DESPERATELY SEEKING FDI:
THE IMPACT OF GLOBALISATION ON THE STATE AND ITS DEVOLVED ENTITIES

by

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DECLARATION

I, Warren Weertman, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.
ABSTRACT

Of our age, perhaps the two defining terms have been “the state” and “globalisation”, each of which is constantly changing and adapting as the international community has to deal with an increasing multiplicity of actors in the field of international relations. Witness not only the rise of supra-national state units such as the European Union, but also the increased importance of sub-national state units such as provinces and cities in international relations.

At the same time it is possible to distinguish between various types of globalisation such as political and economic globalisation. Each of these types of globalisation influences the state in a variety of ways. For example, political globalisation has led to the rise in importance of supra-national and sub-national state units. As for economic globalisation, this study assesses the influence of one particular feature of economic globalisation namely FDI on the South African state and its sub-national state units, particularly Gauteng and Johannesburg.

In order to assess the influence of foreign direct investment on the structure of the South African state, the study provides a theoretical framework of globalisation and the state. This theoretical framework is then built upon by incrementally discussing the structure and economic policies of the central South African state before assessing the structure and economic policies of Gauteng and Johannesburg.

Particular attention is paid to the economic responses of the central South African state, Gauteng and Johannesburg to a particular manifestation of economic globalisation, namely foreign direct investment. In this regard the study discusses the precepts of the central state’s policy known as “Growth, Employment, and Redistribution” as a means of attempting to attract foreign direct investment to South Africa. Within the context of Gauteng and Johannesburg the study assesses how these sub-national state units have adopted local economic development policies as a means to attract foreign direct investment. At the same time it is necessary to consider how these local economic development policies fit into the neo-liberal precepts of central government’s economic policies.

It was noted above that it is possible to distinguish between various types of globalisation such as political and economic globalisation. Each of these types of globalisation influences the state in a variety of ways. This study assesses the influence of one particular feature of economic globalisation namely FDI on the South African state and its sub-national state units, particularly Gauteng and Johannesburg. In order to assess the influence of FDI on the South African state, Gauteng and Johannesburg, the study assesses how each of these three spheres of the South African state are attempting to attract FDI through the adoption of
economic policies and other policies (such as GEAR and LED programmes). This study will assess the possibility of whether Gauteng and Johannesburg should be given greater autonomy and flexibility to attract FDI. The question which the study thus seeks to answer is: how does FDI (as a feature of globalisation) influence the structure of the South African state and the relationship between the central South African state and its sub-national state units?
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# TABLE OF CONTENTS

CHAPTER ONE: INTRODUCTION, RESEARCH PROBLEM AND THE PURPOSE OF THE STUDY  
1. INTRODUCTION  
   1.1 The State  
   1.2 Globalism and Globalisation  
   1.3 South Africa  
2. RESEARCH PROBLEM  
3. PURPOSE OF THE STUDY  
4. LITERATURE REVIEW  
5. RESEARCH METHOD  
6. RESEARCH STRUCTURE  

CHAPTER TWO: GLOBALISATION AND ECONOMIC GLOBALISATION  
1. INTRODUCTION  
2. CHARACTERISING AND DEFINING GLOBALISATION  
   2.1 The Characteristics of Globalisation  
   2.2 What is Globalism?  
   2.3 … and Globalisation?  
3. IS GLOBALISATION A NEW PHENOMENON?  
   3.1 The First Wave of Globalisation: 1500 - 1699  
   3.2 The Second Wave of Globalisation: 1700 - 1914  
   3.3 The Third Wave of Globalisation: 1944 - 2007  
4. WHAT DRIVES GLOBALISATION?  
   4.1 Rationalism as a Driver of Globalisation  
   4.2 Capitalism as a Driver of Globalisation  
   4.3 Technological Innovations as a Driver of Globalisation  
   4.4 Enabling Regulatory Frameworks as a Driver of Globalisation  
5. INTERPRETING GLOBALISATION  
6. POLITICAL GLOBALISATION  
7. ECONOMIC GLOBALISATION  
   7.1 Globalism  
   7.1.1 Negative Globalism  
   7.2 Transformationalism  
   7.3 Internationalism  
   7.3.1 Economic Globalisation as a Continuing Debate  
   7.3.2 Economic Evidence for the Internationalist Argument  

CHAPTER THREE: FOREIGN DIRECT INVESTMENT AS A FEATURE OF ECONOMIC GLOBALISATION  
1. INTRODUCTION  
2. FDI AS ECONOMIC GLOBALISATION  
   2.1 What is a Multinational Corporation?  
   2.2 Defining FDI  
   2.3 A Brief Overview of MNCs and their Investments  
   2.3.1 The Financial Structure
2.1 State Development in Europe versus State Development in the Developing World 89
2.2 Characterising the African State 90
   2.2.1 Institutions and the Development of the African State 90
   2.2.2 Sovereignty in the African Context 91
   2.2.3 The Reactive Development of the Post-Colonial State 93
   2.2.4 Patrimonialism and Neo-Patrimonialism in an African Context 93

3. THE STATE AND GLOBALISATION 95
   3.1 Approaching the State – versus – Globalisation Debate 95
      3.1.1 The Hyperglobalist Approach 95
      3.1.2 The “Sceptical” Approach 97
      3.1.3 The Moderate Approach 97
   3.2 Assessing the Relationship between the State and Economic Globalisation 99
      3.2.1 The State Obsolescence Argument 100
      3.2.2 The State Complexity Argument 102
      3.2.3 FDI and the State – Obsolescence or Complexity? 105
      3.2.4 The Sub-National Level as a Site for Globalisation? 105

CHAPTER SIX: THE SOUTH AFRICAN STATE 113
1. INTRODUCTION 113
2. THE SOUTH AFRICAN STATE 113
   2.1 The Origins of the Modern South African State 114
      2.1.1 The Union of South Africa (1910–1948) 114
      2.1.2 The Apartheid State (1948–1994) 115
   2.2 The Primary Characteristics of the South African State 119
      2.2.1 Territory 119
      2.2.2 Institutions 120
      2.2.3 Political and Economic Sovereignty 121
      2.2.4 Economic Characteristics of the South African State 122
   2.3 Sub-National State Units in the South African State 123
      2.3.1 The CODESA Principles and the Relationship between the State and its Sub-National State Units 126
      2.3.2 The Relationship between National and Sub-National State Units in the South African State 128
      2.3.3 A Brief Analysis of Decentralisation in South Africa 132

CHAPTER SEVEN: ECONOMIC POLICY IN THE NEW SOUTH AFRICAN STATE 142
1. INTRODUCTION 142
2. SOUTH AFRICAN ECONOMIC POLICY POST- 1994 142
   2.1 Recognising the Need to Attract FDI 143
   2.2 The Quest for Economic Growth and Sustainable Development in South Africa 145
      2.2.1 The RDP v International Finance 145
      2.2.2 The Nature and Flow of FDI During the RDP Phase of Economic Policy 146
   2.3 Gearing for Growth 147
      2.3.1 The Nature and Flow of FDI During the GEAR Phase of Economic Policy 149
      2.3.2 The Good 150
      2.3.3 The Bad and the Ugly 152
      2.3.4 Unique Considerations? 154
      2.3.5 The Future? 156
   2.4 South Africa as a Source of FDI? 156

CHAPTER EIGHT: SUB-NATIONAL STATE UNITS IN SOUTH AFRICA 160
1. INTRODUCTION 160
2. LED 161
2.1 Why the Need to Focus on LED? 161
2.2 Defining LED 161
2.3 A Brief Overview of the Development of LED 162
2.4 Types of LED Programmes 165
2.5 Globalisation, Decentralisation, and LED 166

3. THE POLITICAL FRAMEWORK FOR DECENTRALISATION AND FDI IN SOUTH AFRICA’S SUB-NATIONAL STATE UNITS 168
3.1 The Framework for Decentralisation 169
  3.1.1 The National Framework for Decentralisation 169
  3.1.2 The Power of National Government over the Provinces 169
  3.1.3 The Power of Provincial Government over Local Government 169
3.2 The Framework for LED 170
  3.2.1 Early LED Discourse (1990–1998) 171
  3.2.2 LED Policy Development 173
  3.2.3 The Emerging Legislative Context for LED 174

4. THE PROVINCE OF GAUTENG 177
4.1 The Gauteng Trade and Industry Strategy 178
  4.1.1 Strategic Objectives of the GTIS 178
  4.1.2 Future Prospects for FDI 179

5. THE CITY OF JOHANNESBURG 180
5.1 Joburg 2030 181
5.2 Vision for Johannesburg 184
5.3 Inter-Location Competition? 184

CHAPTER NINE: CONCLUSION 186
1. THE RESEARCH PROBLEM 186
2. SUMMARY OF MAIN FINDINGS 188
  2.1 Globalisation 188
  2.2 The State and Sub-National State Units 190
  2.3 The South African State 192
  2.4 Sub-National State Units in South Africa 194

3. AREAS FOR FUTURE RESEARCH 196

BIBLIOGRAPHY 198
1.1 Books and Journal Articles 198
1.2 Working Papers and Discussion Documents 209
1.3 Official Documents 210
1.4 Internet Sources 210
**ACRONYMS USED**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ANC</td>
<td>African National Congress</td>
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<tr>
<td>CODESA</td>
<td>Convention for a Democratic South Africa</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>COSATU</td>
<td>Congress of South African Trade Unions</td>
</tr>
<tr>
<td>DA</td>
<td>Democratic Alliance</td>
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<tr>
<td>DPLG</td>
<td>Department of Provincial and Local Government</td>
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<tr>
<td>EU</td>
<td>The European Union</td>
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<tr>
<td>FDI</td>
<td>FDI</td>
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<tr>
<td>G20</td>
<td>The Group of Twenty</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GEAR</td>
<td>Growth, Employment, and Redistribution</td>
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<td>GEDA</td>
<td>Gauteng Economic Development Agency</td>
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<td>GTIS</td>
<td>Gauteng Trade and Industry Strategy</td>
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<tr>
<td>IDZ</td>
<td>Industrial Development Zone</td>
</tr>
<tr>
<td>IFIs</td>
<td>The international financial institutions, including the International Monetary Fund, World Bank, and World Trade Organisation</td>
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<tr>
<td>IFP</td>
<td>Inkatha Freedom Party</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPR</td>
<td>Intellectual Property Right</td>
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<tr>
<td>LED</td>
<td>Local Economic Development</td>
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<tr>
<td>MAI</td>
<td>Multilateral Agreement on Investments</td>
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<tr>
<td>MERG</td>
<td>Macro-economic Research Group</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>MTEF</td>
<td>Medium Term Expenditures Framework</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NCOP</td>
<td>National Council of Provinces</td>
</tr>
<tr>
<td>NEPAD</td>
<td>New Economic Partnership for African Development</td>
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<tr>
<td>NP</td>
<td>National Party</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OPEC</td>
<td>Organisation of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RDP</td>
<td>Reconstruction and Development Programme</td>
</tr>
<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<tr>
<td>SADC</td>
<td>The Southern African Development Community</td>
</tr>
<tr>
<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<td>SME</td>
<td>Small Medium Enterprise</td>
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TRIMS  Agreement on Trade-related Investment Measures  
TRIPS  Agreement on Trade-related Aspects of Intellectual Property Rights  
UK  The United Kingdom  
UN  United Nations  
USA  The United States of America  
WTO  World Trade Organisation
CHAPTER ONE
INTRODUCTION, RESEARCH PROBLEM AND THE PURPOSE OF THE STUDY

“In this state of imbecility, I had, for amusement, turned my attention to political economy.”
- Thomas de Quincey, Confessions of an English Opium Eater

“Every age has its defining terms. In our day, one of those terms is “globalisation,” which conveys the widely held belief that we are living in a borderless world. Sovereign states appear incapable of controlling transnational flows of goods and services (much less people), and in many places the state itself is collapsing.”
- Ethan B. Kapstein

1. INTRODUCTION

Of our age, perhaps the two defining terms have been “the state” and “globalisation”, each of which is constantly changing and adapting as the international community has to deal with an increasing multiplicity of actors in the field of international relations. Witness not only the rise of supra-national state units such as the European Union, but also the increased importance of sub-national state units such as provinces and cities in international relations. Whilst the importance of supra-national state units cannot be denied, the focus of the study is on sub-national state units. More particularly the study focuses on two sub-national state units within the South African state, namely Gauteng and the city of Johannesburg. Whilst the latter has existed for over 100 years, the province of Gauteng was formed as a result of the negotiated settlement between the African National Congress (ANC), the National Party (NP), and other political parties during the early 1990s.

