2001:350). In 1995, almost three quarters of FDI to the South went to ten states. Between 1990 and 1996, the leading recipients in the developing world were China, Mexico, Malaysia, Brazil, Indonesia, Thailand, Argentina, Hungary, Poland and Colombia (IFC & FIAS, 1997). Between 1998 and 2000 developed states accounted for 76.3 percent of FDI inflows, and 92.9 percent of outflows. Thus, the South's meagre participation in FDI is apparent in the extent of inflows and outflows: 21.4 percent of inflows went to these states, and they were responsible for 6.8 percent of outflows (WIR,

[24] Inward-oriented policies centred on industrialisation and import substitution in order to promote development.

2001). Thus, there exists an incontestable inequality between the North and the South in terms of who is benefiting from FDI.

6.1.4 Theoretical assessment of Foreign Direct Investment

As currently managed, FDI is in alignment with the liberal notion of open markets, and foreign investments stimulate economic growth in both home and host states. The structural adjustment programmes implemented by developing states in the 1980s reflect requirements of economic liberalism, i.e. deregulation, privatisation, and the liberalisation of businesses. Proponents of FDI suggested that increased integration resulting from FDI may penetrate the political nature of the state in addition to the economy. In line with liberal theorists, Balaam and Veseth (2001:355) wrote that 'a more open world economy will foster a more liberal and democratic political order in countries that previously endured authoritarian regimes'. Thus, economic liberalism has the potential to transcend into political liberalism due to enhanced interaction and interdependence in the global economy.

Both home and host economies stand to gain from FDI. Proponents of FDI suggested that it has the ability to foster development within states (Kegley & Wittkopf, 2001:233). In line with realism, states aim to accumulate wealth and power in order to safeguard state sovereignty. As a result, the FIAS advises states on the creation of investment-conducive policies and reforms so as to maximise wealth. FDI flows are believed to 'promote national revenue and economic growth'; 'facilitate the modernisation of less developed countries'; and 'generate income and wealth' (Kegley & Wittkopf, 2001:230). Thus, FDI assists states in achieving the realist objective of attaining wealth. Similarly, the extensive presence of foreign firms (particularly from the North) illustrates the power that these developed countries wield (once again, reflecting realism).

However, the incomparable contribution between the North and the South illustrates a structural irregularity in the global economy in terms of FDI. States of the North are currently the largest recipients and largest investors in the international economy; and the developed world is the proprietor of the majority of parent and affiliate firms. Thus, the economic structure of FDI is unfavourable to the South. Of further concern to advocates of structuralism is that the South is dependent on FDI from the North as foreign investments unequivocally provide modern technology, capital inflows, employment opportunities, market access, global integration and tax revenue for developing states. Apparent benefits have ensured that governments of the developing world are in pursuit of attracting FDI which, despite precipitating the home state's dependence on the host state, produces immense social and economic benefits. This home-host interaction simply perpetuates the relationship of dependency between the North and South which structuralists aspire to abolish.

6.2 Institutions facilitating FDI flows

The two predominant institutions pertaining to FDI are the International Finance Corporation and the Foreign Investment Advisory Service. Both institutions are affiliated to the World Bank. The former aids investment opportunities in developing states; the latter assesses the investment climate of states and advises governments on policies and mechanisms necessary to attract FDI. Despite association to the World Bank, these institutions are not dominated by the North, nor do they operate in support of Northern policies and interests. On the contrary, their cardinal function is to promote investments to the South through their respective consultative practices. The older of the two institutions – the International Finance Corporation – will be discussed first and will be followed by a similar assessment of the Foreign Investment Advisory Service (with pertinent examples of the institution's undertakings in Africa).

6.2.1 The International Finance Corporation (IFC)

In 1949, the World Bank acknowledged the need to establish a private sector investment division within the Bank. Seven years later, the IFC was launched with an initial membership of 31 states. By 2004, membership had grown substantially, and the IFC currently comprises 176 member states. Consistent with the objectives of the World Bank, the IFC aims to 'improve the quality of the lives of people in its developing member countries' (IFC, 2004a). The Corporation's specialisation in investments resonates similar aspirations, i.e. '[to promote] sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives' (IFC, 2004a).

The IFC is primarily responsive to private sector investments in developing states – and in this capacity is the principal source of loan and equity financing. In order to achieve its objectives, the IFC is engaged in (a) the financing of private sector projects in the South; (b) assisting private firms in developing states to obtain financing from international markets; and (c) advising and providing technical assistance to firms and governments in the South. The business advisory functions of the IFC incorporate the restructuring of physical and financial assets, the development of sound business strategies, the classification of appropriate technology, markets, products and partnerships, and the arrangement of financing for projects. At a governmental level, the IFC provides recommendations to the governments of developing states regarding the attraction of FDI and the adoption of an 'enabling business environment' (IFC, 2004c).

> The IFC's particular focus is to promote economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries. In this context, the advisory work with government helps create conditions that stimulate the flow of both domestic and foreign private savings and investment (IFC, 2004c).

In order to obtain financing from the IFC for a private investment, the proposed project must be beneficial to the investor as well as the host state, and investors must adhere to environmental and social procedures. Financing from the Corporation is not exclusive to particular industries or sectors, evident in the IFC's presence in manufacturing, tourism, infrastructure, education, health and financial services. Moreover, the financing available ranges from between $1 million and $100 million. It is, however, exclusive to developing states. One year after the inauguration of the IFC, the organisation's first investment in a developing state (Brazil) amounted to $2 million. Subsequent investments have been noted in Brazil and Korea (1975); Albania, Angola, Croatia, Maldives, the Slovak Republic, Vanuatu and Western Samoa (1996); Azerbaijan, Tajikistan, Cambodia, Georgia, Macedonia and Mongolia (1997); and in 2000, $1.2 billion was approved for new investments in sub-Saharan Africa (IFC, 2004b).

The IFC facilitates the development of developing states in the increasingly competitive global economy. The Corporation provides the requisite technical assistance to both businesses and governments to ensure that developing states become favourable sites for FDI. Spanning the African, Asian, South American and European continents, the IFC has fulfilled a salient duty in the development of the South, and, consequently, in bridging the gap between the North and the South. Escalating financial flows to the developing world will facilitate the development of these states, while providing desirable capital, employment and technology. Irrespective of the fact that the IFC is a branch of the Northern-dominated World Bank, its focus on private sector investments in the developing world serves the interests and needs of the South.

6.2.2 Foreign Investment Advisory Service (FIAS)

The FIAS was founded in 1985 and is affiliated to both the World Bank and the IFC. It has assisted 125 states and concentrates on the development of an enabling business environment within the state concerned, thereby advising states on maximising 'their potential for attracting foreign direct investment' (FIAS, Internet Source). The FIAS is enlisted by the government of the relevant state and attends to specific areas of interest as identified by the government. Funded partially by the World Bank and IFC, the FIAS is dependent on contributions from other bilateral and multilateral sources. The organisation 'offers a comprehensive range of service to help governments attract FDI' (FIAS, Internet Source). Over a period of between three to six months, the FIAS assesses the investment environment of the state and presents its findings and recommendations to the state. The government is not obligated to adopt the measures recommended by the FIAS.

In an assessment of a state, the FIAS considers the following hindrances to FDI: the government's attitude towards foreign ownership in the equity of domestic firms, inefficient administrative processes, controls regarding the repatriation of profits and capital, tax laws, the legal and regulatory environment, access to land, the employment of foreign managerial and technical expertise, and the competition policy framework of the state. The FIAS further seeks to attract FDI by providing incentives and by fostering positive ties with domestic and foreign-owned businesses.

The FIAS has recognised that a diversity of factors shape the business environment of states. Thus, the FIAS utilises a collection of ratings and indices to understand and determine the business climate that faces foreign investors. Some of the ratings used include the World Bank Institute's Worldwide Governance Research Indicators Dataset, the Heritage Foundation's Index of Economic Freedom, the Fraser Institute's Index of Economic Freedom, Transparency International's Corruption Perceptions Index, the World Economic Forum's Global Competitive Index, the UNDP's Human Development Index, the PRS Group's International Country Risk Guide and Standard and Poor's Sovereign Ratings List. Each of these ratings assesses the following factors influencing the investment environment: microeconomic and institutional conditions, economic reform, political stability, accountability, government effectiveness, rule of law, foreign investment codes, tariffs, banking regulations, corruption in the public sector, economic performance, debt indicators, credit ratings, overall risk (i.e. political, financial and economic), economic and regulatory changes on FDI, the legal system, accounting standards and practices, fiscal policies, foreign currency bonds and notes, currency of repayment, life expectancy, education, real income, the size of government, the use of markets and structure of the economy, price stability, property rights, environmental sustainability (including the quality of air and water, and land degradation), intellectual property rights, barriers to trade, export subsidies, investment barriers, and political rights and liberties (FIAS, Internet Source).

Within Africa, the FIAS has expedited the liberalisation of investments and the enticement of FDI to the region. In doing so, it has assessed investment laws in Kenya, taxation and investment policy in Senegal, and administrative barriers in Eritrea. Thus, the organisation is attentive to the creation of incentive structures, simplified administrative systems and 'investment agencies that focus on promotion rather than regulation' (FIAS, Internet Source). In Lesotho, for example, the FIAS is assisting the government in the reform of the manufacturing and trade licensing system. In Zambia, assistance is being provided pertaining to administrative barriers, reform of the business environment and expanding investment (FIAS, Internet Source). The organisation's presence on the African continent at the request of the respective governments illustrates that African leaders are seeking FDI under the guidance of the expertise of the FIAS.

Both the IFC and FIAS are concerned with the establishment of investor-friendly climates in the South. The establishment of such an environment requires the adoption and implementation of liberal policies. Governments are seeking to attract FDI inflows to facilitate growth and inclusion in the global economy. The current marginalisation of states indicates a structural divide between the North and the South. Moreover, government desires of attracting FDI reflect realist thinking as the state is prioritised, and economic growth resulting from FDI inflows has the potential to fulfil a double purpose: first, the state may accumulate wealth, thereby safeguarding the state; and second, this will assist states in reducing their dependency on foreign aid. Thus, the mercantilist aspirations of states of the South may redress their dependence on the North.

6.3 Foreign Direct Investment in Africa

Africa's marginalisation from foreign investment flows is unquestionable. The continent accounts for a paltry proportion of global investment flows. Relative to other developing regions in the world, the continent's performance is similarly pitiable. African states are additionally plagued by high levels of poverty and underdevelopment which flows of FDI could potentially rectify. Therefore, despite the perceived risk of perpetuating the continent's dependency on the North, leaders continue to solicit FDI inflows. The continent has been an inimical location for investors due to several factors, including political instability, corruption and poor economic policies. Realisation of investors' enmity towards the continent steered African leaders to develop and implement NEPAD, a neoliberal plan of action that is intent on amending political and economic flaws in African states.

6.3.1 Background to Foreign Direct Investment in Africa

In 2001, FDI inflows to Africa amounted to merely 1 percent of the world's total FDI inflows. Leading up to the 1980s, FDI in Africa was comparable to investments in South Asia; subsequently, investment rates on the continent have decreased by 25 percent. In the 1960s, FDI equated to approximately 16 percent of GDP in both regions, and this figure increased by 4 percent in the 1970s. Since the conclusion of the 1970s, both foreign and domestic savings in Africa declined as a result of poor economic performance, thereby exacerbating poor credit-ratings (WBR, 1989).

Investors in Africa were deterred by low returns on their investments. Between 1961 and 1973, FDI equated to 15 percent of GDP in Africa, and 16.9 percent of South Asia's GDP; the rates of return on these investments were 30.7 percent and 21.3 percent, respectively[25]. Thus, in the 1960s and 1970s, returns on African investments exceeded those on South Asian investments by over 30 percent. In the 1980s, however, deteriorating returns were manifest. Once surpassing South Asia, returns on African investments were equal to only 10 percent of returns on investments in Asia. Between 1980 and 1987, the investment rate (as a percentage of GDP) in Africa was 15.9 percent, almost 7 percent below South Asia's investment rate of 22.8 percent. Of greater concern, however, was that the average annual rate of return on South Asian investments for the same period was 22.4 percent; investors in Africa encountered bleak returns of 2.5 percent (WBR, 1989).

High investment costs and low productivity were identified by the World Bank (1989) as causes of inferior returns. Moreover, the undiversified African economies, unskilled labour force, inefficient public resource management, as well as physical attributes (e.g. landlocked states and the onerous terrain) have heightened the costs for FDI. Kandiero and Chitiga (2003) identified three additional disincentives for foreign investors: first, the worldwide perception of high levels of corruption; second, poor governance; and third, the overall insubstantial infrastructure. Moreover, if one consults the ratings and indices employed by the FIAS in its analyses of investment sites, many African states are inherently flawed. One merely has to consider the factors of political stability, political rights and liberties, life expectancy, education, debt indicators, accountability and real income.

6.3.2 Africa as a site for Foreign Direct Investment

For the purpose of assessing the attractiveness of African states as locations for FDI, some factors of interest to the FIAS (identified in the various indices and ratings) will be discussed along with applicable illustrations of African states. Investors seek a politically stable environment. Recent conflicts on the continent would, therefore, impede FDI. As a result, investors would indicate their reluctance to invest in states such as the DRC,

[25] The rate of return is given as a percentage of the average annual return (WBR, 1989).

Burundi, Rwanda, Liberia, Sudan and Somalia. Foreign corporations evaluate the legal systems of states. Most African states adhere to French, English or Belgian common law, and many have additionally adopted customary or religion-based legal systems. However, many African states have failed to acknowledge the International Court of Justice (ICJ) and numerous African states have not accepted compulsory ICJ jurisdiction (such as the DRC, Ghana, Zambia, Lesotho, Tanzania, Ivory Coast and Gabon) (Nationmaster, 2004c).

The Heritage Foundation (2003) assessed the economic freedom of states based on the following criteria: trade policy, the fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation and informal market activity. Of the 50 lowest ranking states – i.e. the 50 states with the least economic freedom - 17 are in Africa. Zimbabwe was the lowest ranked African state (4th lowest worldwide). Other states that featured in the bottom 50 include Libya, Sierra Leone, Nigeria, Rwanda and Malawi (Nationmaster, 2004a). The Fraser Institute monitors economic freedom around the world, and its assessments are tabulated according to the following categories: size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labour and business. African states have been relatively unsuccessful. When compared to the United States, Botswana – the highest ranking African state – still lagged behind. Out of a possible 10, the summarised rating of the United States was 8.2; Botswana's was 7.4. Foreign investors would, however, sooner invest in Botswana than in neighbouring Zimbabwe; the latter's summarised rating was a mere 3.4, making it the poorest performer of all the African states assessed (Frasier Institute, 2004).

Corruption is an additional concern for foreign corporations. In 2003, the World Economic Forum ranked African states according to levels of corruption. This ranking evaluated issues such as the rule of contracts and law and the perception of corruption. Botswana was ranked favourably in first place, but on the opposite end of the spectrum were Nigeria and Chad, ranked 20th and 21st respectively (WEF, 2003). The extent of corruption in Nigeria was reflected by Transparency International (available on Nationmaster, 2004b). In the 2003 survey, Nigeria was ranked the second most corrupt state – after Bangladesh – while other African states identified as highly corrupt included Cameroon, Angola, Kenya, Libya, Sierra Leone and Uganda.

In its assessments of states, the FIAS considers the UNDP's Human Development Index which measures literacy, life expectancy and GDP per capita. A regional comparison portrays the dire situation of African states, which acts as a deterrent to investors. The average life expectancy in the developing world is 64.6 years, whereas in sub-Saharan Africa it is 46.3 years. Adult literacy in the developing world is 76.7 percent, for the sub-Saharan African region, literacy is merely 63.2 percent. Finally, the average GDP per capita in developing states is $4,054; in sub-Saharan Africa, it is $1,790 (HDR, 2004). The FIAS further utilises reports from Freedom House which monitor and evaluate political freedom and civil liberties. Once again, African states are notorious for the absence of these values. Of the 50 lowest ranking states, 22 are in Africa and include Libya, Sudan, Rwanda, Somalia, Gambia, Burundi and Uganda (Nationmaster, 2004d).

To conclude, FDI to the African continent can only be increased if these areas of concern to investors are remedied. The FIAS utilises various ratings to determine the investment climate in states; some of these indices have been used to provide a brief evaluation of the African continent. The results have been dismal. States on the continent have featured in assessments of political instability, high levels of corruption, low levels of economic and political freedom, and low levels of human development.

6.3.3 Assessing Foreign Direct Investment in Africa

Africa's relative exclusion from FDI flows is apparent. Pertinent to the continent's absence from participating in FDI, the following aspects of FDI in Africa will be assessed: the extent of FDI flowing in and out of the continent, areas of interest to foreign investors, leading recipients and investors on the continent, FDI inflows into, and outflows from, the continent's hegemon, and the relationship between the attraction of FDI and the adoption of NEPAD. South Africa is unmistakably the leader in terms of FDI outflows on the continent; moreover, it is one of the leading recipients of inflows. It has, furthermore, been actively engaged in the design and endorsement of NEPAD, thereby assisting other African states in establishing a climate conducive to FDI.

6.3.3.1 The extent of Foreign Direct Investment in Africa

FDI inflows to Africa are marginal in comparison to world FDI flows. The three leading developed entities (the triad) comprising the United States, the EU and Japan accounted for 75 percent of inflows and 85 percent of outflows between 1998 and 2000. In contrast, African states accounted for 1 percent of inflows in 2000, and in 2001 African states accounted for 2 percent of the total $735 billion in FDI worldwide (WIR, 2001; Kandiero & Chitiga, 2003). Flows to Africa had escalated during the 1990s: the average annual inflows to Africa increased from $3.2 billion between 1991 and 1993, to $5.2 billion between 1994 and 1996 (ADB, 1998). Moreover, the above-mentioned percentage rise between 2000 and 2001 amounted to an increase of $9.5 billion for the continent[26].

FDI to Africa was not only marginal when compared to the triad but also when the continent was contrasted to other developing states. Between 1987 and 1991, the average inflows to each African state were less than one third of inflows to other developing states. Declining investment in African states was pronounced in the early 1990s, and for the period beginning in 1992 and ending in 1996, the average FDI to African states was less than one sixth of average FDI to other developing states (WIR, 1998). The table below illustrates this decline (WIR, 1998). Although the average FDI inflows to Africa increased, when compared to other developing states, Africa's marginalisation is obvious.

A comparison of FDI inflows to African and other developing states		
	Average FDI inflows to African states	**Average FDI inflows to other developing states**
1987-1991	$60 million	$212 million
1992-1996	$96 million	$613 million

Figure 12

Figures from the 2001 World Investment Report further illustrated Africa's marginalisation when compared to other developing states. Between 1998 and 2000, African states accounted for 0.8 percent of FDI inflows; developing states accounted for over one fifth of the total percentage (i.e. 21.4 percent). Within Africa, the SADC region

[26] FDI in Africa in 2000 was $9 billion, by 2001 it had increased to $18.5 billion (Kandiero & Chitiga, 2003).

proved to be the greatest recipient of FDI inflows, receiving half the total FDI inflows to the continent. With regard to transnational corporations, African states, once again, were marginalised. Of the 63 312 parent firms, only 167 are in Africa (excluding South Africa); and only 4 669 affiliates (of the world total of 821 818) are found on the continent (WIR, 2001). The information available from the 2001 World Investment Report has been tabulated below to reiterate the relative exclusion of African states with regard to transnational corporations.

The diffusion of home and host firms		
Region	**Parent/Host**	**Affiliate/Home**
World	63 312	821 818
Developed states	49 944	95 485
Developing states	12 588	489 504
Latin America	2 019	26 784
South, East and South-East Asia	9 883	445 929
Africa (excluding South Africa)	167	4 669
South Africa	941	2 044

Figure 13

6.3.3.2 Sectoral assessment

The primary sector in Africa has largely been the focus of foreign investors, with oil and minerals attracting the most interest. Investments from the United Kingdom, the United States, Germany and France have mostly been in the primary sector although the secondary and tertiary sectors are gaining expanding levels of investment. The table below illustrates the sectoral increase in FDI to Africa from these four investors (WIR, 1998).

Sectoral allocation of FDI			
Year	**Primary Sector**	**Secondary Sector**	**Tertiary Sector**
1989	$5 588 million	$4 170 million	$3 943 million
1991	$6 633 million	$4 267 million	$5 558 million
1993	$6 535 million	$4 353 million	$5 436 million
1996	$8 368 million	$6 539 million	$5 825 million

Figure 14

The primary sector remains the central interest of foreign investors despite a decrease in oil and mineral extraction of over $ 3 000 million between 1998 and 2000[27]. This correlated with a significant increase in FDI to the services sector during the same period. In 1998, inflows to the services sector were estimated at $52 million; by 2000, this figure had drastically risen to $1 931 million. The services sector has enticed businesses with interests in transport, telecommunications, business and legal services, wholesale and retail trade, and banking and finance (Kandiero & Chitiga, 2003).

6.3.3.3 States in the forefront

Resource-rich states are the primary sites for FDI in Africa. Moreover, coupled with economic reform and the establishment of an investor-friendly environment, African states may prove to be 'a magnet for foreign business, causing FDI inflows to increase' (Kandiero & Chitiga, 2003). According to Kandiero and Chitiga (2003), economic reform emanated in a soar of FDI inflows to Mozambique, Tanzania, Botswana, Morocco and Uganda. African governments have acknowledged the significance of creating investor-friendly conditions on the continent so as to increase FDI inflows.

> Efforts on the part of many African countries to improve their FDI frameworks have reached such a level that "the perception that Africa is a risky place to invest is therefore correct only to the extent that in some African countries, obsolete laws and excessive bureaucratic practices still exist and create an unfavourable investment climate"'. Indeed, as macroeconomic conditions improve and regulatory frameworks are becoming more liberal, measures to facilitate business, such as the reduction of bureaucracy and corruption, as well as policies to promote FDI become more important (WIR, 1998:173-174).

[27] Primary sector FDI in the minerals and oil extraction industry decreased from $5 056 million in 1998 to $2 029 million in 2000.

Privatisation, the improvement of national policy frameworks and laws governing FDI have been evident in African states, thereby improving the investment climate and enhancing FDI inflows. Privatisation occurred in numerous states in the 1990s, including Angola, Ivory Coast, Ghana, Kenya, Senegal, Nigeria, South Africa, Uganda and Tanzania.

> Some 47 of the 53 African countries had adopted national laws governing FDI by 1997… According to a recent survey of least developed countries, only 6 of the 29 least developed countries in Africa for which data was available still had a restrictive regime for the repatriation of dividends and capital… All other countries had free or relatively free regimes that allowed the remittance of profits without major obstacles. Most countries have also enlarged the number of industries open to foreign investment… (WIR, 1998:172-173).

Between 1982 and 1996, the largest sources of FDI were the United Kingdom, France, the United States, Germany, Japan and the Netherlands. The 1998 World Investment Report identified seven 'frontrunners' in Africa, namely Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia, Tunisia and Uganda. FDI to these countries exceeded the average FDI to developing states. The combined flows to these states represented almost one quarter of FDI to Africa in 1996 (and they accounted for 9 percent of Africa's population, and 8 percent GDP in Africa) (WIR, 1998). In 1997, the five leading recipients were Nigeria, Egypt, Morocco, Tunisia and Angola. Despite political instability being cited as a major factor deterring FDI, conflict in Angola was overlooked due to the state's ownership of oil.

In 2000, the ten leading sites for investment in Africa were (in order) Angola ($1 800 million), Egypt ($1 235 million), Nigeria ($1 000 million), South Africa ($877 million), Tunisia ($781 million), Sudan, Ivory Coast, Mauritius, Uganda and Lesotho. Total FDI inflows to Africa (excluding South Africa) equalled $8 198 million in 2000. Thus, the three leading sites were accountable for almost half the FDI flows to the continent. The leading investors from Africa for the same year – i.e. the states with the greatest outflows - were (in order) South Africa ($564 million), Libya ($271 million), Nigeria ($86 million), Morocco, Ghana, Egypt, Ethiopia, Kenya, Ivory Coast and Togo (WIR, 2001). In 2000, South Africa was the most important source of FDI in Africa as it was responsible for 40 percent of outflows from Africa. The continent provided $744 million in FDI in 2000. Therefore, South African investments equated to three quarters of the total FDI outflows in Africa.

African states that are rich in resources are preferred destinations for FDI. However, states can maximise inflows by adopting sound economic and political policies. Despite an increase in FDI between 2000 and 2001, the continent remains on the margins of FDI in terms of total inflows and outflows. Moreover the triad continues to dominate global economic interactions, controlling an absolute majority of inflows and outflows of FDI. As both the continental hegemon and Africa's economic powerhouse, South Africa is in the forefront of FDI inflows and outflows to Africa.

6.3.4 Foreign Direct Investment and South Africa

South Africa's natural resources, specifically its mineral endowments, have always been a source of attention for foreign investors. Since the beginning of the twentieth century, the state has attracted foreign investors, but as a result of the apartheid era and the subsequent global policy of disinvestment, foreign investments to the state were drastically reduced in the 1980s. As sanctions were lifted in the early 1990s, FDI inflows rose, and the ANC-led government introduced a number of policies aimed at attracting FDI. Furthermore, the state is promoting good governance as a means to attract foreign investment[28]. Despite various incentives – such as the Strategic Investment Programme, the Foreign Investment Grant and the Motor Industry Development Programme – FDI to South Africa has been relatively small when compared to other developing states. FDI to South Africa (measured as a percentage of GDP) was estimated at 16 to 17 percent, thus lagging behind other emerging markets. Brazil's FDI was equal to 21 percent, and Malaysia's, 37 percent (CUTS, 2003). In Africa, however, FDI to South Africa is immense: in 2001, the state accounted for 38.8 percent of FDI inflows to Africa (BusinessMap, 2003).

6.3.4.1 Why is South Africa attractive?

The South African government's stance towards FDI is favourable. The government has acknowledged the importance of FDI in development and economic growth and has,

[28] Good governance incorporates control of corruption, the creation of political stability, democratisation, protection of human rights, market-oriented economic policies, abidance by the rule of law, and effective and efficient public administration.

therefore, aspired to create an investor-friendly climate. In October 2001, President Mbeki made the following statement to the National Assembly:

> I agree fully that foreign investment is critical to our success in building a modern, dynamic, growing and internationally competitive economy. The foreign investors bring in capital, they bring in modern technology, modern management practices and access to international markets, among other things (Mbeki, 2002:255).

'South Africa is one of the most sophisticated and promising emerging markets globally' (FDI magazine, 2004). The infrastructure within the state is comparable to developed economies; the state has diversified its exports; it has immense, lucrative natural resources; and tourism (particularly eco-tourism) is a major site for FDI as are the automotive components manufacturing industry, ICT, and pharmaceuticals. South Africa is not only resource-rich (leading in the production of gold, platinum, chromium and manganese), but the size of the state's market further entices FDI. According to CUTS (2003), the South African market 'accounts for over 50 percent of the purchasing power of Africa'. In addition, the government has attained an adequate level of macroeconomic stability (CUTS, 2003; FDI magazine, 2004).

Two government agencies are responsible for promoting investment to South Africa, namely the Department of Trade and Industry (DTI) and Trade and Investment South Africa (TISA). These agencies ensure the promotion and facilitation of investment, highlighting the benefits of investing in South Africa, and 'the targeting of key sectors' (BusinessMap, 2003). In addition to the Strategic Investment Programme, the Foreign Investment Grant and the Motor Industry Development Programme, South Africa's investment policy is attractive to foreign investors as 'there are generally no restrictions on the type or extent of investments available to foreigners (Vickers, 2002). Moreover, as a further method of safeguarding investments, South Africa is the signatory of more than 30 bilateral investment treaties (since 1998, treaties have been concluded with Argentina, Belgium, Chile, Finland, Ghana, the Republic of Korea, Sweden, etc.) (Vickers, 2002; WIR, 2003). The state does not impose exchange controls on FDI; it does not limit the repatriation of profits; there are no laws regulating pricing (with the exception of the pharmaceutical industry); and 'South Africa does not impose performance requirements, local content requirements or require new investments to comply with specific criteria' (Vickers, 2002).