As mentioned above, not only has the state proved to be one of the defining terms of our age but “globalisation” has also proved to be an important defining process. No single definition of globalisation has yet been universally accepted. The result is that globalisation has taken on a number of varying definitions, meaning different things to different people. This study does not propose to provide a definition of globalisation that would be universally accepted; rather the study seeks to draw a relationship between globalisation, economic globalisation, and foreign direct investment (or “FDI”) as a feature of economic globalisation. Thus whilst the heading of the study refers to the “impact” of globalisation, the use of the word “impact” in this context rather refers to the manner in which globalisation influences the relationship between FDI and the state. The purpose of the study is to assess these two defining terms of our age (the state and globalisation) by focusing on the relationship between FDI as form of economic globalisation and the attempts that are being made by the sub-national state units of Gauteng and the city of Johannesburg to attract FDI to their economies.
1.1 The State

The state has been the central actor in the field of international relations since the signing of the Treaty of Westphalia on 24 October 1648. With the signing of this treaty the state became the voice of the King or Prince. This would all change with the advent of liberalism and the French Revolution in 1789; in that year the state also became one of the voices of its citizens when dealing with other states. And so it has been for over 200 years with a number of states being formed through three phases of state formation and democratisation, the last commencing with the decolonisation process which began in Ghana in 1957.

However, the state itself has undergone a number of other slow but radical transformations from its original Westphalian incarnation. Not only has liberal democracy resulted in the state becoming an agency ostensibly for all citizens (and no longer exclusively for the monarch) to articulate their will, but liberalism has come to constitute but one ideological interpretation of the state. The three key theories of Political Economy (Liberalism, Marxism, and Realism) all interpret the classical *trias politicas* differently. Each of these schools of thought purports to be unique in the manner in which they interpret the interaction between the bodies politic and the economic within any given society.

Interpretations aside, the state has also had to adapt from being the sole arbiter of what constitutes the internal and the external, who belongs and who does not, to being one amongst a number of possible arbitrators. Such a change in state function is in no small part due to the contemporary process of decentralisation and internationalisation. Decentralisation can be viewed as the process whereby certain centralised powers or control are moved to areas where operations take place. This movement of power involves not only the redistribution of power by incorporating citizens (also known as vertical redistribution), but also expanding the domain of collective decision-making (also known as horizontal redistribution) (Vista-Baylon, 2001: 157; Heller, 2001: 140). The increasing internationalisation is also highlighted by the mounting role of international organisations such as the United Nations in the affairs of states, particularly in matters of an economic and human rights nature (Peet, 2003: 134; Armstrong, Lloyd, and Redmond, 2004: 239, Held et al., 1999: 65). The classical notion of *trias politicas* highlights that the institutions of the state remain public institutions responsible for the making and enforcement of collective decisions located within different spheres of government including the national, provincial (or regional), and the local (Heywood, 2002: 87).

The decentralisation and internationalisation of the state highlights how the three primary characteristics of the state, namely territory, institutions, and sovereignty, are also continually
adapting and changing from their original Westphalian roots. Indeed, as argued above, whereas the central state used to be the primary (and sometimes sole) actor in mediating between the internal and external, this is no longer the case; sub-national state units are gaining in prominence in the characterisation and definition of sovereignty. However, this does not negate the continued role of states in managing relationships with other state and non-state actors located within their borders (Keohane, 1995: 176) since the state is a territorial association and its jurisdiction is geographically defined and extends to all those who live within the state’s defined boundaries – whether they are citizens or not (Heywood, 2002: 87).

However, the above discussion relates to a Westphalian ideal or reification of what a state should be bearing in mind, namely that the origins of this Westphalian model lie in Europe and this Westphalian ideal is a result of a series of complex internal political processes of conflict, consolidation, and contestation in the transformation of European societies from agrarian to industrial entities (Leftwich, 2005: 145). In sharp contrast to the manner of European state formation is that of state formation in the developing world. The colonial powers believed that in transforming their colonies from traditional to modern societies, their colonies would undergo the same developmental process that the colonial powers went through, and ultimately the colonies would end up looking like the colonial powers (Opello and Rosow, 1999: 201). State formation in the developing world was thus advanced, arguably, at the point of a gun.

1.2 Globalism and Globalisation

The study argues that globalisation has occurred in three waves, with each new wave of globalisation commencing where the previous wave left off. However, globalisation remains a highly contested concept with its effects being interpreted in different ways. It is no wonder then that the interpretation of the impact of globalisation on the state is also highly contested. Whilst some scholars argue that the end of the state is nigh, other scholars argue that the state has remained unchanged as a result of globalisation and that the state will still be with us many years hence. Somewhere in between lies an interpretation which argues that globalisation has an impact on the structure of the state but that the state will not disappear any time soon. What evidence, if any, exists for this moderate discourse of globalisation?

Globalisation, both in its political and economic guises, has resulted in actors beyond the state playing an increased role in international relations. The process of political globalisation has resulted in sub-national units (such as provinces) as well supra-national units (like the European Union) gaining importance in international relations. In this regard, it is noteworthy
that some Indian and Brazilian federal states are establishing relationships directly with the World Bank and International Monetary Fund (Scholte, 2000: 25). The process of economic globalisation, which has been gathering pace in recent years, is also pushing non-state actors onto the stage of international relations, including multinational corporations. Whilst an increasing multiplicity of actors abounds, this study focuses on sub-national state units, more particularly those found in South Africa.

In addition to sub-national state units, the study focuses on economic globalisation, more particularly FDI as a feature or exemplar of globalisation. Not only has there been an increase in FDI over the years, but also a change in the nature of FDI. It is worth noting that whereas long-term financial flows remained at less than US$50 billion throughout the 1970s and increased to over US$100 billion throughout the 1980s, in 1997 alone, long-term financial flows reached nearly US$350 billion. By far the largest proportion (approximately four-fifths) of long-term financial flows in the 1990s was private long-term financial flows to developing nations (Grieco and Ikenberry, 2003: 259). However, these figures do not show that increasingly goods are not being “bought” and “sold”, but rather are being shifted between different branches of the same multinational corporations (Strange, 2000: 47).

Not only has there been an increase in FDI flows; there has also been a marked change in the nature of FDI over the past several years. FDI has changed from focusing purely on infrastructural and manufacturing investment to investment in services. Not only have investors’ motives changed but states are also increasingly using FDI as a development tool. McGuire (1999: 153) argues that this has resulted in FDI becoming a trade issue as states use incentives to attract it.

As the nature and flow of FDI has changed, so have states’ responses to FDI. One such response has been for states to adopt policies such as decentralisation. By allowing sub-national state units to increasingly interact with and participate in the global economy through decentralisation, in appropriate circumstances sub-national state units may gain from the advantages of scale which they may have when interacting with the global economy. However, when any of these developments in international economic connectivity begin to threaten the interests of the state, the latter will attempt to prevent or limit the effects in question (Kelly and Prokhovnir, 2004: 114; Scholte, 2004: 20-21). This may mean that a state’s autonomy is being eroded, but autonomy and authority are two different things (Holsti, 2004: 63).
In light of McGuire’s argument that FDI has become a trade issue due to the increase in FDI flows and the change in the nature of FDI, the study focuses on the possible impact of FDI on sub-national state units in South Africa.

1.3 South Africa

The post-apartheid state represents a radical departure from the nature of the apartheid South African state. Not only has the state done away with the singular Westminster style of Parliamentary supremacy and moved to a form a constitutional democracy in which the Constitution of the Republic of South Africa (1996) is the highest law of the land; the radical and undemocratic process of decentralisation undertaken by the apartheid state has been superseded by a new form of democratic decentralisation (Wittenberg, 2003: 5). Briefly stated, democratic decentralisation can be understood as the process whereby central state power is decentralised to sub-national state units by democratic means.

Successive post-apartheid South African governments have also sought to reintegrate the South African state with the global economy. Arguably these policies, in particular the Growth, Employment, and Redistribution (or “GEAR”) policy, have a number of traits resembling the principles of the Washington Consensus and the incarnation of the consensus in the form of Structural Adjustment Programmes (or “SAPs”) and Poverty Reduction Strategy Papers (or “PRSPs”) advocated by the World Bank and International Monetary Fund (“IMF”). At the same time these policies seek to attract FDI to South Africa (Mhone, 2003: 24; Terreblanche 2002: 114). In addition to the adoption of the neo-liberal GEAR policy, a number of other macroeconomic and microeconomic policy changes have been made as a further attempt to attract FDI to South Africa (OECD, 2001, Internet Source). Accordingly some scholars argue that South Africa has undergone a home-grown form of a SAP. One of the questions that the study seeks to answer is whether the adoption of such policies by South African governments has had a material effect on the flow of FDI to South Africa.

Within the context of South Africa’s sub-national state units (being the provinces and municipalities located within South Africa’s borders) created as a result of the Convention for a Democratic South Africa (or “CODESA”) negotiation process, these sub-national state units now have their powers and functions clearly defined in the Constitution. One such function is local economic development. It is arguable that local economic development is a policy response to economic globalisation and at the same time an attempt to attract FDI (Mulindwa, 2006, Internet Source).
However, despite the relative novelty of local economic development in South Africa, the issue of local economic development has been debated in the public arena since at least 1994. As a result of the radical transformation of the South African state described above, South Africa’s sub-national state units have increasingly sought to market themselves worldwide as locations for international investment (Nel, 2001, Internet Source; Rogerson, 2000: 402).