Despite the apparent advantages of investing in South Africa, it is not an idyllic site. This is illustrated by the state's inability to compete with other emerging markets. A number of factors continue to act as a hindrance to increasing FDI. These include the poor economic growth rate, crime, the prevalence of HIV/AIDS, an inflexible and over-regulated labour regime, poor domestic confidence (illuminated by low domestic savings and investment), limited skilled labour; political risks relating to poor governance, the rule of law and property laws (exacerbated by the investor-unfriendly regime in neighbouring Zimbabwe); and a market that is deemed 'too small and underdeveloped to attract FDI, particularly market-seeking FDI' (Vickers, 2002).

6.3.4.2 Extent and areas of interest to foreign investors

According to the South African Reserve Bank, total FDI inflows to South Africa between 1994 and 2001 were $16 billion. BusinessMap's calculations of FDI over the same time period were $22 billion; and UNCTAD estimated inflows at $15.9 billion (CUTS, 2003). Although the exact amount is contested, South Africa has been one of the leading recipients of FDI on the continent. In 2001, its FDI exceeded inflows to Angola, Morocco, Nigeria and Algeria. In addition, 'South Africa is one of 69 countries that have experienced an average growth in annual FDI greater than 30% over the period 1986 to 2000' (BusinessMap, 2003). The table below provides a concise reading of FDI inflows to South Africa[29]. Between 1994 and 2001, FDI inflows peaked in 1997 and again in 2001; commensurately, FDI to South Africa (compared to both developing states and African states) was comparatively greater in 1997 and 2001.

[29] Abridged version of Table 2 in BusinessMap's 'Investment 2002: Challenges and Opportunities'.

FDI inflows to South Africa between 1994 and 2001								
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
SA ($ million)	380	1.241	818	3.817	561	1.502	888	6.653
SA as % of developing states	0.3%	1.1%	0.5%	2.0%	0.3%	0.7%	0.4%	3.2%
SA as % of African states	6.2%	21.6%	14.0%	35.5%	6.2%	11.7%	10.2%	38.8%

Figure 15

The decrease in FDI at the start of the millennium was merely a slip in FDI inflows to South Africa, which is expected to remain on the rise. In the fourth quarter of 2002, natural resources accounted for the surge in FDI. Anglo American expanded its stake in Anglo Platinum, and acquired a stake in both Kumba Resources and Anglovaal Mining. Portuguese-based Cimpor-Cementos significantly expanded its stake in Natal Portland Cement; and a subsidiary of the Swiss-based ABB engineering group purchased a stake in the Kruger Mpumalanga International Airport (BusinessMap, 2002). In terms of investors, the largest sources of investment are the United States, the United Kingdom, Malaysia, Germany, Switzerland, Japan, Australia, Italy, France and Canada. Overall, the EU is the most significant source of FDI to South Africa (BusinessMap, 2003). The table below provides the figures of FDI inflows between 1994 and 2002, reiterating the prevalence of FDI from the EU, United States, Japan, Malaysia, Switzerland and Australia[30].

[30] Revised version of table available from BusinessMap, 2003.

Sources of FDI inflows to South Africa	
Country	**Total in $ million**
United States	5,583
United Kingdom	3,649
Malaysia	2,406
Germany	1,534
Switzerland	1,211
Japan	870
Australia	830
Italy	607
France	531
Canda	425
Other	4,030

Figure 16

Foreign investors have indicated their interest in an array of sectors. Mining has traditionally been a favourable site for FDI, but service sectors have gained attention. Between 1994 and 2002, the sectors attracting the significant attention were (in order): telecommunications and information technology; mining and quarrying; production of motor vehicles and components; food, beverages and tobacco; energy and oil; metal products and mineral beneficiation; other manufacturing; transport and transport equipment; hotels, leisure and gaming; chemicals, plastics and rubber (BusinessMap, 2003). Despite apprehension ranging from market size to crime, the South African government has succeeded in attracting voluminous quantities of FDI from a variety of sources to diverse sectors. Moreover, since the end of apartheid the state has ascended as the preferred destination of FDI in Africa, thereby contributing to South Africa's economic growth, and consequent power and hegemony.

6.3.4.3 South African investments in Africa

The collapse of apartheid in South Africa opened the door for South African investors to invest in the vast markets on the African continent. The New York Times (2002) recognised the new opportunities available for South African investors who began capitalising from a previously inaccessible continent:

> Shaking off decades of apartheid-era isolation, South African executives, both black and white, are moving north to buy struggling banks, rebuild rundown railways, and bring first-world technology… to an impoverished continent… this explosion of trade and investment… is one of the most vivid illustrations of South Africa's metamorphosis since apartheid ended in 1994. Once a pariah state, South Africa now seems poised to dominate the continent that once shunned its products and leaders (quoted in Daniel, Naidoo & Naidu, 2003:368).

South African corporations have been engaged in a wide variety of sectors, and investments on the African continent have been immense. Irrespective of the ANC-led government's rhetorical commitment to avert assuming a coercive, hegemonic role in Africa, the corporate expansion has been met with mixed reactions. The above quotation exemplifies the prevailing perception that South Africa dominates the African continent. South Africa is providing extensive capital, technology and managerial techniques and simultaneously creating employment. Notwithstanding the benefits for the continent, South Africa has been accused of being an economic coloniser, thereby contradicting the government's anti-hegemonic and anti-coercive stance.

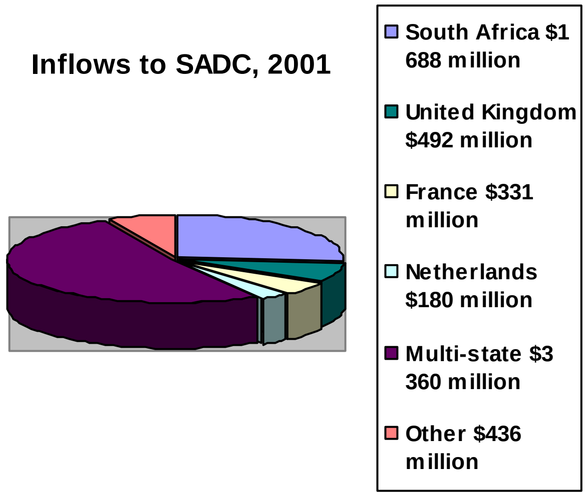
6.3.4.3.1 Extent

Since 1991 an annual average of $1.4 billion has been invested by South African investors in Africa, resulting in South Africa exceeding FDI by former colonial powers on the continent and ensuring that South Africa 'is now the largest source of FDI into Africa' (CUTS, 2003). In 2001, FDI to the SADC region amounted to $2.09 billion. The following year South African investors surpassed this amount and FDI outflows to SADC member states equalled $9.6 billion. This meant that South Africa is responsible for almost half the total FDI flowing into the Southern African region (CUTS, 2003). The dominance of South African investors on the continent – measured by FDI outflows – was illustrated in a press release by UNCTAD in1998: 'South African TNCs accounted for US$3.2 billion of outward FDI [in Africa] in 1997… more than double the total FDI outflows by all other African countries'. Two years later, South African FDI outflows were $1 949 million, compared with $632 million in the rest of Africa, thereby surpassing total outflows by three times (WIR, 2001). Of the total $1 090 million in FDI inflows from 20 leading international investors to SADC states in 2002 (see graphs 5 and 6), South Africa was responsible for the greatest portion (i.e. $342 million) (BusinessMap, 2003). The table below illustrates the extent of the presence of South African firms in the Southern African region[31].

South African firms in Africa				
Year	**SA Firm**	**African Firm**	**State**	**$ million**
2002	Eskom	Grand Inga Falls hydroelectric	DRC	6,000
2001	Sasol	Pande & Temane gasfields	Mozambique	1,157
2001	Vodacom International	Vodacom Tanzania	Tanzania	142
2001	Vodacom International	Vodacom Congo	DRC	139
2002	Kumba Resources; IDC	Kamoto copper mine	DRC	120
2001	Impala Platinum	Zimbabwe Platinum Mines	Zimbabwe	47

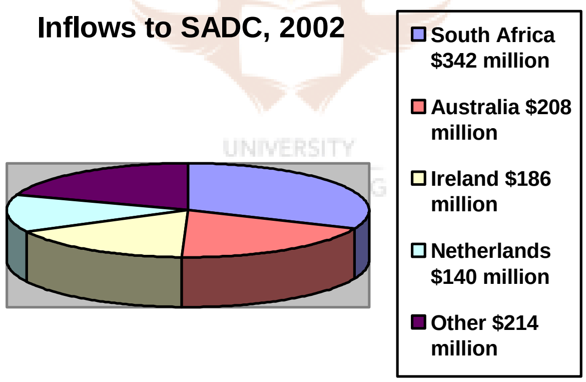
Figure 17

[31] Data selected from tables available in BusinessMap's 'Investment 2002: Challenges and Opportunities'



Source: The BusinessMap Foundation, Investment 2002: Challenges and Opportunities

Figure 18 graph



Source: The BusinessMap Foundation, Investment 2002: Challenges and Opportunities

Figure 19

6.3.4.3.2 Sectors

South African firms are active in numerous sectors in Africa. Traditionally, the focus was on the mining, construction, timber, automobile component and steel industries. More recently, the trend has been an expansion of South African corporations in banking, telecommunications, and retail outlets. What is more, state-owned enterprises are diffusing beyond the states borders – evident in the spread of Eskom, South African Airways, Spoornet and Portnet. The Standard Bank Group alone moved rapidly into other Southern African states – assuming the form of both expansion or mergers and acquisitions – and extended to Swaziland, Zimbabwe, Lesotho, Tanzania, Mozambique, and Zambia between 1995 and 1998 (SA Treasury, 1999). Eskom has expanded across the continent and is active in over 30 African states. Its continental distension is apparent in the company's presence in Rwanda, Malawi, Zanzibar, Libya, Uganda, Zambia, Zimbabwe, Mali, Morocco and the DRC and in its ambitions of investing over $1 billion in African ventures by 2005 (Daniel, Naidoo & Naidu, 2003). As South African corporations' prevalence in Africa is immense, a selection of corporations in an array of sectors is provided in the table below[32].

South African investors unequivocally have an extensive interest in Africa. Corporations have invested a great deal of capital in the continent, with the tables above illuminating the expansion of these companies to the entire continent (not only in the SADC region). Thus, South African corporations are creating job opportunities, providing infrastructural development and modern technology, and facilitating the economic development of various states. However, despite the benefits that African states may accrue due to the expansion of South African corporations, there is a growing uneasiness with the extent of the state's presence on the continent.

[32] The table is a compilation of information from Daniel, Naidoo & Naidu, 2003 and Ahwireng-Obeng and McGowan, 1998.

Sectoral diversity of South African firms		
Sector	**South African Firm**	**African state**
Mining	De Beers Consolidated Mines	Ghana
Banking	Investec	Angola
Airlines	South African Airways	Ivory Coast
Hotels	Sun International	Morocco
Gas & oil exploration	Sasol	Algeria
Infrastructure	Rand Merchant Bank	Congo
Retail & food outlets	Pick 'n Pay	Kenya
Railways & Ports	Spoornet	Mozambique
Electricity	Eskom	Rwanda
Textiles	Frame Group	Zimbabwe
Retail trade	Massmart (incl. Makro, Game, Dion, Cash & Carry)	Over 300 stores in SACU states
Financial Services	Forbes Group	Mauritius
Brewing	SAB	Swaziland
Wheat milling	Sasko Milling Group	Zambia
Farming	Private families	Mozambique, Zambia
Construction	Murray & Roberts	Benin

Figure 20

6.3.4.3.3 Perceptions

Relations between South Africa and the African continent – based on extensive investments by South African firms – are increasingly compared with the structural relations between the North and the South. The wealthier South African state has potentially '[reinforced] the traditional core-periphery division of labour in the region, where [South Africa] continues to supply [Africa] with manufactured goods… and sources, mostly raw materials or low value-added goods' (CUTS, 2003). South African firms have been accused of drowning out domestic industries, as well as adopting unethical business practices (CUTS, 2003; Daniel, Naidoo & Naidu, 2003). An example of the latter accusation was noticeable in the DRC where 12 South African firms were pinpointed for 'looting mineral resources in the DRC during its recent civil war' (Daniel, Naidoo & Naidu, 2003:386).

South Africa has, additionally, been accused of assuming the role of economic coloniser of Africa due to the extensiveness of South African-based corporations on the continent. 'High levels of South African investment in other African countries are raising fears that this country is becoming the continent's newest coloniser' (Mail & Guardian, 2004). A member of the opposition in Kenya's Parliament asserted that 'if we continue doing this we'll end up owning nothing in Kenya… they bulldoze their way around the continent. It seems like they still have the old attitudes of the old South Africa' (Daniel, Naidoo & Naidu, 2003:387). The ANC-led South African government has, however, operated 'within a regional cooperation framework' and its actions have mirrored 'the themes which underpin both the notion of an African Renaissance and which informs the NEPAD and AU policy frameworks' (Daniel, Naidoo & Naidu, 2003:388). In light of this quote, one must remember the role that South African leaders (particularly President Mbeki) performed in the design and promotion of the African Renaissance, NEPAD and the AU – each of which serves South Africa's interests by advancing the creation of an investor-friendly climate in Africa so as to enhance FDI, which is in turn a precondition for development and poverty alleviation.

The presence of Eskom, Spoornet, Transnet and other state-owned enterprises illustrates that the South African government is in support of the corporate expansion into Africa. As Trevor (2000b) stated, 'South African firms have been quick to take advantage of unexploited investment opportunities in many of [its] neighbouring countries'. Former Minister of Public Enterprises, Jeff Radebe, stipulated that the expansion of South African firms (particularly state-owned enterprises) was to be done in an ethical and legal manner. And 'under the strict instruction from all shareholder Ministers', South African public corporations are required 'to conduct their business in Africa… with a conscious and deliberate policy to promote employment… development of SMMEs[33], procurement of goods and services, and upliftment of local communities with all due reference to local law and custom' (2004). This statement illustrates that the

[33] Small, Medium and Micro Enterprises

South African government supports foreign investment in Africa, provided the process is ethical, legal and will contribute to development within host states.

6.3.5 NEPAD and Foreign Direct Investment

The New Partnership for Africa's Development was designed to promote capital flows to Africa. As African states have been measured as high risks for investments, NEPAD aims to redress investors' negative perceptions by protecting property rights, regulatory frameworks and markets. 'Several key elements of the New Partnership for Africa's Development will help lower these risks gradually, and include initiatives relating to peace and security, political and economic governance, infrastructure and poverty reduction' (NEPAD, 2001:38). Three areas have been identified as priorities, and have been targeted by NEPAD. The first is the perception of high risks associated with African states, the second is the adoption of a capacity-building plan (the public-private partnership), and the third priority is the promotion of financial markets within states and integration between states. By rectifying these aspects of African states, it is hoped that FDI inflows to the continent will increase and facilitate 'a sustainable long-term approach to filling the resource gap' (NEPAD, 2001:38).

6.3.5.1 NEPAD: a means to enhance Foreign Direct Investment?

The above passage from NEPAD elucidates that African governments have recognised that African states have been marginalised in the global political economy. Moreover, this marginalisation has been exacerbated by security, political and economic considerations in Africa. NEPAD addresses investors' concerns, i.e. those relating to political stability, accountability, macroeconomic stability, rule of law, infrastructure and regulatory frameworks. Some of NEPAD's objectives (2001:11-12) include

- improving mechanisms for conflict prevention
- advancing and safeguarding democracy and human rights through the development of standards of accountability, transparency and participatory governance

- attaining and securing macroeconomic stability through the design of adequate standards and goals for monetary and fiscal policies
- instituting transparent regulatory frameworks for financial markets
- instituting a legal framework, and maintaining law and order
- advancing the development of infrastructure and diversification of both agricultural and manufacturing sectors.

NEPAD calls for the implementation of democratic governance and sound economic policies in order to enhance investment flows to the continent. 'It has been hailed as the first African-led initiative aimed at stamping out corruption, reforming economies and promoting democracy' (Business Day, 2004e). This perception that NEPAD will promote FDI to the continent was reiterated by Tito Mboweni of the South African Reserve Bank in 2003, by the IFC in its regional report on Sub-Saharan Africa, and at the joint Africa Investment Roundtable, encompassing the OECD, the World Bank and the African Development Bank (Mboweni, 2003; IFC, 2003; OECD, 2003). The IFC report stated that NEPAD will create 'improved governance and economic development… and will help attract new investment for key projects (IFC, 2003). In short, NEPAD is the African-designed and African-endorsed proposal to establish a politically and economically stable continent, and a viable site for FDI. It tackles the concerns identified by foreign investors, as African leaders acknowledge that the development of the continent is intricately connected to the betterment of relations between Africa and developed states of the North. This remains a rhetorical commitment by African states: political instability continues to plague the continent (a current example is the conflict in Sudan); democratic principles are yet to be implemented; and sound economic policies continue to be deficient (this is illustrated by Zimbabwe's loss of voting rights in the IMF in 2004).

6.3.5.2 South Africa's role in the formulation and implementation of NEPAD

South African representatives (especially President Mbeki) played a pivotal role in the design of NEPAD and in securing positive relations with, and support for NEPAD by, developed states. NEPAD was the compilation of three propositions for a developmental plan for the continent; the Partnership was spearheaded by a group of African leaders, namely Mbeki, Obasanjo (Nigeria), Bouteflika (Algeria), Wade (Senegal) and Amoako

(UN Economic Commissioner for Africa). Mbeki asserted that FDI was imperative for economic growth, and extended his desire for attracting FDI to South Africa (through the creation of an investor-friendly climate) to the continent. As a pioneer of NEPAD, he stated that the capital flows initiative would not only contribute to the reduction of debt, but would also facilitate the inflow of private capital to the continent (2002:153).

Mbeki's endeavours to advance the development of Africa and his efforts in the design of NEPAD, warranted Bond's (2004:109) reference to Mbeki as one of the two main leaders of NEPAD (Obasanjo being his counterpart). This perception of Mbeki's eminence as a pioneer and campaigner for NEPAD was underlined by Ahtisaari of the Crisis Management Initiative (2002), who stated that NEPAD was one of the initiatives endorsed by the South African government as a means to further development policies in Africa. Ahtisaari also made reference to Mbeki's 'high-profile international discussions with G-8 leaders about African political economics' and of the Mbeki-backed 'vision to reform interstate relations and the embryonic world-state system' (2002). The South African president was actively engaged in the conception and ratification of NEPAD by African leaders, and in the acceptance of NEPAD by global economic leaders.

6.3.5.3 Theoretical assessment of NEPAD

NEPAD advocates political and economic liberalism as a means to redress structural inequality in the international political economy. Simultaneously, South Africa can maximise its realist objectives through the adoption of sound economic policies and the preservation of peace in African states. The South African government, and its African counterparts, have created a document that addresses the concerns of foreign investors relating to the high political and economic risks in Africa. 'The adoption of a development strategy… will mark the beginning of a new phase in the partnership and co-operation between Africa and the developed world' (NEPAD, 2001:57). Furthermore, the structural concerns of African leaders were apparent in NEPAD with the developed world assuming the role of the bourgeoisie, Africa portraying the proletariat, and the growing antagonism between the two creating a breeding ground for dissatisfaction and eventual conflict (NEPAD, 2001:1):

> The poverty and backwardness of Africa stand in stark contrast to the prosperity of the developed world. The continued marginalisation of African from the globalisation process

> and the social exclusion of the vast majority of its peoples constitute a serious threat to global stability.

The reductions in perceived risks are commensurate with liberal tenets of democracy, universal participation, open markets, free trade, equality and economic growth. Vale (in Jacobs & Calland, 2002:140) wrote that NEPAD presents a challenge to the ideologies espoused by African leaders as it mirrors the North's requirements of African states, i.e. democratisation and economic liberalisation. The North has encouraged the adoption of liberal economic and political policies. Mbeki and other advocates of NEPAD are of the opinion that the adoption of liberal values will enhance development and economic growth in Africa. The antagonism between structuralists and liberals is apparent in the following passage:

> NEPAD is under fire from African experts… The group, which met in Pretoria recently and was addressed by Mbeki, panned several aspects of the blueprint for Africa's economic recovery, referring to Mbeki and members of NEPAD's steering committee as "a small group of political elites" and saying the nature of NEPAD would… perpetuate and reinforce the subjugation of Africa in the international global system, the enclavity of African economies and the marginalisation of Africa's people (Bond, 2004:105).

The ANC government's view that the 'fate of democratic South Africa [is] inextricably bound up with what happens in the rest of the continent' creates an incentive for the South African government to ensure the economic growth of Africa. As the state aspires to ensure prosperity and stability within its own borders, it has a vested interest in the implementation of economic and political liberalism in Africa. This has, additionally, encouraged the government to assume a leadership role in promoting democratic processes and economic liberalisation. Such policies would not only facilitate development in Africa through an increase in FDI but would also protect the interests of South African investors wishing to expand into economically and politically viable markets. African states additionally stand to gain from acting as host economies as they will have access to modern technology, revenue from taxation, managerial expertise and enhanced employment. Therefore, greater FDI to African states will facilitate these states' accumulation of wealth, thereby resonating realist ambitions.

South Africa's compliance with regional and continental agreements – many of which have been framed under the leadership of South Africa - and the fact that the state's 'position [is] consistent with the themes which underpin both the notion of an African Renaissance and which informs the NEPAD and AU policy frameworks' indicate that the state has espoused policies and agreements that serve the interests of the South African government and South African businesses. South Africa is operating within a framework that is conducive to the expansion of its own interests (thereby echoing realism). If African states adopt liberal policies, South African businesses will have the opportunity to tap into vast markets, and the subsequent profits will aid the government in the accumulation of wealth. An increase in wealth is synonymous with an increase in power. Hence, the realist aspirations of the state are attainable through the endorsement of liberal ideals. Thus, NEPAD promotes liberal ideology as a method of redressing structural imbalances; and the implementation of liberal tenets will augment South Africa's wealth and power in Africa, thereby, serving its realist ambitions. The table below outlines liberal, realist and structuralist descriptions of NEPAD.

Theoretical delineation of NEPAD		
Liberalism	**Realism**	**Structuralism**
NEPAD advocates political liberalism: it calls for the advancement of democracy (including equality and freedom), human rights, transparency, accountability, and participatory governance. NEPAD additionally espouses economic liberalism; this is evident in the requirement of sound economic policies, regulatory frameworks for financial markets, and adequate standards for monetary and fiscal policies.	NEPAD aims to enhance economic growth and sustainable development in order to maximise wealth. It promotes diversification and industrialisation, and encourages African states to 'become [strategic players] in agricultural science and technology development'.[34] Economic growth and enhanced international competition will contribute to the accumulation of wealth and power.	NEPAD aims to reform the structural arrangement of the inter-state system. Consistent with structuralism it provides a critique of economic structure; it promotes equality at an international level; it focuses on bridging the gap between Africa and the world; it encourages domestic reforms, industrialisation, favourable terms of trade, FDI, entrepreneurship, and technological innovation; it aims to redress reliance of African states on agricultural commodities.

Figure 21

[34] NEPAD, 2001:40.

6.4 South African hegemony

South Africa is incontrovertibly prominent as a favourable location for FDI inflows and a significant source of FDI outflows in Africa. As the above theoretical assessment underlines, the state is profiting from both inflows and outflows, and the establishment of an investor-friendly environment on the continent was of further benefit the state. Through their expansion on the continent, South African corporations are providing employment, modern technology, managerial expertise and capital inflows. Similarly, the state's support for NEPAD is reflective of its will to reduce political and economic risks on the continent. These advantages, therefore, serve as public goods and although South Africa is not exclusively absorbing the costs of the provision of these goods, the state is making significant contributions.

Exemplary of benevolent hegemony, South African corporations are utilising positive sanctions in response to economic and political reforms on the continent. As African states adopt sound economic policies and attain political stability, they are profiting from the enhanced penetration of their markets by South African businesses. Hence, job opportunities, capital, technology and skills are samples of some of the rewards that may accrue to states that adhere to political and economic policies espoused by the South African government. However, representative of selfish hegemony, South Africa's gains from the political and economic transformation of Africa will enhance the profits of South African corporations. This will ensure an increase in economic growth and will serve the interests of the South African government as wealth and power escalate. Subsequently, the financial gains associated with FDI in Africa will intensify South Africa's power on the continent, thereby assisting in the attainment of realist goals; and realism is synonymous with selfish hegemony.

The diffusion of South African businesses through Africa requires cooperation rather than enforcement: as corporations seek investor-friendly climates these firms cannot control African governments and African companies. The South African government's role in the formation of NEPAD highlights the power that the state wields and, more significantly, how the state utilises this power to ensure the cooperation of its African counterparts. Mbeki and his ministers underlined the importance of attracting FDI (as a requirement to redress intrinsic poverty and underdevelopment), and, therefore, the need for the amelioration of political and economic weaknesses in Africa. Thus, under the guise of establishing an attractive investment climate for foreign investors, South Africa was securing economic gains for its own firms. Regardless of its intentions behind NEPAD, the state succeeded in attaining the necessary support for NEPAD, thereby allowing the benevolence of its hegemony to radiate. In essence, Africa's hegemon has revealed attributes of both benevolent and selfish hegemony. Ultimately, however, the acts of benevolence still serve the interests of the states. Providing public goods and positive sanctions, and guaranteeing cooperation serve the interests of businesses and the state. As a result, the self-serving, realist appetite of the state is boosted by feigning benevolence. Within the inter-state system, states seek to safeguard their interests; as a result, the approach assumed by South Africa is not exclusive to South Africa but is a universal phenomenon.

6.5 Conclusion

The international financial architecture perpetuates the marginalisation of African states in an era of globalisation. The underdeveloped and impoverished continent is an unfavourable location for foreign investment due to economic and political instability. South Africa has assumed a leadership role on the continent and, under the promise of enhancing Africa's portion of FDI inflows, it is creating an enabling business environment for its own firms. The continental hegemon may, therefore, be accused of similar exploitation to the North. The fact remains that it is imperative that African states improve their political and economic structures in order to attract necessary FDI as the continent currently accounts for a minimal percentage of FDI inflows. Although structuralists fear that increased FDI will sustain the continent's dependence on the North, the continent's dire economic situation reveals that a structural relationship with the North may be worthier than persistent marginalisation, poverty and underdevelopment. South African efforts at promoting FDI may eventuate in economic growth for both South Africa and its continental counterparts – thus, its self-serving actions may be advantageous to Africa.

Section 3

Section three of this dissertation comprises chapters 7 and 8. Chapter 7, ‘Assessment of South Africa’s ideologies and hegemony’, summarises the results of this research pertaining to the theoretical assessment of South Africa’s endeavours in international trade, debt relief and promoting FDI inflows to the continent. Moreover, it provides an evaluation of South Africa’s hegemony, i.e. whether South Africa is a benevolent or selfish hegemon in the African political economy. Chapter 8 concludes this section with the main findings, results and implications of this study, and a discussion of issues for future research.