In terms of the development of local economic development policies by sub-national state units in South Africa, perhaps the most instructive document initially published by the South African government was the White Paper on Local Government in 1998. Introduced in the White Paper is the notion of “developmental local government”, the primary aim of which, as defined in the White Paper, was to find sustainable ways for communities to be able to meet their social, economic, and material needs and thus improve the quality of their lives (Rogerson, 2006: 229).

To a large degree, the White Paper was heavily influenced by the neo-liberal precepts of GEAR (and thus the precepts of economic globalisation) in that the GEAR policy emphasised the need for improved economic growth as a means of sustaining the government’s social and development programmes, thus increasing the competitiveness of the South African economy and accordingly making South Africa an attractive destination for investment (Rogerson, 2000: 400). Thus within the White Paper an obligation is placed on local government to create the necessary environment for job creation, which can only be spurred by investment, either local or foreign (Nel and John, 2006: 213).

2. RESEARCH PROBLEM

It was noted above that it is possible to distinguish between various types of globalisation such as political and economic globalisation. Each of these types of globalisation influences the state in variety of ways. This study assesses the influence of one particular feature of economic globalisation namely FDI on the South African state and its sub-national state units, particularly Gauteng and Johannesburg. In order to assess the influence of FDI on the South African state, Gauteng and Johannesburg, the study assesses how each of these three spheres of the South African state are attempting to attract FDI through the adoption of economic policies and other policies (such as GEAR and LED programmes). This study will assess the possibility of whether Gauteng and Johannesburg should be given greater autonomy and flexibility to attract FDI. The question which the study thus seeks to answer is: how does FDI (as a feature of globalisation) influence the structure of the South African state and the relationship between the central South African state and its sub-national state units?
3. PURPOSE OF THE STUDY

The South African state is arguably a centralist state, with the most important government decisions being taken at the centre and then filtered down to the sub-national state units. Globalisation, as manifested through FDI, has an impact on sub-national state units in South Africa.

The purpose of the study is to assess how these various sub-national state units, amongst others the provinces and cities, can be given greater autonomy and flexibility to attract FDI. The study thus seeks to identify the manner in which FDI, as a feature of economic globalisation, is impacting on sub-national state units. More particularly, the study focuses on the manner in which FDI is impacting on two of the South African sub-national state units within the South African state, namely the province of Gauteng and the city of Johannesburg.

The study first describes and characterises globalisation, economic globalisation and FDI as a feature of economic globalisation, before proceeding to describe and characterise the state, with particular emphasis on the characteristics of sub-national state units within the state. The study pays particular attention to describing and characterising not only the state as manifested in the developed world but also the state as manifested in the developing world. The study proffers that a number of factors will play an important part in determining the impact of FDI on the sub-national state units of South Africa that form the focus of the study. These factors include:

i. the nature of the final Constitution, as influenced by the interim Constitution drafted during the negotiated settlement process at CODESA;
ii. the ideological underpinnings of the African National Congress;
iii. the manner in which the state and its relationship with its sub-national state units is interpreted by the South African government; and
iv. the economic responses of the South African government to economic globalisation, as manifested by the economic policies adopted by the South African government.

The aim of the study is to identify how, in attempting to attract FDI (as a feature of economic globalisation), state power in South Africa could be moved away from the centre, towards sub-national state units. In so doing, the study attempts to assess the possible future role that South African sub-national state units will have to attract FDI to the South African state in an increasingly globalised world.
4. LITERATURE REVIEW

As discussed above, globalisation is one of the important concepts within the study. This concept will be discussed in greater detail in Chapter 2; suffice to say at this juncture that it is possible to locate globalisation’s economic characteristics (referred to as economic globalisation) within Strange’s (1994) structure of international political economy. The study will thus draw on the four structures of international political economy espoused by Strange (1994). In particular, the study attempts to place FDI within the scope of Strange’s financial structure. In order to successfully place FDI within the scope of the financial structure, it is necessary to conceptualise the terms “globalism” and “globalisation”. In his regard, the study draws on the work of a number of globalisation experts (including Bhagwati, 2004; Bond, 2006, Buckman, 2004; Chomsky, 2001; Grieco and Ikenberry, 2003; Held et al., 1999; Khor, 2000; McGrew, 2004; Putzel, 2005; Roudometof, 2005; Scholte, 2000; Steger, 2003; Stiglitz, 2006; and Wolf, 2004). When discussing the terms “globalism” and “globalisation”, the study seeks to draw a distinction between the various interpretations of globalism and globalisation. The study thus draws a distinction between globalism, transformationalism, and internationalism.

In addition to characterising globalism and globalisation, the study needs to show the nexus between globalisation and FDI as a feature of the former. An important concept within the sphere of FDI is that of the multinational corporation. The study argues that a multinational corporation, in its broadest sense, is a company which produces goods or markets its services in more than one state. In its narrowest sense, a multinational corporation is a company which, through FDI, controls and manages subsidiaries in a number of states outside its parent state. The concept of the multinational corporation is explored in greater detail in Chapter 3. However, with regards to the concept of the multinational corporation the study draws on the work of Jensen (2006) to conceptualise multinational corporations and FDI. The study then goes on to identify what drives multinational corporations to invest in states by drawing further on the work of Jensen (2006) as well as a number of other scholars including, but not limited to, Balaam and Veseth (2005); Wolf (2004); Marais (2001); Khor (2000); and Chang (2004).

Before dealing with the relationship between globalisation and the state it is necessary to conceptualise the state. In this regard, the study identifies and analyses the primary characteristics of the state as offered by Opello and Rosow (1999) as well as secondary characteristics of the state such as the economic characteristics identified by Strange (1994). These characteristics, which are discussed in greater detail in Chapter 4, include not only territory, institutions, and sovereignty, but also the economic characteristics of the state. Of
importance to the study is the characterisation and discussion of sub-national state units in Chapter 5. Sub-national state units are a means for the central state to decentralise certain powers and functions to lower levels of government within defined parameters.

In order to appropriately answer the problem statement, the study needs to deal with the manner in which power can be shifted to sub-national state units. In this regard, it is necessary to conceptualise sub-national state units utilising theories offered by Heller (2001); Sassen (2006); and Vista-Baylon (2001) before assessing the manner in which power can be shifted to sub-national state units in terms of the process of decentralisation. However, these theories of the state can best be applied to developed states. In the case of African states, the study needs to show that state development did not follow the same trajectory as developed European states, for example. In this regard, the works of Leftwich (2005); Lindberg (2001); Opello and Rosow, and Picard (2005) are utilised to analyse the development of the state in Africa. It is also necessary to analyse the relationship between globalisation and the state, as well as the interpretations of the relationship between globalisation and the state by drawing on the work of scholars such as Holsti (2004); Ohmae (2000); Phillips (2005); Strange (1994 and 2000); and Weiss (2003).

Once the relationship between globalisation and the state has been theorised, it is necessary to apply the theory developed to the South African state. Not only are the above scholars used to characterise the South African state, its sub-national state units, and its relationship with globalisation, but the study also analyses the nature of the South African state by utilising the work of Abel (1995); Marais (2001); Picard (2005); Schrire (2005); Terreblanche (2002); Yemek (2005); and Wittenberg (2003) to gain insight into the nature of the South African state, especially the nature of the South African state resulting from the negotiated settlement reached at CODESA. However, in order to understand the nature of the current structures of the South African state it is necessary for the nature of the pre-1994 South African state to be assessed in Chapter 6 of the study.

The theoretical framework developed is then used to analyse how South Africa’s sub-national state units are using the powers afforded to them by the central South African state to attract FDI to their economies. In this regard, the investment frameworks offered by the Gauteng Economic Development Agency (2003) and the city of Johannesburg (2006(a) and 2006(b)) will be investigated and underscored by an examination of the literature of state theory and globalisation.
5. RESEARCH METHOD

The study is a qualitative, deductive analysis of literature from areas of political studies, economics, law, and development studies. The study comprises an evaluation of current literature and thinking on the state, globalisation, FDI and local economic development and in the conclusion of the study makes deductions about the future of the state in its current Westphalian form based on the literature review.

6. RESEARCH STRUCTURE

Chapter 1 of the study has described the topic, purpose, and motivation for the research as well as the methodology employed.

Chapter 2 reviews the theoretical literature on globalism and globalisation and conceptualises the concepts of globalism and globalisation. The chapter also highlights the historical development of globalisation in three distinct waves dating from approximately the 16th century to the present date. The concepts of political and economic globalisation in relation to the conceptualisation of globalisation provided earlier in the chapter are then analysed, as well as the drivers and interpretations of these forms of globalisation. Particular attention is paid to FDI in Chapter 3 as a feature of economic globalisation and form of investment by multinational corporations, as well as the positive and negative effects of FDI on states.

Chapter 4 analyses the concept of the state, in particular its primary characteristics (institutions, territory, and sovereignty) as well as secondary characteristics of the state such as economic characteristics. After analysing the historical roots of the state in the Treaty of Westphalia, its subsequent development and increased internationalisation in the fields of human rights and marketisation as a result of the policies of the international financial institutions (such as the World Bank and IMF), the chapter continues to deal with the three primary interpretations of the state, namely Liberalism, Marxism, and Realism. After having dealt with the central state, the chapter then turns to deal with sub-national state units and the manner in which power is allocated to them as a result of policies and programmes such as decentralisation. However, several modes and degrees of decentralisation are also identified in the chapter. This theory is then applied to African states in Chapter 5 before concluding with an analysis of the relationship between the state (both and the central and sub-national levels) and globalisation.
Having developed a theoretical framework for analysing the relationship between globalisation (more particularly FDI as a feature of economic globalisation) and the state and its sub-national state units, chapter 6 of the study examines the South African state at both the central and sub-national state levels within framework provided by the post-apartheid South African government. Chapter 7 analyses the economic policies adopted by post-apartheid South African governments as a response to globalisation. The level of FDI attracted as a result of the adoption of these policies is also studied, with particular attention paid to the economic policy known as GEAR as a response to globalisation and an attempt to attract significant levels of FDI.

Whilst the policies of the central South African state are examined in chapter 7, chapter 8 of the study assesses the attempts by South Africa’s sub-national state units (in particular the province of Gauteng and city of Johannesburg) to attract FDI through the adoption of local economic development programmes and policies. However, before dealing with Gauteng and Johannesburg’s local economic development programmes and policies, the study provides a theoretical framework for understanding local economic development, particularly as a response to economic globalisation.

Chapter 9 concludes the study by providing a summary of the main points researched and evaluates the success or failure of South Africa, Gauteng, and Johannesburg’s attempts to attract FDI.
CHAPTER TWO
GLOBALISATION AND ECONOMIC GLOBALISATION

“Globalisation, as defined by rich people like us, is a very nice thing... you are talking about the Internet, you are talking about cell phones, you are talking about computers. This doesn’t affect two-thirds of the people of the world.”