Chapter 7: Assessment of South Africa's ideologies and hegemony

Introduction

This chapter evaluates and assesses South Africa's hegemonic position in Africa. The previous chapters on trade, debt and FDI illuminated the role South Africa is assuming in the international political economy, and the function that the state has accepted regarding the representation of African interests (in rhetoric at least). This chapter is divided into two sections: the first is an analysis of South African hegemony in terms of the three leading theories of international relations (i.e. liberalism, realism and structuralism), and the second section is centred on an analysis of the type of hegemony South Africa has practised (i.e. benevolent or selfish). As both sections confirm, South African leadership cannot be categorised as being congruent to only one theory or one type of hegemony. Instead, in both theory and classification, the African hegemon's actions are ambivalent, eclectic and contradictory. In rhetoric, the state is the archetype of a benevolent hegemon, envisaging the amelioration of structural inequalities by means of adhering to liberalism. In action, the state is securing its own wealth and power, thus resonating realism and selfishness.

7.1. Three theories of international relations

Liberalism, realism and structuralism can be used to describe the international political economy and South Africa's activities in the global economy. These theories are depicted in the trade regime, the debt crisis and in FDI flows. Similarly, they are illustrative of South Africa's endeavours at placing the continent's interests (as well as its own) on the agendas of multilateral institutions, and in the forefront of bilateral and multilateral dialogue.

7.1.1 Liberalism and economic liberalism in the international political economy

In brief, some of the tenets of liberalism and economic liberalism include an emphasis on freedom, equality, institutionalism, the free market, economic growth and welfare, free trade, and open markets. Liberalism prioritises the individual and considers multilateralism a solution for maintaining international peace and prosperity. In the international political economy, institutions were created with the aim of promoting a liberal economic order. In line with the United States' aspirations for liberal multilateralism, the WTO, IMF and World Bank were established. Moreover, the creation of such entities was expected to ensure international peace and prosperity as a result of institutionalism, interdependence and internationalism. However, these institutions are not reflective of liberalism in their daily functioning. In contrast, they sustain the global inequalities described by structuralism. Liberalism necessitates freedom, equality, and a struggle for consensus. These institutions are dominated by powerful actors in the political economy (notably the quad) and as a result, the desired struggle for consensus is instead replaced by a struggle for power and prestige (thereby reflecting mercantilist priorities). There is, in addition, a discernable void in terms of equality in these entities. As voting is often determined by economic size, the wealthier, dominant states retain control of these organisations, thereby undermining the liberal obligation to equality. This is illuminated by the following example: in the IMF, the quad (viz. the United States, EU, Canada and Japan) retain 56.06 percent of the votes; African states collectively account for merely 6.37 percent (IMF, 2004b).

Liberal states are, additionally, relied upon to promote the free market and ensure minimal state intervention in economic activities. The structural adjustment programmes endorsed by the IMF and World Bank stipulated the need for economic liberalisation in states of the South as a means to redress mounting debt; economic reforms included trade liberalisation, economic decentralisation and privatisation. With regard to free trade, one would expect the dominant forces in the global economy to advance this objective. However, the opposite has been realised. Renato Ruggiero, Director-General of the WTO, stated: 'As the Ministers [of the quad] point out, there is a vital and urgent need to broaden support for the multilateral system and trade liberalisation' (WTO, 1995). This rhetorical devotion to liberal multilateralism is not mirrored in the actions of these states. Rather, the United States and EU member states are guilty of subsidising farmers[35], Japan has subsidised industries such as electronics and robotics, and dumping, import restrictions and the creation of cartels are synonymous with these entities. As Spanu (2003) wrote, 'there is more understanding in the world that the [industrialised] countries' protectionist trade policies are at the expense of developing countries'.

Liberalism additionally advocates economic growth and welfare. And in line with Rawls' desire for liberty, at an individual level, redistribution is acceptable as a means to help maximise 'the position of the least well-off' (Simkins, 1998:69). This is, however, not transposed to an international level as developed economies do not act to maximise the position of least-developed states. Instead, impoverished states are transferring limited financial resources to international creditors in the form of debt servicing. Failure to repay debt has led to exclusion from international institutions, evident in Liberia's suspension from the IMF in 2001 due to its inability to service financial obligations. Thus, economic growth and welfare are unattainable due to the transfer of payments from developing and underdeveloped states. FDI has immense gains for peripheral states. These resource flows can facilitate economic growth and, ultimately, socio-economic betterment. However, FDI flows occur primarily between developed economies. Peripheral states have attempted to create investor-friendly climates and incentives for investors, often under the guidance of the FIAS and IFC. Despite this, states in Africa suffer from the persistent marginalisation of the South. Between 1998 and 2000, African states accounted for only 0.8 percent of FDI inflows (UNDP, 2004a). Thus, economic growth and welfare – ideals of liberalism – remain ideals.

7.1.1.1 South Africa: an upholder of liberalism?

As the continental hegemon, South Africa internally practices political liberalism. Despite its history of repression and inequality, the state was exemplary in its transformation and is now measured to be a free state[36]. Internationally, the South African government is pressing for the liberalisation of the international financial architecture as promised under

[35] According to E. C. Pasour, Jr. (2004), farming subsidies in the United States amount to $20 billion annually; in the EU, farming subsidies equate to €45 billion.
[36] Measured by Freedom House's annual survey; Freedom House, 2003.

the international hegemon's (the United States') suggestions for liberal multilateralism. Mbeki and his ministers have addressed various actors in the global economy and, as Mbeki (2002:114) stated, 'We recognise the need to democratise decision-making in the international arena. This includes, as a priority, the restructuring of key multilateral organisations such as… the international financial institutions and international trade organisations'. The South African government's stance on reform is consistent with the liberal requirement of a struggle for consensus rather than a struggle for power and prestige.

South Africa is, furthermore, urging adherence to liberal tenets of free trade, open markets and the ensuing economic growth and welfare. The state has signed free trade agreements with members of SACU, SADC and the EU. It has criticised the protectionist policies of the developed world. Sipho Pityana, Director-General of Foreign Affairs, asserted:

> We therefore also call for the full implementation of the Uruguay Round commitments to dismantle trade barriers…. [What we are] calling for are enhanced export opportunities for developing countries and improved market access, in order that they might improve their living standards through strong export growth [at] the levels enjoyed by the industrial world (quoted in Nel, Taylor & van der Westhuizen, 2001:71).

7.1.2 Realism and mercantilism in the international political economy

Developed states in the international political economy act to preserve power and accumulate wealth. Thus, their actions reflect realism. As realists prioritise the state, and the protection of state sovereignty, interdependence undermines these objectives. The accumulation of power and wealth expedite the safeguarding of the state. As realists consider international interactions to be asymmetrical and international competition a zero-sum game, they act to protect domestic industries and assist firms in attaining the competitive edge in international markets. In short, protectionism is cardinal. In contrast to liberals, realists consider international institutions to be ineffective. The undemocratic nature of international financial institutions – such as the IMF, WTO and World Bank – necessitated the creation of an institution that represented developing states (i.e. UNCTAD). Thus, the absence of representivity in the international institutions, and the ability of developed states to further their interests through these organisations, illustrate the ineffectiveness of international institutions despite their ostensibly lofty ideals.

In the international political economy, protectionism is manifest. The prominent actors in the trade regime have been criticised for agricultural subsidies, dumping, and import restrictions. Their actions are reflective of a zero-sum game. Moreover, as they are dominant in the WTO (and account for two thirds of world trade) their actions support the 'no effect thesis'[37] of international institutions. The quad has successfully translated their relative wealth into power, and have utilised this power to set the agenda of the WTO, World Bank and IMF. In short, international institutions do not promote liberalism but perpetuate the wealth and power of the quad. In addition to being the greatest trading entities in international trade, the quad (and other developed economies) further accumulate wealth (and power) through FDI. Since the mid-1980s, the United States, Japan, and three members of the EU (Germany, France and Britain) accounted for 70 percent of investments and were host to 57 percent of parent corporations (Balaam & Veseth, 2001).

7.1.2.1 South Africa: prioritising and protecting the state?

Rhetorically, South Africa is the archetype of a liberal state. However, if one considers the actions of the state, it is apparent that South African leaders seek to safeguard sovereignty by maximising wealth and power. The state is a powerful economy on the African continent and although its trade agreements, requests for debt relief and endorsement of an investor-friendly climate in Africa reflect liberalism, they serve the interests of the state.

South Africa has signed free trade agreements with the EU, SADC and SACU. The trade agreement with the EU has immense benefits for South Africa: the state will have access to the mammoth European markets. Despite asserting its commitment to the Southern African region, South Africa's free trade agreement with the EU has some significant negative bearings on the continent. Domestic producers will be unable to compete with subsidised European producers; infant industries will be unable to enter this highly competitive market; and as SACU states are dependent on tariffs for revenue, the trade agreement will reduce revenue accrued by Botswana, Lesotho, Namibia and Swaziland. Thus, South African free trade agreements are not consistent with the government's

[37] See Chapter 2, page 23.

rhetorical loyalty to the continent as South Africa appears to be the only state that reaps rewards from the South Africa-EU trade agreement. In short, this is reflective of realism: South Africa is prioritising its own interests (often at the expense of other African states), and the ensuing returns from the agreement will naturally amplify South African wealth and power.

In terms of representing African interests in international trade, South Africa is, once again, acting in accordance with its tacit realist aspirations. The state espoused unified efforts by African states, cooperation and consolidation. Yet the WTO's 1999 Seattle talks indicated the contrary. Erwin's (South Africa's Minister of Trade) participation in exclusive Green Room talks, and his dismissive response to African representatives, illustrated that the state did not consider the needs of the continent. Rather, South Africa representatives prioritised their own state. Furthermore, the inclusion of South Africa in these talks demonstrated that the developed world regards South Africa as the African powerhouse and acting as spokesperson for the South serves South Africa's interests as the state is perceived as being a credible ally of the developed world in the developing world.

Advocating debt cancellation for Africa appears to be an act of altruism on the part of South Africa. However, if one considers the returns that South Africa may derive if Africa's external debt is cancelled, it is evident that this advances South African interests. First, South African endeavours for debt relief enhance the state's power. The developed world considers South Africa a credible ally and dominant power on the continent. Moreover, the state's power on the continent will escalate if debt relief is granted as South Africa's 'benevolence' will ensure that African leaders are (morally) indebted to South Africa for its efforts at assisting in debt relief and the subsequent socio-economic improvement. Second, the economic gains for South Africa cannot be disregarded. As South Africa is one of the greatest trading states and sources of investment in Africa, it follows that debt relief will unlock financial resources that will potentially enhance South African trade as more resources will be accessible for imports. Third, as the South African government asserted, debt relief for South Africa will impede FDI inflows due to poorer credit ratings. South African ventures aimed at achieving debt cancellation for Africa will eventuate in poor credit ratings for African states. Foreign investors will, consequently, invest in states with better credit ratings, and the ideal location will then be South Africa. This will similarly facilitate the expansion of South African firms which are less risk averse (evident in their extensive presence in politically and economically unstable African states) and are likely to gain from the implementation of incentive structures adopted by African states.

South Africa's position as a leading recipient of FDI and a cardinal investor in Africa further explains its realist aspirations. The state is profiting from both inflows and outflows of goods and services. South Africa's dominance has warranted fears of economic colonisation by the continent's hegemon. South Africa stands to profit from FDI outflows as businesses access vast, underdeveloped African markets. Although African states stand to gain from the presence of South African firms (such benefits include employment, access to advanced technology and managerial expertise), FDI outflows can prove to be the catalyst for economic growth within the home state and the process of internationalising production ensures global integration. Moreover, the diffusion of internationalised products will result in the creation of 'a world citizen with modern tastes and habits' (Balaam & Veseth, 2001:355). These tastes and habits will allow for further expansion of South African firms into Africa.

In brief, South Africa exhorts liberalism and economic liberalism, but its behaviour indicates that it is essentially concerned with state power and wealth. Despite its liberal rhetoric, its actions are synonymous with realism. The state is positioned to profit from a liberal trade regime and the adoption of liberal trade policies in Africa; it is set to gain from debt relief for the continent; and FDI will further economic growth in South Africa and profitability for South African firms. In an anarchic world system states need to act to preserve sovereignty by attaining and maintaining wealth and power; South Africa is incontestably doing this.

7.1.3 Marxism and structuralism in the international political economy

Marxists and structuralists are apprehensive about the exploitative economic structures at both the state and international levels. Central to this ideology is the division of the world system into the core and periphery, and the North and South. It is in the interests of the North to maintain this structural divide in the international system as this reinforces the North's accumulation of wealth and power. Capitalism is perceived as being the driving force behind this unequal structure; and fundamental to structuralist thinking was the notion that while capitalism does develop the world, this developmental process is uneven. FDI, trade and debt were identified by Balaam and Veseth (2001) as ties that link the South (periphery) to the North (core). There exists a relationship of dependency between the North and the South due to uneven development, mounting debt, inadequate FDI inflows, and unfavourable terms of trade and protectionism. Moreover, international financial institutions perpetuate this structural relationship between the North and the South as developed states make use of these institutions to further their own interests, thereby undermining the needs of the South.

Within the international trade regime, the North accounts for the greatest proportion and is the leading beneficiary of global trade. In 2002, the quad accounted for approximately 60 percent of exports and 65 percent of imports, and was clearly ranked among the leading importers and exporters (WTO, 2002). These states additionally dominate the WTO, which allows them to exploit the international trade regime to serve their interests. The WTO was established with the intention of securing free trade, but as this did not benefit the quad, pledges of free trade have been altered to fair trade. This allows the quad to implement protectionist policies which further exacerbate the division between the North and the South. Protectionism in the North, coupled with enforced liberalisation in the South (as part of structural adjustment programmes), prevent the South from participating on an equal footing in international trade. Hence, this imbalance, combined with the superiority of the quad and its immense powers in the WTO, guarantee the continuation of a structural relationship between North and South.

As African states continue to transfer limited resources to the North in the form of debt repayments, structuralism is an outcome of the debt crisis. The accumulation of debt has constituted a relationship of dependency between the North and the South. External debt has resulted in transfer flows from the South to the North in the form of debt servicing: the South could be utilising this capital for social and economic development, but due to irresponsible lending and borrowing, resources are flowing in the opposite direction. Thus, the debt crisis has perpetuated the structural arrangement of the global economy. States of the South are dependent on FDI for development, and foreign investments foster a relationship of dependency between home and host states, thus

FDI additionally reflects structuralism. FDI flows occur chiefly between developed states, and although structuralists are opposed to FDI (as they fear host states will become increasingly dependent on home states), leaders of the South have acknowledged that FDI inflows will assist development due to job creation, access to technological innovation, managerial expertise, revenue accrued through the taxation of foreign firms, market access and integration into the global economy.