- Jimmy Carter

1. INTRODUCTION

Having broadly outlined the focus of this study in chapter 1, it is now necessary to assess the key concepts which form its focus. As discussed in the previous chapter, one of the primary areas of focus is the ideology of globalism and the process whereby a state of globalism is achieved, namely globalisation. This chapter also highlights how the concept of globalisation can draw a variety of responses ranging from those highly supportive of globalism and globalisation, to those highly critical of these concepts, to a more moderate position on these concepts adopted by some analysts.

Contemporary debates surrounding globalisation are exceedingly contentious. More so than any event in recent history, the so-called “Battle of Seattle”\(^1\) brought the issue of globalisation into the public's consciousness. Indeed, globalisation has become an important feature of any political-economic commentary on modern life. The global nature of issues, institutions, and events are increasingly dominating discussions around the direction of social change and representations of the world.

But is globalisation a recent phenomenon? And what are its key features?

In order to assess the concept of FDI as a feature of globalisation, this chapter first defines and discusses the ideology called globalism, its features, rules, and the discourse associated with it. Having dealt with the ideology of globalism, it then assesses the process of globalisation whereby the ideology of globalism is achieved. As with globalism, the discussion focuses on the features, rules and discursive environment of globalisation. Once globalism and globalisation are defined at a macro level, this study then turns to define and assess a more specific form of globalisation, namely economic globalisation and its features, rules, and discursive environment. However, several manifestations of globalisation can be delineated, including its political, cultural, and economic aspects. Before moving on to analyse FDI as a specific feature and manifestation of economic globalisation in chapter 3, this chapter lays the foundation for such analysis by contextualising financial globalisation as

\(^1\) The term “Battle of Seattle” is the colloquial expression given to the WTO’s Third Ministerial which was held in Seattle in November 1999. The significance of this ministerial round was the large protests which took place and effectively brought the meeting to a halt (Hawken, 2001: 22).
well as dealing with its drivers, institutions, actors, rules, and theory within the context of Strange’s (1994) financial structure.

Before dealing with the main level and unit of analysis, namely the state and its subnational centres of authority, this chapter also briefly assesses the current wave of globalisation and the potential for its future in light of events such as the commencement and ostensible collapse (and apparent recommencement?) of the Doha Round of the WTO.²

2. CHARACTERISING AND DEFINING GLOBALISATION

2.1 The Characteristics of Globalisation

For Held et al. (1999: 15), globalisation is characterised by the stretching of social, political, and economic activities across borders so that events, decisions, and activities in one region of the world can come to have a significance for individuals and communities in other parts of the world. For these analysts, this “stretching” characteristic of globalisation can be interpreted as the embodiment of transregional interconnectedness that leads to the widening of networks of social activity and power, and which also leads to the possibility of action being taken at a distance. It should also be noted that the embodiment of this transregional interconnectedness need not be confined to the supra-national level. Indeed, the study demonstrates that globalisation is also resulting in sub-national state units being drawn into wider networks of social activity and power, more particularly as a result of their attempts to attract FDI through policies aimed at local economic development (LED).

Not only according to Held et al. (1999: 15) is there a stretching of relationships and networks, but there is also a detectable intensification of interconnectedness, patterns of interaction, and flows which supersede constituent societies and states both at the supra-national level, as well as at the sub-national level. This is evident in the work of some analysts who perceive globalisation as a process by which all the peoples of the world are incorporated into a single world society and this single world society has become, for the first time, a collective actor (Holton, 1998: 15).

The intensification of relationships and networks at the sub-national level can be defined as “glocalisation”, or the globalisation from within national societies which leads to the stretching of relationships and networks at the sub-national state level (Roudometof, 2005: 116). The recognition of glocalisation supports the argument that globalisation is not only a process

² At the conclusion of this study the Doha Round appeared to have all but collapsed. However, on 10 September 2006 leaders of the G20 were calling for the recommencement of the Doha Round (BBC, 2006, Internet Source).
which occurs at the “macro” state and international levels but it is a process that can also be accounted for at the “micro” state level in the form of processes such as decentralisation as states shift power to sub-national state units as a means of enabling those sub-national state units to be drawn into the globalised economy. As MacLeod and Goodwin (1999: 505) note, as a result of globalisation, sub-national state units have been able to secure and promote territorial and transnational linkages with other sub-national state units.

One result of the expanding and deepening of relationships as described here is the speeding up of these global interactions and processes as a result of the development of global systems of transport and communication, which are increasing the speed at which information, goods, capital, and people can be disseminated and moved to other parts of the world. Another result is that previously local events can take on proportions of global importance, whereas previously the impact would have been more localised (Held et al., 1999: 15).

This notion of “speed” is regularly associated with globalisation, in particular with relation to the argument that globalisation is an unstoppable process, as is regularly argued by globalist scholars. The notion of globalisation as a process is also adopted by Holton (1998: 16), who argues that globalisation is a process whereby a global space is created within which global space individuals and other actors can interact. However, this global space is also constituted by other components including particular loyalties, such as states and other communities. For Holton, the emphasis is thus less on speed and more on the notion of globalisation creating a field within which a variety of actors can interact.

For Khor (2000: 3), the process of globalisation can best be expressed by focusing on its economic aspects, such as the breaking down of economic barriers; an increase in the spread of international trade and financial activities; an increase in the production activities of multinational corporations (MNCs); and the growing influence and power of MNCs and the international financial institutions (IFIs). Important characteristics of economic globalisation will be discussed later in this chapter.

For Held et al. (1999: 15), the primary characteristics of globalisation can be summed up in the following words: extensity, intensity, velocity, and impact. In contrast to this more positive characterisation of globalisation, it has also been represented as the triumph of a capitalist world economy tied together by a neo-liberal global division of labour, in which the capitalist world economy is driven by the logic of capital accumulation (Holton, 1998: 11). Globalism can thus be described as an ideology with normative descriptions and prescriptions.
Steger (2003: 9–12) identifies four characteristics of globalisation:

i. the creation and multiplication of existing social networks and activities;
ii. the expansion and stretching of social relationships and activities;
iii. the intensification and acceleration of social exchanges and activities; and
iv. the increased awareness on the part of individuals of social interdependence and the acceleration of social interactions.

2.2 What is Globalism?

Having characterised globalisation, how can globalism and globalisation be defined? Steger (2003: 7) cites the following definition of globalisation: “globalisation leads to more globalisation”. This tautological construct highlights the inadequacy of relying on the term “globalisation” to denote both a noun and a verb and highlights the need to distinguish between globalism and globalisation.

When this study refers to “globalism”, it is intended to denote an ideology. “Globalism” would suggest an ideology whereby the separate economic, political and cultural borders which once existed are being broken down. The term “globalism” also suggests an ideology whereby there is a greater emphasis on the global interconnectedness between various state and non-state actors and actions. Whilst this global interconnectedness can occur at the supra-national state level, it can also occur at the sub-national state level, which is the focus of this study.

However, as Steger (2003: 7) suggests, globalism should not be seen as an end in itself. Rather, the concept of globalism should be seen as an evolutionary concept subject to transformation and evolution. Thus whilst globalism can be viewed as an ideology, it has also become an ideological force in the 21st century.

The definition of globalism as will be used in the study is:

An ideology of economic, political and cultural relationships, whereby networks and activities are created and multiplied; expanded and stretched; intensified and accelerated resulting in state and non-state actors becoming increasingly aware of the change in their economic, political and cultural relationships, networks and activities.
Despite the fact that politicians often claim that “globalism is here to stay and there is nothing you can do about it”, the definition of globalism as used in this study suggests that the evolutionary nature of globalism means that one’s understanding and definition of what constitutes globalism now might not mean the same thing 10 years hence.

2.3 … and Globalisation?

If globalism is the ideological motive force, then globalisation is the process whereby the social condition of globalism is achieved. Having identified the characteristics of globalisation and having defined globalism, for the purposes of the study globalisation is defined as:

A process whereby economic, political and cultural relationships, networks and activities are created and multiplied; expanded and stretched; intensified and accelerated resulting in state and non-state actors becoming increasingly aware of the change in their economic, political and cultural relationships, networks and activities and the social condition of globalism is achieved.

Having conceptualised and defined globalisation, this study will now deal with the development of globalisation through history. By analysing the development of globalisation it will be possible to gain a greater understanding of the nature of the wave of globalisation that the world is currently experiencing.

3. IS GLOBALISATION A NEW PHENOMENON?

Most commentators would agree that globalisation is not a new phenomenon and that previous “waves” of globalisation have occurred in the past, with each wave of globalisation coming to a sometimes somewhat abrupt end. However, that is where the agreement ends. For instance, whilst Robertson (2003) differentiates amongst three waves of globalisation, Scholte (2000) only differentiates between two waves of globalisation.

The importance of focusing on the chronology of globalisation as a historical phenomenon is simply to illustrate that, despite what globalists might argue, globalisation is a historical phenomenon and not a singular, contemporary event. In contrast to the arguments of the globalists, the internationalist perspective of globalisation suggests that the current wave of globalisation is only bringing the world back to levels of globalism that existed prior to the outbreak of the First World War. Whilst the process of globalisation may not be a recent

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3 These concepts (i.e. “globalist” and “internationalist”) will be explored in greater detail later on this study.
phenomenon, the term “globalisation” is relatively new. Holton (1998: 21) argues that the terms “globalisation” and “global village” originate from the 1960s.

In light of the focus of this study on economic globalisation, this chapter focuses on the historical aspects of the globalisation of international finance. This study draws on the work of both Robertson and Scholte and propose that economic globalisation has occurred in three waves.

3.1 The First Wave of Globalisation: 1500 - 1699

According to Robertson (2003: 78) the first wave of globalisation introduced a new level of interconnectedness previously not experienced by human beings as the European states began inserting themselves into the nascent international trading system that had emerged prior to the 16th century, largely as a result of the expansionist tendencies of Chinese and African traders and adventurers. Examples of the expansionist tendencies of Chinese traders is highlighted by Fernandez-Armesto (1997: 126), who cites the arrival of giraffes, ostriches, leopards, and lions in China in 1419 as a result of Chinese traders returning from a expedition to Ormuz. For Wolf (2004: 100) the European voyages of discovery of the 15th and 16th centuries were an important second stage on the road to global consciousness. The first important stage of this was the unification of the Eurasian landmass by successive Mogul conquests which brought awareness of East Asian civilisations to the Europeans.

Whilst the Spanish and Portuguese were the first European states to begin inserting themselves into this international trading system that existed at the time, Robertson (2003: 88) argues that European traders found it difficult to access the Chinese economy directly. This was the largest economy at that time in which approximately one fifth of the world’s population resided. The Chinese economy conducted trade without the types of barriers to trade found in Europe, as the Europeans lacked any goods to exchange with the Chinese for the commodities they wanted. As the Spanish and Portuguese began expanding their empires in the Caribbean and South America, so the gold and silver which they began mining in those regions became the means by which they could begin to trade directly with the Chinese and other Asian communities (Fernandez-Armesto, 1997: 193). Europeans may also have found it difficult to trade directly with the Chinese in light of the fact that the Chinese had abandoned their trading aspirations in the early 15th century as a result of the collapse of the Ming dynasty (Wolf, 2004: 101; Fernandez-Armesto, 1997: 244).