In short, the international system is characterised by the structural imbalances between the North and the South. Self-serving powers in the system exploit the international financial architecture to serve their interests; these interests are antagonistic to the needs of the South. As a result, supposed liberal institutions are instrumental in the perpetuation of structuralism in the global economy. Moreover, structural inequality is not confined to one area of the global economy but is evident in trade, debt and FDI.

7.1.3.1 South Africa: ardent champion of structuralism?

The South African government has been outspoken in its criticism of the structural relationship between the North and the South, and the role international institutions are playing in maintaining this relationship. It has utilised its concerns with the structural divide to unite the African continent. Moreover, NEPAD was designed in reaction to the disparities between the North and the South. Resonating Marxism, the following passage from NEPAD reiterates African apprehension regarding the international system:

> The poverty and backwardness of Africa stand in stark contrast to the prosperity of the developed world. The continued marginalisation of Africa from the globalisation process and the social exclusion of the vast majority of its peoples constitute a serious threat to global stability (NEPAD, 2001:1).

South African leaders have been prominent in their commitment to the reform of international institutions such as the WTO, World Bank and IMF. The South African Department of Foreign Affairs asserted that it seeks the democratisation of the WTO, the preferment of equality of all members, and compliance by all member states with the rules and regulations of the WTO. In addition, Minister of Finance Trevor Manuel signalled his unease with the preferentiality in the World Bank and IMF and stated that the success of these institutions is imminent ‘if they become more representative of the client base that they serve' (Manuel, 2000a). President Mbeki and his ministers have repeatedly petitioned for the reform of international institutions, expressing their trepidation regarding the structural arrangement of the global economy and the role these institutions are playing in preserving this arrangement.

South Africa is seeking the integration of African economies into the global economy. By advocating liberal principles of trade liberalisation, privatisation, deregulation and liberalisation of the business environment (in its own endeavours and in its capacity as a designer of NEPAD) coupled with reform of international institutions, and debt relief, South Africa is attempting to assist African states in procuring increased market access, a favourable trade regime, increased FDI inflows and, ultimately, reduced dependence on the North and diminish disparities between the North and the South.

However, there are concerns that South Africa's dominance on the continent will result in a structural relation between the continent's hegemon and the rest of the continent. South Africa is paramount in international trade, it possesses the means to service external debts and it is a vital source of FDI for African states. Nevertheless, the extensive presence of South African corporations in Africa may lead to a relationship of dependency between home and host states, i.e. the dependency of other African states on South Africa. South Africa, furthermore, aims to differentiate itself from the continent. It is an ally of the developed world, it has favoured free trade agreements with the North, it has participated in exclusive trade talks, and it has assumed a leadership role on the continent. As stated by Raymond Parsons of the South African Chamber of Business (quoted in Nel, Taylor & van der Westhuizen, 2001:52), 'In light of South Africa's efforts to differentiate itself from other emerging markets, it is doubtful that we would want to be lumped with highly-indebted countries'. He added that 'South Africa is unique and should act accordingly'. A quote from Finance Week (in Nel, Taylor & van der Westhuizen, 2001:52) reaffirmed the divergence between South Africa and Africa: South Africa's differential treatment from the rest of Africa was deemed 'appropriate if South Africa is to be distinguished not only from other emerging markets but also from the chaotic proto-economies of sub-Saharan Africa'.

7.1.4 The eclectic nature of South African endeavours

To summarise, South Africa has adhered to features of liberalism, realism and structuralism. The state has adopted tenets of political liberalism, and has endorsed economic liberalism for both itself and the continent. Regardless of rhetorical loyalty to liberalism, South African endeavours in trade, debt and FDI serve the interests of the state. The reform of institutions, cooperation of the South, liberalisation of African economies, reduced protectionism by the North, and debt cancellation will boost the accumulation of wealth (and consequently power) for South Africa. The state is acquiring backing from Africa based on its rhetorical concerns with the structural arrangement of the world economy, and South African leaders have been forthright in their desires to reform structural prejudices in the world economy. South Africa is gaining eminence as both an ally of the North and a leader of the South. South African representatives are advocating liberalism and structuralism in rhetoric; in practice, they are aspiring towards realist ideals. To conclude, by advocating liberalism as a means to redress structuralism, South Africa is simply safeguarding the realisation of realist objectives.

7.2. South African hegemony

In line with the cyclical nature of hegemonic stability theory, the ascendance of South Africa as Africa's hegemon occurred at the cessation of the Cold War and the demise of apartheid in South Africa. Thus, a period of instability on the continent was succeeded by the rise of a hegemon. Although security and prosperity in Africa are yet to be attained, the South African government has actively sought peace, and political and economic stability on the continent. South African engagement in peacekeeping, mediation and negotiation as a resolution to conflict, the endorsement of economic liberalism as a means to generate economic growth and prosperity, and the design and ratification of NEPAD (a plan to redress political and economic weaknesses so as to produce security and prosperity) are reminiscent of hegemonic activity as they reflect the objectives of hegemonic stability theory. The regional hegemon is additionally interested in the provision of public goods, including an open and free trading system, peace, stability, security, and a sound system of international payments. This is apparent in South Africa's efforts at reforming the trade regime so as to benefit African states, advocating open markets and free trade by African states, promoting sound balance of payments by attaining debt relief, and achieving peace, political and economic stability and security by gaining patronage for NEPAD. Although South Africa is not purely benevolent or selfish, the state is unequivocally the dominant power in Africa. Consistent with Adebajo and Landsberg's (2003:173) definition of hegemony, South Africa possesses 'a preponderance of power in the... regional subsystem' and is able 'to single-handedly dominate the rules and arrangements by which… regional political and economic relations are conducted'.

7.2.1 South African benevolence

In brief, benevolent hegemony is characterised by unilateral cost absorption, application of positive sanctions (rewards), influence based on cooperation, and it is resonant of liberalism (Odén, 2001; Gadzey, 1994; Rapkin, 1990). South Africa has absorbed costs relating to trade, debt and FDI. These costs are both tangible and intangible. Tangible costs included hosting and participating in international talks aimed at redressing inequalities in the trade regime, debt relief and promoting FDI to Africa. South Africa has unilaterally absorbed the costs of engaging in dialogue, and mediating and facilitating negotiations in the matter of reform to the international economic structure and the design and implementation of NEPAD. Through South Africa's efforts at trade reform, smaller states are not compelled to absorb costs (which would be characteristic of selfish hegemony). South Africa does not possess the means to cancel Africa's debilitating debt burden, thus the costs absorbed pertaining to the acquisition of debt relief are intangible. Intangible costs include the advocacy of a free and fair trade regime, petitioning for debt relief for African states, and the creation of NEPAD (a plan to enhance FDI inflows to Africa). Thus, the African hegemon has unilaterally absorbed the costs of representing African interests in multilateral and bilateral fora; and in contrast to selfish hegemony, it has not put the onus on other African states to absorb the costs associated with the provision of public goods.

South Africa has utilised positive sanctions to attain support for its endeavours in trade, debt and FDI. The first example of positive sanctions relates to the establishment of a free trade area with SADC members and the eventual creation of a common market. As

African states adopt liberal economic policies, they will benefit from free trade with South Africa as the largest market on the continent. The second example of South Africa's employment of positive sanctions (which will enhance its power and influence at both a continental and international level) is manifest as African states stand to profit from South Africa's advocacy of institutional reform, free trade, debt relief and increased FDI. The third illustration pertains to debt cancellation, and support for South Africa's leadership role will encourage South Africa to act on behalf of African states. Furthermore, debt relief will allow resources to be utilised for social and economic development rather than for debt servicing. Positive sanctions are additionally evident in the rewards for political and economic reforms in Africa. States implementing liberal policies approved by South Africa stand to benefit from the expansion of South African firms into African states as these firms will bring employment, technology, and expertise and provide revenue (from taxation), market access and integration.

The African hegemon's leadership has been converged on cooperation and consensus. Through the revision of the SACU agreement, South Africa is endorsing democratisation and reducing South African dominance in the Customs Union in order to guarantee that decision-making and trade negotiations are consensual. Debt reduction and demands for equal participation in the IMF and World Bank have been facilitated by South Africa's desire for a cooperative outcome. As Mbeki (SARPN, 2004c) stated, 'a stronger voice of developing countries in the Bretton-Woods Institutions cannot be separated from our efforts to ensure that Africans do, themselves, speak with a unified voice on all the challenges that face our continent'. With regard to FDI, South Africa relied on cooperation: the creation of NEPAD underlined the power that South Africa possesses and how it utilises this power to ensure that African states adopt South African-endorsed liberal principles. Voluntary accession reflects consensus.

7.2.2 South African selfishness

Selfish hegemony is characterised by the sharing of costs, the use of negative sanctions, and coercion and control. It additionally reflects realism (Odén, 2001; Gadzey, 1994; Rapkin, 1990). South African trade agreements have had negative implications for

African states and have, therefore, resulted in the involuntary cost absorption by these states. The South Africa-EU Free Trade Agreement has been a burden to SACU states as these states will lose revenue generated from tariffs as a result of the agreement. Furthermore, as South Africa pledged the reduction of barriers to textile imports from SADC states as a part of the SADC Free Trade Agreement, SACU states are, once again, compelled to follow South Africa and face a reduction in revenue from tariffs. SADC states will bear the costs of South Africa's free trade agreement with the EU as these states will be unable to compete with cheaper imports from European producers and, as South Africans are expected to purchase cheaper European imports, African states will shoulder the costs of increased competition.

Costs accruing to African states are not just apparent in international trade but also in debt and FDI. South Africa has opposed cancellation for its own external debt under the Odious Debt doctrine as it fears that the outcome will be reduced FDI inflows due to the accompanying credit risk perceptions. However, South Africa continues to advocate debt relief for African states. The costs of this debt cancellation may, therefore, be declining credit ratings, and consequently, reduced FDI. Hence, although states will not have the burden of servicing debt, they may face declining FDI inflows which are essential for development.

South Africa has employed control and enforcement as a means to generate support for its own aspirations. The free trade agreement with the EU stipulated the enforced elimination of tariffs by all SACU states, and as this agreement involved South Africa and the EU, Botswana, Lesotho, Namibia and Swaziland were excluded from negotiations; thus, the agreement was not consensual. During the Seattle Round, South Africa's exclusive participation in Green Room talks once again denoted enforcement as discussions that took place without input from the majority of African states cannot be considered cooperative or consensual. African leaders were concerned that their interests were not considered during these talks and Erwin (in Bond, 2004:53) dismissed the needs of these states, declaring that they 'articulated very basic positions'.

The apprehension of African representatives during the Seattle Round indicates enforcement and the absence of consensus was palpable in the statement by Vijay Makhan (African Union commissioner for trade, industry and economic affairs):

'Everybody knew the African position. But what disturbed us was that it was not taken onboard' (in Bond, 2004:64). Control in international trade was similarly apparent during the Doha Round when

> [Erwin] advised [the African, African-Caribbean-Pacific, and LDC bodies] that they had no choice but to accept the text, which was "the best possible outcome for them in the circumstances". According to participants and eyewitnesses, there were a number of angry responses to the South African minister, some even asking rhetorically who he represented and whose interests he was serving (quoted in Bond, 2004:54).

7.2.3 Africa's vacillating hegemon

It is apparent that South Africa, acting as the continental hegemon, has been both benevolent and selfish. South Africa has absorbed a great proportion of costs, but the implications of its free trade agreements and deteriorating credit ratings from debt relief have affected smaller African states and resulted in shared cost absorption. The state has applied positive sanctions, resembling benevolent hegemony. Perhaps out of fear of association with the apartheid regime, the state has not employed negative sanctions. Even when other states have completely disregarded continental and regional agreements (such as Zimbabwe), the South African government has opted for quiet diplomacy rather than negative sanctions. On the whole, South Africa has sought consensus for its actions and policies. The exception to this has been South Africa's exclusive engagement in trade talks (i.e. in Seattle and Doha) where African interests were not portrayed and African leaders indicated their apprehension over to the absence of consensus and cooperation. South Africa has recognised that the development of Africa will favour its own accumulation of wealth and power.

As South Africa is economically superior, it has the greatest vested interest in a cooperative outcome, and the attainment of prosperity in Africa. Although the state is not exemplary of a benevolent hegemon, on the whole it has appeared to act in line with Balaam and Veseth's (2001:58) definition of a benevolent hegemon, i.e. it is steered by enlightened self-interest as its own interests can be served by maintaining the prosperity and security of the continent. There is, however, a significant indication of selfish hegemony. As selfish hegemony emulates realism, and, as South Africa is incontrovertibly striving to maximise wealth and power, in essence, the African hegemon is selfish. South Africa prescribes liberalism to challenge structuralism but this is done with South Africa's interests at heart. Considering South African fears of bullying and coercive policies similar to the apartheid administration, it is in South Africa's interests to operate in a benevolent manner. And under this guise of benevolence, South Africa is able to achieve its selfish objectives.

7.3. Conclusion

South Africa cannot be categorised as a liberal state, nor can it be regarded as a benevolent hegemon. Moreover, it is neither the prototype of a realist state or a Marxist state, nor can it be judged a selfish hegemon. In essence the Africa hegemon displayed diversity. Its political ideologies denote liberalism; apprehension regarding the global economy reflects structuralism; and its unspoken desire for wealth and power echo realism. Similarly, its realist aspirations impede its classification as a benevolent hegemon, yet striving for consensus and employing positive sanctions represent benevolence. South Africa has, however, both spoken and acted in a manner that mirrors Balaam and Veseth's (2001) definition of benevolent hegemony. The state unquestionably acts in line with realism as its actions facilitate its accumulation of power and wealth. Although the state is set to profit from its international and continental endeavours at uniting, representing and assisting African states, the development of Africa will secure South African interests. Thus, as Africa's hegemon, South Africa is willing to assume a pivotal role as its own fate is bound to the development of peace, economic growth, stability and development in Africa.

> The benevolent hegemon bears most of the costs of maintaining this system but also reaps most of the gains, since its own success is so tightly bound to the success of its partner nations. The hegemon is guided by enlightened self-interest – its self-interest is best served by maintaining the security and prosperity of others (Balaam & Veseth, 2001:58).

Chapter 8: Conclusion

The purpose of this study was to identify whether South Africa is a benevolent or selfish hegemon in SADC, and in Africa in general. Within the theoretical framework of liberalism, realism and structuralism, South Africa's hegemony was analysed and explained in terms of a set of indicators related to the international political economy, i.e. trade, debt and FDI. This was done by answering the following questions:

- Does South Africa have the capacity and desire to fulfil a hegemonic role in Africa?
- Does South Africa act in compliance with liberal, realist or structuralist values?
- How has South Africa served African interests in international trade, debt cancellation and FDI?
- How has South Africa benefited from its endeavours in international trade, debt relief and in its promotion of FDI?
- How has South Africa acted in apparent contravention of broader African ideals?
- Is South Africa acting in a benevolent or selfish manner in its role as Africa's hegemon?

8.1 The main findings

The findings of this research are provided in point form and each of the above-mentioned questions is answered below.

South Africa's capacity and desire to fulfil a hegemonic role in Africa

- The South African government made known its reluctance to assume a hegemonic role in Africa as it feared association with the former apartheid regime. However, leaders of the state acknowledged that the fate of South Africa was bound to the fate of the continent, thus the state could not disregard its responsibility to the rest of Africa. Hence, despite its initial unwillingness, the desire to assume a hegemonic role has prevailed as South Africa has recognised that its prosperity is dependent on the continent.

- South Africa is both the economic and military giant on the continent. The state's population equates to 5 percent of the total population of sub-Saharan Africa, and South Africa's GDP is equivalent to 44 percent of the total GDP for the sub-Saharan region. South Africa is the leading trading state in Africa and is both a major recipient of FDI and the cardinal investor in Africa. With regard to military expenditure, the total for the state was commensurate with total military expenditure of the SADC region; and the government planned to acquire aircraft, ships and ground to air missile systems, thereby expanding the capabilities of the South African military. South African troops have, additionally, been deployed to assist in peacekeeping missions around the continent. Thus, as the economic and military powerhouse in Africa, South Africa possesses the capabilities necessary for hegemony.

- Hegemony is synonymous with the provision of public goods. Although South Africa does not possess the means to unilaterally absorb the costs of providing public goods for Africa, it has played an invaluable role in reforming the international trade regime to enhance African exports; it has urged international creditors to cancel Africa's debilitating debt burden (thereby allowing resources that are wasted on debt serving to be efficiently allocated to address socio-economic problems in Africa); the state was influential in the design of NEPAD which – if implemented correctly – will create an investor-friendly environment in Africa, resulting in escalating FDI inflows; and it is a vital source of FDI inflows to Africa.

- Consistent with hegemonic stability theory, South Africa arose as Africa's hegemon following a period of disorder, namely the Cold War and apartheid. As manifest in NEPAD (entailing good governance, conflict resolution and sound economic policies), the state is aspiring to secure stability and prosperity. This is illustrated by the South Africa's engagement in the mediation and negotiation of continental conflicts and in its capacity in promoting trade and FDI and cancelling debt. Thus, out of a period of disorder, South Africa arose as Africa's hegemon and appears to be willing to supply public goods that will ensure the attainment of peace and stability.

South Africa's compliance with liberal, realist and structuralist tenets

Liberalism

- South Africa is an ardent pursuer of political liberalism. It has transformed from a repressive, segregationist state to a democratic one that advocates human rights, equality, freedom and tolerance, and possesses one of the most liberal constitutions worldwide. It is active in various regional, continental and international organisations. In terms of economic liberalism, South Africa is considered an open economy and it is a supporter of free trade.

- South Africa is seeking the reform of the international financial architecture as these institutions do not ascribe to liberal tenets of equality and democracy. The WTO, IMF and World Bank were established in line with the United States' backing of liberal multilateralism but these institutions currently appear to serve the interests of the dominant powers within them. South Africa has called for a unified South to tackle the inequality and imbalances that are characteristic of these organisations. South Africa aspires to attain a system of 'one state, one vote' (DFA, 2001). South African leaders have been engaged in dialogue with both the North and the South pertaining to the exclusionary, biased nature of international organisations and the need for transformation consistent with democratic values of equality, freedom and fair representation.

- Within Africa, South Africa has recognised that to expand its own access to foreign markets, and enhance FDI inflows, African states should endorse both political and economic liberalism. Thus, South Africa advocates good governance and, through NEPAD, has indicated its commitment to democratic values, protection of human rights, good governance, conflict resolution, protection of the rule of law, economic growth, sound monetary and fiscal policies and solid economic management. Moreover, South Africa's free trade agreements with SACU and SADC underline its dedication to free trade and open markets.

Realism

- In practice, South Africa appears to pursue realist goals. The state is the dominant economic and military power on the continent; reflecting realist thinking, South Africa is able to safeguard its territory and sovereignty due to the accumulation of wealth and power. The state yet to privatise paramount state-owned assets, thereby demonstrating that the state is still a relatively powerful force in the economy. Moreover, these state-owned enterprises are facilitating South Africa's accumulation of wealth by expanding into African states.

- South Africa's engagement in the reform of international trade structures serves the interests of the state and will assist in the attainment of wealth and power. South Africa has played an influential role in South-South cooperation as a means to redress the dominance of the North in international trade. Mbeki (2002) stressed his commitment to strengthening 'regional and continental cooperation and unity'. Thus, South African power may escalate as South Africa assumes a leadership position in the global South. South Africa's actions have been contradictory – thereby signifying that the state is acting in its own interest – and during the trade talks in Seattle in 1999 it aligned itself with the G-20 bloc rather than with the African bloc (therefore, disregarding its loyalty to a unified South). Furthermore, South African representatives were involved in exclusionary Green Room talks, during which South African interests were advanced. South African trade agreements have been of additional benefit to the state. Despite the implications for the rest of the continent, South Africa stands to gain from a free trade agreement with the EU as it will have access to vast European markets and cheaper imports from European producers.

- South Africa is pressing for international creditors to cancel Africa's external debt. Success in its endeavours would result in an escalation of South

Africa's power as the state will be recognised as both a champion of African interests and an ally of the North. The state additionally stands to gain from the unlocking of resources that were previously utilised to service debt repayments. Moreover, as the state has differentiated itself from the continent regarding debt relief, it will benefit from maintaining good credit ratings, while other African states may witness the deterioration in credit ratings from debt relief. Consequently, South Africa will be a preferred destination for FDI inflows in Africa.

- South Africa is both a leading recipient and a major source of FDI. In line with realist ambitions, the state has the potential to amplify its wealth due to the extensive presence of South African firms in Africa (including state-owned enterprises). Economic growth has been identified as a product of FDI for the home state; hence, South Africa is set to amass wealth from its investments on the continent. Moreover, if NEPAD is successfully implemented by African states, South Africa's power will escalate. Similarly, NEPAD aims to enhance sustainable economic growth, thereby contributing to a rise in economic growth in South Africa.

Structuralism

- As exemplified by South Africa's engagement in dialogue with a variety of international actors, its concerns with the structural nature of global economic interactions has ensured that the reform of this structural arrangement has been a priority on South Africa's agenda. The state has acknowledged that the African continent cannot experience adequate economic growth if it is marginalised in the world economy. The global economy is characterised by a division between the North and the South; the core and periphery. Clearly, African states are, on the whole, classified as peripheral states. Consistent with a definition of the world system theory, African states are sources of raw materials and cheap labour, and they are becoming poorer as the wealthy states of the North become richer. Similarly, reflecting the effects of dependency on the North, African states endure the following: reliance upon the export of raw materials, intra-state socio-economic problems, insufficient technological innovation and entrepreneurship, and dependence on foreign capital.

- International institutions appear to perpetuate the structural tendencies of the global economy. Within the WTO, IMF and World Bank, the dominant actors of the North possess both structural and relational power. They determine the rules of the game and set agendas according to their own interests. Voting power within these organisations assists the power the North wields as voting rights are based on economic size, and economies of the North are far greater than those of the South. Within the WTO, the North (particularly the quad) appear to be exempt from WTO rules as they continue to utilise protectionist methods; in the IMF, the North is able to determine the economic policies implemented by the South as aid is tied to conditionalities; in the World Bank, this specialised development agency requires policy implementation congruent to the IMF. Thus, the existence of liberal multilateralism is questioned as the North exploits international institutions to serve its own interest, thereby preventing equal participation and sustaining structural imbalances. Hence, South Africa has been an ardent supporter of the reform of these institutions so as to reduce the structural disparities between North and South. South African leaders have urged the South to unite against the inequalities inherent in these institutions; and South African leaders have been outspoken in their quest for equitable, democratic and balanced organisations that are inclusive of the South.

- The international trade regime is characterised by incongruity. The system has evolved as the promotion free trade has been altered to a commitment to fair trade. The quad continues to employ protectionism to enhance wealth and power. Despite the mercantilist polices of the North, the South is expected to adhere to liberal policies of free trade and open markets; South Africa is thus holding the North accountable to the policies of free trade that it recommends. The South is not enjoying the promised success from liberal policies due to realist policies in the North and the consequent restrictions to market access. The result has been expanded divisions between North and South as the North's share of trade escalates at the expense of the South. In

2002, the quad accounted for 60 percent of exports and 65 percent of imports; African exports equated to 2.2 percent and imports to 2 percent. In response to the indisputably prejudiced nature of the trade regime, South Africa has urged the South to collectively take action against the unfavourable, biased trade regime.

- The debt crisis facing African states was the product of numerous factors, including a worldwide recession, excessive, irresponsible borrowing and wasteful spending. Debilitating debt burdens have necessitated continuous repayments to international creditors, thereby draining African states of already limited economic resources, and sustaining their dependence on foreign aid. Due to this, capital is flowing in the reverse direction; instead of receiving capital for development, African states are transferring substantial portions of their income to service their external debts. The dependence of the South on the North is heightened by the debt crisis. Moreover, the peoples of these states experience inferior socio-economic conditions, and betterment and development are unattainable due to debt repayments. South African leaders have called for debt relief for African states in order to unlock resources for economic growth and socio-economic improvement.

- Structuralists have identified their concerns with FDI as they fear host states will become dependent on home states. However, African leaders have acknowledged that enhanced FDI inflows will provide employment, revenue, modern technology and foreign capital. Hence, numerous states are striving to implement policies that will attract foreign investment. Irrespective of their efforts, there is a structural element to FDI: flows occur principally between developed states. African states' marginalisation is reaffirmed by the following figures: between 1998 and 2000, developing states accounted for 21.4 percent of FDI inflows, African states accounted for merely 0.8 percent of inflows. South Africa was influential in the design of NEPAD and, therefore, in the recommendation of a course of action for African states to attract FDI and reduce structuralism. The programme promotes equality at an international level, and focuses on reducing disparities between Africa and the developed world. However, despite South African efforts at creating investor-friendly conditions in Africa as a means to redress structuralism, the state has been referred to as an economic coloniser in Africa due to the great presence of South African firms in African states. The extensive expansion of South African firms into Africa has the potential to lead to a relationship of dependency between the rest of Africa (as host states) and South Africa (the pre-eminent home state).

Benefits for Africa from South African endeavours in international trade, debt cancellation and FDI

- Africa stands to gain from South Africa's efforts at uniting the South and collectively challenging the prejudicial WTO. South African leaders have used their influence in various organisations (including NAM, UNCTAD, the G-77 and SADC) to forward South-South cooperation in the conviction that a consolidated South will have greater influence in the trade regime. South Africa is additionally advancing reforms in the trade regime and central to the Mbeki Initiative is the desire to hold the North accountable to its free trade rhetoric. Such reforms would enhance the participation of African states in global trade, and advance African interests in the trade system. Moreover, if the North implements the liberal policies it demands of the South, African states will enjoy greater market access and, therefore, an escalation in exports. In the free trade agreement between SADC states, South Africa has considered the needs of its African counterparts: it has initially granted preferential access to South Africa's clothing and textile market, and has promised to eliminate all tariffs by 2007. South African leaders further acknowledged the power the state possessed within SACU and was influential in the reform of SACU to make it a more democratic entity.

- South African leaders have urged the developed world to cancel Africa's debilitating debt burden as these states depend on their already limited resources for socio-economic upliftment and development. The state is pressing for measures that go beyond debt sustainability as a means to eradicate poverty on the continent. Thus, if South Africa's endeavours are fruitful (and assuming African states adopt sound economic policies which South Africa encourages), these states will incontestably benefit from the rise in available resources. Capital will no longer be transferred to creditors in the North, and will be accessible for development and poverty alleviation. The state is, moreover, calling for the reform of the World Bank and IMF as these bodies are not democratic, nor do they represent the needs of African states. Reform will certify that African interests are considered in the global economy and will, therefore, redress the sustained marginalisation of African states in economic interactions and decision-making.

- FDI has been identified as a vital source of capital for African states. This capital can be utilised for development, poverty eradication and economic growth. Moreover, foreign investors render other attractive benefits such as employment, managerial expertise and modern technology. Consequently, African states are set to gain from the implementation of NEPAD and its policies are aimed at developing an investor-friendly climate on the continent. As states adopt policies congruent to NEPAD's requirements of democratic processes, human rights protection, political stability, macroeconomic stability, regulatory frameworks and the rule of law, risks associated with the continent will improve and FDI flows will rise.