The Europeans, on the other hand, began developing a complex system of payment mechanisms in the 14th century. These mechanisms played an important role in the
development of the first wave of globalisation since they allowed both buyers and sellers of imported goods to fix a price for the goods being traded; this minimised problems such as currency fluctuations (Buckman, 2004: 7).

The European economy was also undermined by the massive influx of silver and gold into the system and a lack of an increase in production and transactions in the European economy led to inflation increasing by as much as 400 per cent during the 16th and 17th centuries. As domestic productive capacity contracted, soon deflation and unemployment followed. Europeans turned to expansionism as a means of ensuring their economic security. However, this led to increasing conflicts amongst the European powers. Not only did these conflicts prove to be a drain on the economic resources of the European powers, but the technological limits of the time were also soon reached, and colonies could not contribute more than what they did to the economies of the European powers (Robertson, 2003: 99).

The result of these various shocks to the international economy was the ultimate collapse of the first wave of globalisation.

3.2 The Second Wave of Globalisation: 1700 - 1914

The second wave of globalisation began with the emergence of the Industrial Revolution in Europe, particularly Britain. But why Britain in particular? In part the increase in demand for cotton goods in the late 18th century meant that British producers had to find new ways of meeting the demand in the market but at the same time ensure that their goods were competitively priced by developing new means of production. British cotton cloth producers were also assisted by the enactment of the Calico Acts in 1700 and 1721 which restricted the importation of foreign imports of wool and linen, which had the unintended effect of protecting Britain’s small cotton industry from imports of cheap cloth from India (Robertson, 2003: 112).

As the pace of industrialisation increased, so the European powers began looking for new markets for their goods as well as access to cheaper resources and labour. One way of ensuring such access was by means of colonisation. However, whilst imperialists portrayed colonisation as technology’s power to transform “backward” societies, they failed to mention the negative aspects of colonisation such as forced labour, heavy tax burdens, population displacement, and the destructive imposition of cash crops, racial segregation, and political suppression (Robertson, 2003: 142). Thus, arguably, the second wave of globalisation was spread at the point of a gun resulting in globalisation being equated with colonialism (Putzel, 2005: 7).
The “zero-sum game” logic of trade adopted by imperialists and mercantilists could only work as long as such policies could assist capital to survive competition from other states. Such policies protected markets and provided space for technological innovation and economic expansion. The high rates of economic growth that ensued obscured the fragility of the second wave of globalisation.

Not only were governments having to contend with external pressures, internally pressures were being exerted on governing elites by class warfare which was transformed into union confrontations and mass political action by the lower classes. Although governments did try to ease the pressure by implementing legislation promoting adequate housing, for example, and extending the vote to previously disenfranchised persons, it would prove to be too little to late for European governing elites (Robertson, 2003: 151). Indeed, as Palley (2006, Internet Source) notes, one of the primary characteristics of this second wave of globalisation was the extremely uneven distribution of prosperity.

The need to quell internal dissent, as well as to deal with greater population growth, spurred European states on to adopt policies of greater expansionism. But by 1914, European states, precipitated by a growing sense of crisis, were unwilling to seek peaceful solutions to their domestic problems for which there was no possibility of finding a trade-based solution (Robertson, 2003: 154).

Not only was there political crisis afoot but also economic crisis. Palley (2006, Internet Source) argues that the failure of the second wave of globalisation was also a result of the fragile international financial system. During this second wave of globalisation, national banking systems lacked modern safety nets such as deposit insurance and lenders of last resort. This situation was compounded by the fragile gold standard system in operation at the time since states could demand payment in gold. The net result was a financial system vulnerable to panic and vicissitude, with an increased danger posed by the growth in financial markets and banking systems due to the fixed price of the resource which underpinned the system: gold. In such a system, once panic broke out it was near impossible to contain and as national banking systems collapsed, bankruptcy and deflation set in. What ensued was a period of economic, political, and military instability between 1914 and 1945 as the First World War, the Great Depression, and the Second World War all took their toll on the international economy.

In terms of the role of the state during this second wave of globalisation, Scholte (2004: 5) argues that the mid-19th century saw the rise and dominance of the statist mode of governance. Statism, according to Scholte (2004: 3) can be seen as the condition where
governance is more or less equivalent to the regulatory operations of territorial national
governments and power concentrated in the centre.

Despite the grim picture painted above regarding the second wave of globalisation, several
important developments occurred during this time which perpetuated it. Not only were
advancements made in the field of agriculture (as mentioned above), but important
developments in the field of communications also took place. For example, the first
transatlantic telegraph cable was laid in 1866. By the early 1900s, a considerable portion of
the world had been connected by means of the telegraph which allowed for communication
between people to occur in a matter of minutes, rather than months. As the technology
developed and improved, so the cost associated with inter-continental communication

3.3 The Third Wave of Globalisation: 1944 - 2007

The third wave of globalisation has its origins in the Bretton Woods conference of 1944. The
International Monetary Fund and the International Bank for Reconstruction and Development
(which later became part of the World Bank) were created at the Bretton Woods conference
in June 1944 as a liberal reaction to the mercantilist policies adopted by states during the
inter-war period (1918–1939) and were intended to prevent the economies of the world
slipping back into the protectionist modes that had come to dominate their operation since
1918. The General Agreement on Tariffs and Trade was created in 1947 at the Havana
Conference. The International Monetary Fund, World Bank, and GATT (which later became
the WTO) are collectively known as the international financial institutions or IFIs.

Free trade had become a mantra of the Roosevelt government in the United States of
America as it was hoped that through the creation of a set of international institutions to
regulate the international financial architecture (as embodied by the IFIs) and by encouraging
the governments of the world to open up their economies to free trade, the ravages of the
mercantilist policies adopted during the inter-war years, in particular as a result of the Great
Depression and into the lead-up to the Second World War, could be avoided. The Roosevelt
government saw these two events as being the result of protectionist policies practiced by
governments since the end of the First World War (Grieco and Ikenberry, 2003: 127). Indeed,
the IFIs were intended to usher in a period of controlled capitalism.

But all good things must come to an end. The stability that the IFIs were supposed to bring to
the global economy was shattered in the 1970s by two events: Richard Nixon abandoning
the gold-based fixed rate systems in 1971, and the oil crisis precipitated by Organisation of
the Petroleum Exporting Countries’ (hereinafter referred to as “OPEC”) actions in 1973. The result was the birth of neo-liberalism with which Steger (2003: 41) identifies three important developments: the internationalisation of trade and finance; the increasing power of MNCs; and the enhanced role of the IFIs.

With the collapse of the Berlin Wall on 9 November 1989, the current wave of globalisation has become characterised by several defining features:

i. a marked increase in the speed of globalisation;

ii. a greater dependency on technology in order to achieve an increase in the speed of globalisation; and

iii. an ostensible absence of serious ideological challengers to globalisation in the face of the collapse of communism and the ultimate triumph of capitalism.

In fact, the third characteristic led Fukuyama (1992: xii) to argue that “history” as the discreet, coherent, evolutionary intellectual process, when taking into account the experience of all peoples in all times, had ended and that there would be no further progress in the underlying principles and institutions of the state, because all the “really big questions” had been settled and the liberal state had triumphed. Fukuyama (1992: 51) argues that the success of liberal democracy around the world suggests that the principles of liberty and equality, on which such democracy is based, are discoveries about the nature of humanity and are not accidents or the results of ethnocentric prejudice.4 For Scholte (2004: 5) the collapse of the Berlin Wall can also be seen as the end of the statist mode of governance and the commencement of a polycentrist mode of governance.

The challenge for this third wave of globalisation, if it is to continue, is to ensure that citizens in developing and least developed states are not only provided with access to better health and welfare to ensure a better quality of life, but also to ensure that all citizens have greater access to economic participation in their respective national economies. Within the context of sub-national state units, an attempt is being made to address these challenges through policies such as LED, which seek to emphasise economic development within cities, for example, and thus improve the lives of the city’s population and simultaneously attract FDI to the city. This issue will be explored more fully in chapter 8, which pays particular attention to LED as a means of attracting FDI.

4 A decade later Fukuyama (2002: 14-15) appeared to moderate his stance on the end of history and argues that whilst liberal democracy has emerged as the only viable and legitimate political system, there can be no end of history without an end to the evolution of modern natural science and technology and that society appears to be poised on the cusp of a historic period of technological advance.
4. WHAT DRIVES GLOBALISATION?

What makes globalisation happen? Put differently, what drives the process of globalisation? One such driver of globalisation, namely technology (as argued by Strange (1994) and her technology structure) was alluded to in the discussion above concerning the various waves of globalisation. Scholte (2000: 90) argues that there are four distinct drivers of globalisation:

i. the spread of rationalism as a dominant knowledge framework;
ii. certain turns in the development of capitalism;
iii. technological innovations in communications and the processing of data; and
iv. the construction of enabling regulatory frameworks.

These four drivers will now be discussed in greater detail.

4.1 Rationalism as a Driver of Globalisation

Rationalism is evidenced in what its proponents consider to be “reasonable” in society. For example, rationalism has led to the separation of society from nature and to finding scientific means of subordinating nature for human purposes. Rationalism has also promoted the concept of objective secular law in modern social relations and the pervasiveness of bureaucracy in modern organisations (Scholte, 2000: 94).

Scholte (2000: 94) argues that rationalism has encouraged the rise of supraterritoriality since it has laid the foundations for the other drivers of globalisation, especially the development of capitalism, and technology. Rationalism has also encouraged its advocates to consider the whole of their existence to be the planet Earth, rather than to think of the whole in terms of the divine. Rationalism has thus propelled the growth of a global imagination and various material supraterritorial activities such as global communications and markets. For example, as a result of the globalisation of the mass media, cultures of different countries can be accessed by citizens of states without having to leave the comfort of their home (Roudometof, 2005: 504). Not only has globalisation led to an emphasis on supra-national activities, it has also had the effect of drawing sub-national state units increasingly into a globalising world through the adoption of LED programmes and policies, for example, as will be discussed later in the study.

Wheen (2004: 298) argues that whilst the attacks of 11 September 2001 can be viewed by some intellectuals as an attack on globalisation and the rationalism which underpins the process, this is not the case at all. Indeed, Chomsky (2001:32) argues that these attacks had
nothing to do with economic globalisation and that in all likelihood, Bin Laden has not heard of the word “globalisation”. In a video released by Al Qaeda on 7 October 2001, Osama bin Laden may have denounced the forces of modernity with great conviction, but in reality his operation is highly dependent on the results of globalisation achieved in the 20th century. For example, in order to broadcast his messages, Bin Laden must depend on the video camera or the voice recorder and the existence of international communication media in order to ensure that his messages reach the world beyond his purported hideout in Afghanistan (Steger, 2003: 2).

These arguments are in contrast to those of Wolf (2004: 9), who argues that the attacks of 11 September 2001 are an attempt by the Islamic world to resist westernisation and also an assault on liberal globalisation which has forced states to reassess the free movement of goods and people across their borders. Wolf also argues that the attacks of 11 September 2001 were an extreme reaction to the process of cultural globalisation. However, Wolf goes on to argue that whilst the threat of low-technology terrorism may pose a danger to the West, this is not a danger unknown to the West since the Soviet Union posed a similar risk to the West in the past.