South Africa's benefits from its endeavours

- South Africa's role in the unification of the South in trade talks has the potential to escalate South Africa's power in Africa and in the developing world. Moreover, as the state was engaged in exclusionary trade talks in Seattle in 1999, it is apparent that the North considers South Africa a spokesperson and power in the South. South Africa was aligned with the G-20 bloc during the Cancun talks as its concerns regarding unfair agricultural trade practices were better served by this group than the African bloc. South Africa is seeking the implementation of a developmental agenda in the trade regime as this will serve its interests. South Africa's free trade agreements are advantageous to the state: the trade agreements with SACU and SADC members will ensure that South African exporters have access to African markets; the free trade agreement with the EU will allow South African producers to enjoy duty free access for more than 99 percent of industrial exports.

- The cancellation of external debt has been offered to South Africa in terms of the doctrine of Odious Debt. However, the state has declined this cancellation as it believes that debt relief will impact on credit ratings and that the attraction of FDI is preferable to debt relief. Yet, South Africa continues to advocate debt relief for its counterparts. South Africa is, therefore, not concerned with worsening already poor credit ratings in African states. On the contrary, debt cancellation will serve South Africa's interests as superior credit ratings for South Africa itself in Africa will ensure that it is the most attractive location for foreign investments on the continent. The state will additionally gain from debt relief as resources utilised for debt servicing will be available for the import of South African products.

- In their participation in the design of NEPAD, South African leaders were able to create a framework that would serve the state's needs. NEPAD urges African states to reduce perceptions of high risks and implement political and economic policies that resonate good governance and economic efficiency. Thus, South Africa (under President Mbeki's leadership) has led the continent to adopt a programme that promotes security, rule of law, human rights, democracy, macroeconomic stability, and transparent regulatory frameworks for financial markets. The adoption of these policies will have positive implications for South African businesses and for the state, as a stable and prosperous continent provides opportunities for corporate expansion and, therefore, economic growth. Like their international contemporaries, South African firms seek to invest in states with lower risks and NEPAD will facilitate the creation of such an environment.

South Africa's contravention of broader African ideals

- South Africa has acted in contravention of African desires in international trade. Seattle is the superlative example: South African interests did not reflect African interests, and representatives participated in exclusionary Green Room talks (thereby undermining its commitment to equality and democratic processes). Erwin, furthermore, was dismissive of the capabilities of other African leaders. In Cancun, South Africa aligned itself to the G-20 bloc, thereby undermining its commitment to cooperation between and development within African states. The developmental agenda that South Africa is pressing, further undermines its commitment to cooperation and development; African states have not endorsed this agenda as they 'could not cope with and do not want a new a complex multi-dimensional Round' (Keet, 2001). South African trade agreements have negative implications for African states, thereby sabotaging loyalty to African cooperation, economic growth and development. The trade agreement with the EU has severe implications for SACU states as they will experience a decrease in revenue due to the cancellation of tariffs on imports from the EU. Similarly, the South Africa-EU trade agreement will affect all African states as they will be unable to compete in the South African market with cheaper products from Europe

- South Africa – the champion of African unity and the African Renaissance – has differentiated itself from the continent on the issue of debt relief. The state is opposed to the cancellation of its own external debt (which it has been offered under the Odious Debt doctrine) as it has prioritised good credit ratings above debt cancellation. South Africa is set to benefit from its resistance to the cancellation of its own debt and the simultaneous debt relief in Africa as it will enjoy superior credit ratings and will, therefore, be a preferred site for FDI inflows in Africa. Thus, while differentiating itself from the rest of the continent, South Africa may profit from enhanced FDI inflows at the expense of African states. Consequently, the state is contradicting its dedication to unity, equality and sustainable economic growth.

- As South Africa has contravened African ideals of equality and unity as the extensive presence of its firms (including state-owned enterprises) it has been given the reputation of Africa's economic coloniser. There additionally exists a concern regarding the potential structural relationship between South Africa and the continent as South Africa is providing manufactured products to Africa and receiving raw materials, thereby establishing a core-periphery relationship. As quoted in NEPAD, African leaders are pressing for the reversal of the structural arrangement of the global economy. Irrespective of its role in the formulation of NEPAD and, therefore, in its opposition to the structural divide in the inter-state interactions, South Africa appears to be fostering a similar relationship of dependency with other African states. And in contrast to the values central to African unity, South African firms' aggressive approach to FDI led to the following statement by a member of Kenya's parliament: 'they bulldoze their way around the continent. It seems like they still have the old attitudes of the old South Africa' (Daniel, Naidoo & Naidu, 2003:387).

South Africa: Africa's benevolent or selfish hegemon?

- South Africa has portrayed elements characteristic of both benevolent and selfish hegemony. South Africa has adopted an amalgamation of both altruism and avarice as it is in the state's interests to be perceived as a benevolent hegemon in Africa. Thus, South Africa may be regarded as Africa's vacillating hegemon.

Benevolence

- South Africa has absorbed costs relating to trade, debt and FDI. These costs include hosting and participating in international talks, the advocacy of free trade, pressure for debt relief, and participation in the design of NEPAD. The state has unilaterally absorbed the costs of representing African interests in international fora. South Africa has employed positive sanctions in its endeavours: this is apparent in the establishment of a free trade area in the SADC region, the state's calls for debt relief, and enhanced FDI flows as an outcome of the implementation of NEPAD. South Africa's leadership has, furthermore, been based on cooperation and consensus: this is apparent in the revision of SACU so as to enhance the democratic nature of the Customs Union, in the desire for cooperative and consensual decision-making bodies in international trade and monetary arenas, and in the formulation of an African plan for Africa's economic recovery (i.e. NEPAD).

Selfishness

- If one considers the above-mentioned gains that will accrue to South Africa due to its endeavours, and the state's contraventions of African ideals, it is apparent that South Africa has not acted in an entirely altruistic manner. Consistent with selfish hegemony, decisions taken by South Africa have led to shared cost absorption. This is apparent in the trade agreement with the EU, which will result in increased competition for African producers. Second, debt cancellation (although beneficial overall) will potentially lead to poor credit ratings, the costs of which will be absorbed by African states. Enforcement was apparent as a result of the South Africa-EU trade agreement, as SACU states were compelled to reduce tariffs on EU imports. Control was evident during the Seattle talks (1999) were the interests of other African states were disregarded, and in South Africa's promotion of a developmental agenda (despite opposition from African states). Selfish hegemony is tantamount to realism, and as the state behaves in a manner that betokens realism, its underlying ambitions are self-serving.

8.2 Results and implications of this study

South Africa has displayed both explicit and concealed intentions in its capacity as Africa's hegemon. The results and implications of these intentions are presented below.

- Since South African is unquestionably the dominant force in Africa, it should embrace its hegemonic position on the continent and utilise its role to advance peace and prosperity in Africa. Although South Africa behaves in a predominantly benevolent manner, its selfish aspirations and intermittent self-serving position undermines the benevolence of its hegemony.

- The state's concerns with the structural arrangement of the global economy may contribute to its credibility in Africa, and in the South, and may augment the legitimacy of South Africa's hegemony.

- South African representatives need to ensure that rhetoric and action in trade, debt and FDI are commensurate. If spoken promises give preference to African growth and development, then actions must reflect these promises. Antagonistic behaviour will undermine the legitimacy of the state's hegemony, and the authenticity of its commitment to the continent.

- Similarly, South Africa needs to be cautious in its rhetorical commitment to liberalism and its practice of realism as these contradictory ideologies may threaten the legitimacy and credibility of the African power.

- Furthermore, the South African government must be careful to act in a manner that betokens its loyalty to African ideals. Considering South Africa's influential position regarding African unity and the African Renaissance, it would be unwise to pursue policies that undercut its allegiance to Africa.

- If the South African government continues to call for increased South-South cooperation as a means to redress structural inequality, it would be hypocritical for South African representatives to act in a self-serving manner by participating in exclusionary talks and disregarding African needs (and the interests of the South in general).

- Calls for South-South cooperation to reduce structural imbalances should be furthered if the state is to enhance the legitimacy of its hegemony and its integrity and status in the South.

- The results of South Africa's efforts at reforming the international financial architecture are yet to be witnessed. However, if the state continues to exhibit contradictory rhetoric and action, it will lose support in the South and, especially, in Africa. This will hinder the state's efforts as a consolidated

South will be more powerful in producing reforms than a solitary continental power.

- The state should continue its policies regarding the reform of the trade regime. Moreover, as the state was pivotal in the democratisation of SACU so as to reduce the dominance of South Africa, it should expand these efforts to all continental organisations and enhance the participation of other states in global dialogue rather than supposedly representing them and dismissing their needs. Exclusionary talks should be boycotted even if they provide an opportunity for the state to further its own interests as they are inflammatory and threaten the sincerity of South Africa's endeavours.

- Prior to signing free trade agreements, the South African government should consider the implications for all African states (particularly SACU members). One possible solution would be the inclusion of African states in free trade agreements. This would ensure that their needs are considered and may result in the extension of free trade agreements to other African states, thereby furthering the South African-espoused commitment to the economic growth and development of the continent. Such a course of action would enhance the benevolence of South Africa's hegemony as it would support the state's spoken dedication to attaining sustained prosperity in Africa.

- The South African government should continue its efforts in urging foreign creditors to cancel Africa's debt but should suggest the adoption of an African-designed solution to rectify poor economic management on the continent. Its endeavours would be wasted if the sound policies are not accepted and implemented. Reflecting IMF requirements, debt cancellation should not be readily granted but should necessitate efficient and ethical policies. This may prevent the deterioration of credit ratings as states exhibit dedication to their responsibilities and obligations regarding high-quality economic management.

- South Africa should continue to support political and economic reforms within African states consistent with NEPAD as a means to attract FDI inflows as this will increase investment flows, thereby enhancing economic growth in African states. The state will simultaneously benefit as its will have access to stable markets in Africa and, in line with the hegemonic stability theory, it will acquire security and stability in Africa.

- Both the South African government and South African firms must be exemplary in their expansion into Africa, and should adhere to an ethical and legal code of conduct. This may reduce negative perceptions relating to the extensive presence of South African firms in Africa. In addition, if privatisation in the state is advanced, the sensitivity pertaining to the suggestion of economic colonisation by South Africa may be reduced.

- In short, the state needs to align its rhetoric and action, and reinforce its loyalty to African ideals, to liberal values and to the reversal of structural features in the international political economy. These accomplishments will secure its power in Africa as neighbouring states recognise South Africa's dedication to economic growth, development and equality in all African states. Moreover, this will secure the benevolence of South Africa as the continent's hegemon.

8.3 Continued academic interest

This section provides a brief outline of issues that may be considered for future academic research.

- The United States was supposedly experiencing hegemonic decline at the start of the 1990s. Recent figures indicate that the state continues to be the dominant military and economic power in the international system. Is the United States facing a decline? Or are its experiences challenging the cyclical theory of hegemonic stability?

- South Africa has been identified as Africa's hegemon. In line with hegemonic stability theory, peace and stability ensue during a period of hegemonic rule. However, the African continent continues to endure numerous conflicts and both political and economic instability. Is hegemonic order attainable on the continent, or will South Africa's ascendancy as Africa's hegemon be ineffectual?

- Both the United States and South Africa, in their respective capacities as international and regional hegemons, act to secure selfish gains. Benevolent hegemony requires adherence to liberal values. As dominant actors appear to be unlikely to relinquish power, would these states disregard realist aspirations of maximising power and wealth, and rather opt for liberal practices? Does it benefit international and regional powers (and the international system) to act in a purely benevolent manner?

- South Africa's policies in the international political economy appear to exhibit characteristics of each of the three contending theories of international relations. Does Mbeki's foreign policy reflect liberal, realist or structuralist values? And is it consistent with the values espoused by the African National Congress?

- In an anarchic inter-state system, are dominant powers willing to relinquish their power in order to attain more equitable and balanced economic interactions? And are they willing to reform international institutions so as to enhance democratic procedures and decision-making? Moreover, would such reforms actually benefit the South by reducing disparities between North and South?

- As states pursue realist goals, international institutions seem to be weakening. Is the no effect thesis provided by realists a possible scenario? And if states continue to follow realist policies, is there room in the international system for liberal multilateralism?

- Considering that South Africa behaves in a manner that mirrors realism, it may be worthwhile to determine the extent to which the state is interested in the development of Africa. Has the belief that South Africa's fate is bound to the fate of the continent provided the catalyst for its dedication to Africa's economic growth and development? In essence, how authentic is South Africa's loyalty to the rest of Africa?

- South Africa supports a developmental agenda in international trade. What are the implications of such an agenda for the state, the continent and the South?

- Protectionism has been identified as a hindrance to Africa's participation in international trade and its market share. Considering that the North possesses superior technology, resources and has more capital available, would the abolition of protectionist methods succeed in drastically enhancing African trade? And if the North recognises that their resources will ensure that their market share is maintained, will they eliminate barriers to African exports?

- Brady, Baker, Lawson and the IMF proposed solutions for debt reduction. Assuming South Africa's efforts regarding debt cancellation are unsuccessful, would a solution originating in the South be more successful than the above-mentioned plans?

- Assuming South African endeavours pertaining to debt relief are successful, what actions are required by African states to ensure that overborrowing and external debt are not a recurring characteristic of African states? Would policies espoused by the IMF (i.e. structural adjustment programmes) be voluntarily adopted? And how could international borrowers and creditors guarantee responsible borrowing and lending, respectively?

- Considering it is in the interests of South African corporations to expand into African states, what actions could they take to prevent negative perceptions of economic colonisation? How could they improve their image in Africa? Is this viable?

- NEPAD has been identified as a neoliberal programme for Africa's development. Moreover, it aims to redress structural irregularities in the international political economy. As it will assist African states in attaining economic growth and development, to what extent is NEPAD a realist prescription to remedy structuralist infirmity?

- NEPAD was created to provide an African solution for African problems. Considering the consensual and cooperative nature of the programme, to what extent has it been adopted? And where it has been implemented, how has it affected credit ratings and, consequently, FDI inflows?

- Why has South Africa, and especially the Mbeki regime, championed the African Renaissance if the state does not appear to be wholly committed to African unity?

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