4.2 Capitalism as a Driver of Globalisation

Regardless of whether one operates in a developed economy or in a primitive bartering system, production is the means of generating income and wealth (in developed economies) or subsistence (in an agrarian economy). Strange (1994: 64) defines the production structure as “the sum of all the arrangements determining what is produced, by whom and for whom, by what method and on what terms”. She goes on to state that the production structure relates to the manner in which workers are organised and what they are producing. Moving beyond the realm of the national to the realm of the international, the international production structure is the sum of all the international arrangements determining what is produced, by whom and for whom, by what method and what terms goods and services are produced.

Capitalism is a structure of production whereby economic activity is orientated towards the accumulation of surplus. This is in contrast to a subsistence economy where producers only produce enough to meet their needs (Scholte, 2000: 96). As a result of capitalism’s internal logic of overproduction, capitalist markets acquire a surplus which is then reinvested in further production.

This drive to accumulate a surplus means that there will be greater competition amongst consumers and producers for what resources there are in a capitalist economy. At the same
time, producers need continually to find new markets as well as consumers for their goods to ensure that they can remain in production and make a profit. This need for continual access to new and greater markets was in part what drove European states to colonise new territory in order to gain access to the resources offered by those territories, as well as concomitantly secure new markets for their goods. Whilst the “imperial urge” may have ended for European states, gaining access to new and bigger markets, such as China and India, are important for capitalist producers, as can be seen from the increased prominence afforded to the Chinese and Indian economies in the majority of current business literature.

As noted below, and as an example of the above argument, FDI is playing an important role in drawing sub-national state units into the international production structure. As a means of attracting these flows of FDI sub-national state units increasingly have to develop policies such as local economic development (LED) programmes as a means of developing their economies to attract FDI. But at the same time the implementation of WTO decisions can also have an affect on sub-national state units such as in the case of South Africa’s apparel manufacturers, who are predominantly concentrated in Western Cape, having to increasingly deal with competition from cheaper Chinese imports. Those manufacturers who are unable to compete have had to cease operating, leading to increased unemployment in the province (Fin24, 2005, Internet Source). This also highlights the dilemmas posed by globalisation as states at the central and sub-national levels increasingly integrate into the global economy.

However, the competition posed by cheaper Chinese imports has not reduced the adoption of LED programmes as a means of integrating South Africa’s state units and their manufacturers into the global economy and international production structure. The LED programmes of the province of Gauteng and the city of Johannesburg will be assessed in greater detail in chapter 8 of this study. Suffice to say at this point that the adoption of LED programmes by sub-national state units is an important means for sub-national state units to attract FDI. At the same time LED programmes at the same time have the effect of drawing sub-national state units into the global economy and international production structure.

4.3 Technological Innovations as a Driver of Globalisation

Technological innovations have played an important role in creating international and transnational social spaces that incorporate not only the central state but also sub-national state units into such spaces, especially with modern telecommunications technology such as the Internet. During the second wave of globalisation, the invention of the telegraph allowed for almost instantaneous communications around the world at a speed that had previously
not existed. For Strange (1994: 131), the current wave of globalisation has been spurred by two innovations:

i. the development of powerful computers; and
ii. the development of electronic communications by means of satellite.

The modern equivalent of the telegraph is the Internet which allows for the transfer of communications (such as e-mail) and information (via Internet websites) at speeds far greater than that allowed by the telegraph, and is also powered by the types of computers identified by Strange. Also in the realm of transportation certain inventions and developments have played an important role in increasing the speed at which people and goods can be moved around the world. In this regard, important developments such as liquid-fuelled rockets and commercial jets have played a critical role. But perhaps it is the humble shipping container, invented in the 1950s by Malcolm McLean, which has most revolutionised international trade by allowing for costs of international shipping to be cut at the same time as allowing for a greater number of goods to be shipped around the world. As noted above, Fukuyama (2002) is of the opinion that biotechnology will also play an increasingly important role in society and impact greatly upon our lives. This view is echoed by Schwartz (2003: 170) who argues that such advances will allow humans to manufacture new types of materials as well as pharmaceuticals and help us to live longer, for example.

These technological innovations that drive the process of globalisation are dependent on the existence of some form of knowledge structure. Strange (1994: 121) defines the knowledge structure as the knowledge that is discovered; the method of storage and the means by which the knowledge is communicated to third parties; and the terms on which the knowledge is transferred. However, for developing states the issue is the North’s domination of the knowledge structure remains problematic. In terms of their obligations under the WTO’s Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), the state is required to enforce the intellectual property rights (IPRs) of IP owners. This means that the state is required to pass and enforce legislation which will ensure that the rights of IP owners are protected not only at the central state level, but also at the sub-national level. In this regard Madeley (2000: 94) notes that nearly 97 per cent of all patents are held by Western companies. Who then benefits from the legislation passed by governments such as South Africa? The answer has to be MNCs based in the Global North.
However, even if states do not wish to play the role of the “bad cop”, as Varma (2002: 11) notes, opt-out rights are not available to members of the WTO. This means that states cannot choose not to implement decisions of the WTO and states are thus forced to adopt a multitude of multilateral trade agreements in their entirety. This further reinforces the fact that Western corporations stand to benefit most as a result of the protection that states are obliged to provide to IP owners. The effect of this is that whilst sub-national state units may be able to attract FDI, the central state’s IP legislation may limit the flow of information from MNCs to others in sub-national state units, there dampening the overall effect of the investment and benefits for sub-national state units.

4.4 **Enabling Regulatory Frameworks as a Driver of Globalisation**

Most social interaction is governed by rules of some sort. This is also the case with globalisation, which depends in some measure on the various legal and institutional arrangements that have made globalisation’s development possible (Scholte, 2000: 101). However, the rules adopted by states to deal with globalisation are not always identical. An example of this is how the French government actively promotes the interests of French companies that engage in the global economy whilst at the same time seeking to prevent the acquisition of French companies by foreigners, as will be discussed below.

In contrast to the restrictive policies of the French government, Khor (2000: 2) argues that the process of globalisation is largely driven and enabled by the policy choices of states made in recent years that have led to the liberalisation of finance, trade, and investment. Khor (2000: 2) further argues that although developing states have been involved in the formulation and implementation of the policies which have driven the process of globalisation, the decision-making processes that have led to the formulation of the policies that have driven globalisation have been dominated by states in the developed world, and not the developing world.

Not only do states play an important role in determining the rules and regulatory framework to deal with globalisation; they also set the rules for how international organisations (which they are members of) deal with globalisation. At the same time these same international organisations also play an important role in standardising and harmonising international rules. An example of this is the role that the International Telecommunications Union plays in determining international standards for communications such as international dialling codes. These international standards play an important role in facilitating the growth of globalisation (Scholte, 2000: 103). These rules also play a significant role in governing how sub-national state units gain access the global market. As will be noted again later in the study, in some
cases sub-national state units such as some Brazilian and Indian federal states have established direct relationships with the IFIs (Scholte, 2004: 25). This example also highlights how sub-national state units are gaining in importance as they seek to attract FDI.

Having assessed the drivers of globalisation, the study now turns to the discursive interpretations of the process.

5. INTERPRETING GLOBALISATION

As mentioned above, the primary focus of this study is economic globalisation, particularly FDI as a manifestation thereof. Accordingly, this section of the study will only briefly touch on the theoretical interpretations of globalism and globalisation per se; instead it deals in greater detail with the theoretical interpretations of economic globalisation.

Broadly speaking, three broad interpretations of globalisation can be found:

i. globalism;

ii. transformationalism; and

iii. internationalism.

Each of these three interpretations offers their own perspective on the impact of globalisation on society. As noted above, since the Battle of Seattle there appears to be a change in how globalisation is perceived, mostly towards an increasingly negative perception of the process. Khor (2000: 1) argues that whilst there is a multiplicity of reasons for a change in the perception of and attitude towards globalisation, in the developing world the change in attitude to globalisation is caused in part as a result of:

i. the lack of tangible benefits for developing states after opening their economies;

ii. the growing inequalities of wealth and opportunities arising from globalisation; and

iii. the perception that social and cultural problems have been exacerbated by globalisation.

6. POLITICAL GLOBALISATION

Not only is globalisation an economic process; it is also a political process whereby the world’s political relationships is undergoing tremendous transformation. As Rajaee (2000: 20) points out, with the collapse of the Soviet Union and the end of the Cold War came a renewed sense of optimism on the part of American policy-makers that Kant’s plan for
perpetual peace could finally become reality. This optimism was borne out in President George H W Bush’s speech to the 45th session of the United Nations General Assembly in October 1990 in which he stated that (liberal) democracy would liberate the world and would lead to a world of open borders and trade. At the same time, democracy (coupled with globalisation, as noted below), has certainly facilitated the emergence of sub-national state units as a site of globalisation through policies such as decentralisation, thus allowing sub-national state units to compete directly, and amongst each other, to attract FDI.

Political globalisation has also manifested itself with the creation of a number of supranational units, such as the European Union, which seek to integrate the economies and political processes of member states to ensure that members adhere to a specific set of norms and standards. At the same time the European Union is also promoting the concept of a “Europe of Regions” as a means of integrating sub-national state units together more closely within the Union (Committee of the Regions, Internet Source, 2007).

For McGrew (2004: 140), political globalisation can be characterised by various distinct features. These include the following:

i. Political interaction is becoming increasingly characterised by the institutionalisation of intergovernmental and transnational networks of political interaction. This can be seen not only in the creation of formal organisations (such as Amnesty International and the Southern African Development Community (SADC)), but also in the informal contacts between government officials and business people (such as at the World Economic Forum) and for local governmental and other sub-national actors.

ii. The growth of new centres of authority both on a sub-national as well as a supranational level.

iii. The emergence of an evolving global polity represented by the various global and regional bodies that have been created to deal with transnational and cross-border issues.

iv. The increasing multiplicity of transnational civil society organisations that play a significant role in mobilising, organising, and exercising their constituencies around the world.

v. The existence of a system of global governance and transnational civil society is often associated with new forms of multinational, global and sub-national politics.

Political globalisation has also been marked by the internationalisation of national policies and policy making mechanisms, according to Khor (2000: 4). Whereas a state’s national policies relating to competencies such as economic, social, cultural, and technological areas
were once within the exclusive sphere of national governments, these policy competencies have increasingly become influenced by supra-national actors such as supra-national/multilateral institutions (such as the IFIs) and MNCs. The result is that a state’s ability to influence policies within its sphere of competency is becoming eroded at the same time because globalisation in the form of FDI and decentralisation are also drawing in sub-national state units (Khor, 2000: 4). The impact of political globalisation on state sovereignty will be assessed in later chapters of the study, in particular how globalisation is facilitating the integration of sub-national state units into the global economy through policies and processes such as LED.

7. ECONOMIC GLOBALISATION

As mentioned above, globalisation can take a variety of forms. Of particular importance to this study is economic globalisation, especially FDI as a feature of economic globalisation. Before dealing with FDI as a feature of economic globalisation, this chapter will first assess the general characteristics of economic globalisation.

Sorensen (2006: 192) argues that whilst the ramifications of economic globalisation are not easily settled, economic globalisation can be said to be occurring in the following ways:

i. The internationalisation of national and sub-national economic spaces through both inward and outward economic flows.

ii. The formation of regional economic blocs embracing several national economies.

iii. The growth of virtual regions through the development of economic ties between contiguous and non-contiguous sub-national and regional authorities in different national economies.

iv. The extension and deepening of the activities of MNCs as they shift focus from the national to the global and at the same time the sub-national.

v. The widening and deepening of international regimes covering economic and economically relevant issues.

vi. The introduction and acceptance of global norms and standards.

One can argue that FDI as a feature of economic globalisation appears to be dealt with under Sorenson’s point relating to the internationalisation of economic spaces through economic/financial flows. Regarding FDI as a feature of economic globalisation, the relationship is more explicitly stated by Steger (2003: 40), who states that the three most significant developments of modern economic globalisation can be identified as:
i. the internationalisation of trade and finance, particularly investment in the form of FDI;
ii. the increasing power of MNCs; and
iii. the enhanced role of the IFIs.

The key element for the purposes of this study is the internationalisation of trade and finance in the form of FDI.

For Bhagwati (2004: 3) economic globalisation constitutes the integration of national economies into the international economy through trade, FDI, short-term capital flows, international flows of workers and humanity generally, and flows of technology. Whilst the characteristics of economic globalisation and the various possible forms of economic globalisation as discussed above appear fairly uncomplicated, the reality is that the nature and impact of economic globalisation remains hotly contested. The various interpretations of economic globalisation can be viewed as a continuum such as the one below:

This continuum highlights the three primary schools of interpreting economic globalisation, namely globalism, transformationalism, and internationalism. The discussion now turns to deal with these three schools’ differing interpretations of economic globalisation.

7.1 Globalism

For globalists, the growing integration of the national and sub-national economies of the global state system can be highlighted by various drivers of change. These drivers include technological drivers, but also financial drivers such as increased international trade and increased flows of FDI. Globalists argue that the outcome of the increased integration between states is the emergence of a single global economy.

In order to achieve this single global economy globalists argue that economic globalisation is leading to the denationalisation of national and sub-national economies through the establishment and greater intensification of international and sub-national networks, particularly networks in the production, financial, and knowledge structures. As a result of this
denationalisation, trade by MNCs, divisions of labour regarding production, and FDI are able to move in and out of states more easily (Woods, 2001: 291). According to proponents of the globalists’ school of thought, the state is thus losing its pre-eminence as the primary economic unit in the international architecture as economic authority becomes increasingly disbursed to other actors (such as regional and international bodies as well as sub-national state units) (Held et al., 1999: 3; Ohmae, 2000: 123; Saul, 2005: 15).

Not only is there a greater intensification and penetration of the financial and technological drivers of economic globalisation; globalists also argue that there are increasing levels of infrastructure being put in place to monitor and control the developments occurring in this supposed nascent global economy (Kelly and Prokhovnik, 2004: 92). This monitoring and control infrastructure includes “soft infrastructure”, such as the reporting requirements required by international stock exchanges for example, but also includes “hard infrastructure”\(^5\) such as the creation of the WTO and the increased scope in the areas of competence of the IMF.

Globalists rely on a variety of evidence to prove their thesis of increasingly stretched economic processes. Such evidence includes the economic changes that occurred in the 1970s. Grieco and Ikenberry (2003: 3) argue that since the 1970s the world has witnessed an increase in the economic interfaces between states (including at sub-national level) as the developed economies of the world increasingly manufacture goods for export than was ever the case in the past. Again, these relationships are being driven by technological changes such as better communication and transport infrastructure, in addition to the financial drivers of economic globalisation which enables MNCs to become “footloose” modern businesses (Woods, 2001: 291).

Within globalist literature, there appears to be two distinct views on the impact of economic globalisation.

7.1.1 Positive Globalism

According to the positive globalism interpretation, consumers are the ultimate beneficiaries of globalisation as they are now able to access a greater variety of goods as a result of greater competition between manufacturers, and they are also able to have those goods shipped to them faster as a result of better technology. Positive globalists also argue that in addition to

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\(^5\) This differentiation between “hard” and “soft” infrastructure is the author’s own distinction. These terms are meant to differentiate between institutional infrastructure which is put in place (for example, the creation of the WTO), versus the rules and policies which organisations are meant to comply with (which is the “soft” infrastructure”).
developed states benefiting from economic globalisation, developing states also benefit from
globalisation since an integrated global market accelerates the transfer of technology from
developed to developing states as sub-national state units attempt to integrate themselves
into the global economy (Kelly and Prokhovnik, 2004: 95).

However, the positive effects and beneficial outcomes of globalisation are often stated by
economists as being of a “central tendency”. This means that globalisation will not result in
beneficial outcomes for every single citizen of the world; rather for the majority of the world’s
citizens there will be (aggregated) beneficial outcomes. This leaves the door open for
possible downsides despite the overall positive effects of globalisation (Bhagwati, 2004: 32).
In this regard, Bhagwati (2004: 34) argues that globalisation needs to be better managed to
ensure that it has the optimal utilitarian outcome.

Not only is technology able to flow more freely to developing states as a result of economic
globalisation but capital is also able to flow more freely to developing states as a result of the
surplus of funds available to developed states to invest in developing states (Kelly and
Prokhovnik, 2004: 96) and as sub-national state units seek to attract surplus investment
capital through policies such as LED. Positive globalism can thus be equated with
hyperliberalism, which is marked not only by a trumpeting of the benign effects of
globalisation, but also the triumph of the market over the state as the latter moves power up
(to supra-national units) and down (to sub-national units) (Phillips, 2005: 30).

Whilst an excess of capital may exist for investment purposes, this capital is often only
available subject to conditions imposed by the lenders. For example, whilst African states
were able to borrow money from the IFIs during the 1980s, these loans were subject to SAPs
which entrenched the Washington Consensus in those lending states. Whilst the effects of
the Washington Consensus on developing states are beyond the focus of this study, suffice
to say that even the IFIs appear to be moderating their stance on the implementation of the
Washington Consensus as an ex ante condition for financial assistance.

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6 Another potent symbol (and reality) of economic globalisation is the increased role of the IFIs in the
global market. Indeed, the power that the IFIs wield in the global market is a direct result of the
Washington Consensus. The term the “Washington Consensus” was coined by John Williamson, who
was an International Monetary Fund (IMF) adviser during the 1970s. Steger (2003: 52) highlights the
ten points that define the Washington Consensus: a guarantee of fiscal discipline and a curb on
budget deficits; a reduction of public expenditure especially military and public administration
expenditure; tax reforms to enhance tax collection and enforcement as well as a broadening of the tax
base; financial liberalisation with interest rates being determined by the financial markets; exchange
rates which enhance, assist and enable export-led growth; trade liberalisation and the abolition of
import licences and a reduction of tariffs; the promotion of FDI; the privatisation of state enterprises;
the deregulation of the economy; and the protection of property rights. The most well-known form of
implementation of the Washington Consensus prescriptions is by means of SAPs, in terms of which
developing nations were unable to qualify for IMF loans unless they met the criteria of the Washington
Consensus.
The moderation in the stance of the IFIs has been most notable since 1997 as the IFIs have sought to marry the objectives of fiscal austerity and market liberalisation with the goal of “participation”, particularly in the form of the Poverty Reduction Strategy Paper (PRSP) process as the IFIs have pushed for the secondment of NGOs as partners to private entrepreneurs and corporations in the development process (Putzel, 2005: 7). Stiglitz (1998: 28) argues that the state can only fulfil the functions required of it by the IFIs and the state’s broader developmental role if the state has adequate institutions. In order to ensure that state institutions are fulfilling their roles Stiglitz (1998: 29) argues that policies developed by the state need to be owned by the citizens of the state. According to the IFIs this can be achieved by the PRSP process.

Oxfam (2004: 6) highlights several problems relating to the PRSP process. Whilst including civil society in the process of drafting PRSPs is a novel idea, it could prove to be problematic in that the IMF and World Bank have refused to define what they perceive as the minimum requirements for the civil society participatory process. In addition to a lack of definition, Oxfam (2004: 7) is also of the opinion that the Ministers of Finance of states drafting PRSPs have been playing a primary role at the expense of ministries more suited to the process of crafting the PRSP. In addition to the pre-eminence of Finance Ministers, the drafting of PRSPs have failed to take into account existing development planning processes. For example in Uganda the World Bank accepted the government’s Poverty Eradication Action Plan as its PRSP only under considerable duress (Oxfam, 2004: 7).

However, Putzel (2005: 7) argues that this shift in the focus of the IFIs does not amount to a reconsideration of the role of the state on the parts of the IFIs. Indeed, Putzel (2005: 10) argues further that the policies of the IFIs have also played a role in the weakening of African states. Putzel (2005: 10) cites the example of how during the civil war in Sierra Leone the government underpaid soldiers, thus providing an incentive for soldiers to engage in smuggling and looting. At the same time the government of Sierra Leone received praise from the IFIs for their sound macroeconomic management of what little of the economy existed at the time.

Witness also in recent years the development of the “Post-Washington Consensus” which advocates a new consensual, participatory form of development strategy, defined through dialogue among donors, the state and civil society that will purportedly serve as a catalyst for society-wide social change as embodied in the PRSP process. Such a strategy should simultaneously develop the private sector, the state, the community, the family and the individual in a coherent, interrelated way, by setting priorities and providing the necessary
resources, economic management, knowledge, sectoral planning, and social and organisational capital (Parkins, 2004, Internet Source).

7.1.2 Negative Globalism

Whilst open borders and deregulated trading arrangements are viewed as a boon by positive globalists, negative globalists argue that open borders and deregulated investment and trading arrangements pose problems not only to developing but also to developed states. Such problems include:

i. The yawning gap between the income of the rich and the poor, not only amongst the populace of states, but also within states. In this regard, it is notable that the number of South Africans living below the poverty line\(^7\) has increased from 9.4 per cent of the population in 1995 to 10.5 per cent of the population in 2002. Furthermore, South Africa’s Gini Co-efficient rose from 0.596 in 1995 to 0.635 in 2004, which suggests that income inequality is worsening (UNDP, 2004: 43). As Kelly and Prokhovnik (2004: 96) note, widening inequalities can cause long term problems such as poverty, resentment, social exclusion, and political unrest.

ii. The undermining and reduction of state powers to control the economy and organise taxation as a result of their citizens’ use of the Internet to import goods from abroad (Kelly and Prokhovnik, 2004: 96) but at the same time with some taxation powers being decentralised to sub-national state units. Furthermore, although developing states account for only a small percentage of international trade, greater economic liberalisation (as a result of globalisation) means that changes in the demand or pricing of commodities which developing states export or a reduction in import duties can result in major economic and social effects for such developing states (Khor, 2000: 3).

iii. The increase in legal authority of supra-governmental or multilateral actors such as the WTO which have the power to override local and national authorities if there is a violation, and thus discipline states (Kelly and Prokhovnik, 2004: 96). At the same time sub-national state units are also increasing in legal authority as a result of decentralisation, which can be interpreted as a response by states to globalisation.

iv. Capital is becoming increasingly mobile, which is undermining the power of states and shifting the locus of power to unaccountable global market forces. As a result, states are under increasing pressure to introduce neo-liberal market-friendly policies as a means of attracting and holding on to investments (Kelly and Prokhovnik, 2004:

\(^7\) This is defined by the UNDP (2004) in the “Human Development Report – the Challenge of Sustainable Development” as being US$1 per day.
97, Beall (2005)), which, as mentioned above, can also involve the adoption of policies of decentralisation.

Negative globalists further argue that inequalities between the rich and the poor, both within and between states, are expanding. For example, it is estimated that between 1988 and 1993 the share of the world’s income going to the poorest 10 per cent of the global population fell by over 25 per cent, whilst the share of the richest 10 per cent rose by 8 per cent. The result of such inequality is that whilst the rich regions of the world grew richer, the poor regions grew poorer. As Putzel (2005: 8) argues, the concept of a “benign” globalisation cannot be accepted when overall per capita GDP has not budged in Africa throughout the 1980s and 1990s. Furthermore, in 24 African states GDP was lower in 1998 than it was in 1975 (Putzel, 2005: 8). A further serious critique of economic globalisation is also offered by feminist scholars who argue that the least unionised and poorest paid of all workers are women, who are particularly vulnerable to the market policies and patriarchal divisions of labour that have been characteristic of economic globalisation (Kelly and Prokhovnik, 2004: 99).

As mentioned above, not only are states experiencing growing inequality within their borders, but there is also growing inequality between states. As Stiglitz (2006, Internet Source) argues, growing inequality in advanced industrial states was one of the consequences of globalisation that was less advertised to citizens in these states when globalist policies were adopted. Indeed, in order for there to be full economic integration by implication there would have to be an equalisation in the wages of unskilled workers globally. In this regard Stiglitz (2006, Internet Source) argues that there is a clear “race to the bottom” since it appears to be easier to equalise down rather than up.

However, whilst there may be a race to the bottom the effects of globalisation have not proved always to be in favour of the poor. Indeed, the poor are often ill-equipped to deal with the negative effects of globalisation, of which they bear the brunt. According to Stiglitz (2006, Internet Source), some of these negative effects include a global trade regime that impedes development; recurrent financial crises as a result of an unstable global financial system; and a global intellectual property regime biased in the favour of MNCs. The latter are often based in advanced industrial states that use the global intellectual property regime to deny access to affordable antiretroviral drugs, for example.

In addition to the weaknesses of developing states in the face of economic globalisation emphasised by Stiglitz above, Khor (2000: 9) highlights further weaknesses of developing states to harness the potential of economic globalisation; these can be expressed as both
internal and external weaknesses. The external weaknesses of developing states include a lack of bargaining power and negotiating strength in international relations and a lack of organisation and co-ordination of responses to the international economic policies advocated by developed states. The internal weaknesses of developing states include a lack of domestic economic capacity and weak social infrastructure as a result of colonisation as well as the abuse of power and economic mismanagement by despots, which has hampered the development process in a number of developing states (Khor, 2000: 9).

7.2 Transformationalism

Whereas globalists view economic globalisation as a process that cannot be controlled, transformationalists are of the opinion that economic globalisation can be harnessed. In particular, transformationalists argue that the direction of any changes that occur in societies cannot be predicted since the future direction of globalisation remains uncertain. Thus for transformationalists it is impossible to make claims about the future trajectory of globalisation. Rather, transformationalists argue that globalisation is a long-term process which can be contradictory and whose characteristics are often determined by contemporary factors and influences (Held et al., 1999: 7).

For example, whereas globalists argue that economic matters play an important and determining role in the political and cultural realms, for transformationalists the political and cultural realms still have the capacity to resist change since political and cultural groups are not fully determined by economic conditions. Thus the consequences of global economic activity are complex and unpredictable with uneven effects on states, meaning that states can work together to exercise a measure of control over global economic institutions. Whereas globalists see MNCs as dominating the global economy, for transformationalists this is not the logical conclusion or result of economic globalisation (Kelly and Prokhovnik, 2004: 105). Woods (2001: 291) also argues that the proposition of globalists that the state is under pressure to cut taxes and reduce expenditure is without base since the available economic data does not appear to back up such an argument.

At the heart of the transformationalist argument rests the realist notion that the state is the primary actor in economic affairs; however, the current wave of globalisation is resulting in the realignment of the power, functions, and authority of states. The power of states is thus not eroding and rather states continue to play a substantial role in the economy (Woods, 2001: 291). State power thus needs to be juxtaposed with the expanding role of international institutions and networks which are impacting on the state’s ability to exert its full power, functions and authority, including the ability of central governments to exercise full control
over their sub-national state units, as will be noted later in the study (Held et al., 1999: 8). These institutions and networks need not only be constituted formally, but may also be informal institutions and networks.

In this regard, the Internet plays an important role in facilitating the creation of and communication between networks of actors who interact with the state in seeking to harness and control the effects of economic globalisation (Kelly and Prokhovnik, 2004: 105). Sassen (1998: 100) and Beall (2005: 253) point to the manner in which feminist and indigenous groups are increasingly using the Internet as a means of co-ordinating their activities on economic issues on a transnational basis since these groups’ interests can no longer be defined solely within the borders of states (Roudometof, 2005: 115-116).

Not only are these networks being formed between states and civil society groups (particularly at the sub-national level), but regionalism and regional groupings also play an important part in states being able to limit the effects of economic globalisation. These economic regions formed by states at both the supra-national and sub-national levels thus facilitate the development, continuation and enhancement of regional dynamics, whilst at the same time acting as a link to the rest of the world (MacKay, 2004: 72). Regional groupings, whilst concurrently facilitating international trade, can also contribute to the growth of international trade, but possibly not in the manner proposed by globalists, since the trade occurs within the more confined space of a specific economic region. According to the transformationalist perspective, states are thus able to negotiate the rules of trade amongst themselves whilst at the same time allowing trade to flow across their borders from both the supra-national and sub-national levels (Kelly and Prokhovnik, 2004: 107).

Examples of how states are able to interact with other states in the process of economic globalisation and benefit from global trade whilst at the same time being able to limit certain aspects of economic globalisation include Malaysia and France. In the case of Malaysia, the government was able to impose emergency controls on the movement of capital whilst at the same time allowing international goods and services to flow across its borders. In France, farming remains an important industry. To this end, France has imposed limits on the importation of American agricultural goods whilst at the same time being a vocal and ardent supporter of the European Union’s Common Agricultural Policy, in terms of which French farmers benefit from (overly) generous subsidies (Kelly and Prokhovnik, 2004: 109; Gordon, 2005, Internet Source).

The need to reform globalisation is also highlighted by Stiglitz (2006, Internet Source) who argues that there is a need to understand the challenges of globalisation in order to develop
solutions to the problems. However, in order to avoid a backlash against globalisation as a result of some form of crisis management, Stiglitz (2006, Internet Source) cites the need for globalisation to be changed on the basis of careful, democratic deliberation and debate. Any such reform would be necessary in order for globalisation to be able to enhance and increase the living standards of all the world's citizens.

7.3 Internationalism

According to internationalists, the significance of the current wave of globalisation has been over-stated and the current wave of globalisation should be contrasted against past international economic patterns. Central to the internationalists’ argument is the notion that globalisation should be defined as a perfectly integrated global market. Using this as their definition of globalisation, internationalists use historical evidence to argue that globalisation does not exist and rather argue that the evidence tends to suggest the presence of internationalisation, or the interaction between national economies to explain the phenomenon of globalisation (Held et al., 1999: 5).

Not only does the internationalist school of thought embrace scholars who reject the existence of globalisation or the primacy afforded to globalisation, but also analysts who argue that the current wave of internationalisation represents a new and powerful process of the transformation of the global order (Phillips, 2005: 32). However, the internationalist school appears to ignore the increased role of sub-national state units in the global economy.

7.3.1 Economic Globalisation as a Continuing Debate

Internationalists argue that globalisation is not a self-evident reality, as the globalists would argue, but rather a continuing debate about the assessment of the significance of different phenomena and processes. Globalisation is not an inevitable, unified, and irreversible process but is rather constructed and reified by globalists and transformationalists as an explanation for economic effects which serve a particular interest. The effects that globalists and transformationalists label as “globalisation” can be interpreted in less dramatic explanations than those provided by globalists and transformationalists, according to internationalists. Thus for internationalists the key question when assessing economic changes is: “do these changes amount to globalisation (as a perfectly integrated economy)?” (Kelly and Prokhovnik, 2004: 109).

The term “globalisation” has been applied by developed (especially European) states to reinterpret their own history. Internationalists suggest that modern European history is
passed off as being of global applicability so that colonial and post-colonial history has been absorbed and appropriated into the dominant discourse of developed states as a narrative of European progress. European technological and industrial progress thus becomes the backdrop for the interpretation of modern history. Thus for internationalists the recent intensification of trade and investment can be interpreted as a new phase of Western imperialism in which the state merely acts as an agent for capital (Held et al., 1999: 6).

The concepts of “globalisation” and “free trade” have also become so intertwined in developed states that globalisation is used by these states as an alibi to impose, by means of the IFIs, SAPs and PRSPs which lead to economic exclusion and hardship for the poor in developing and least developed states. Consequently developed states are able to impose their power and economic will on developing states by arguing that they (the developed states) are powerless in the face of supposed globalising economic forces, which can imply an imposed form of decentralisation on developing states by the IFIs (Kelly and Prokhovnik, 2004: 112).

Indeed, the rationale of the internationalists can be supported by the argument that there are no historical examples of development occurring under the conditions of openness and liberalisation as promoted to the South under the rubric of globalisation. Those states in the South that have managed to achieve economic success over the past 50 years have achieved their economic growth in no small part due to the involvement of the state, and most particularly via the state’s control over the allocation of foreign exchange and the state’s protection of infant industries (Putzel, 2005: 8).

7.3.2 Economic Evidence for the Internationalist Argument

Internationalists argue that globalists rely too heavily on economic data from the mid-20th century in order to prove their thesis. Rather, internationalists argue that the general increase in the levels of international trade over the past 50 years indicates that international trade is returning to levels prior to the outbreak of the First World War. One can argue that the current wave of internationalisation is a result of the creation of the Bretton Woods system, which the US initiated at the end of the Second World War (Held et al., 1999: 6).

For internationalists, international trade and investment have been able to return to pre-First World War levels because of states’ self-interest. Thus for internationalists, political forms and decisions are driving economic forces and not vice versa (Kelly and Prokhovnik, 2004: 114). It is thus possible to argue that decentralisation, as a policy choice, can be a means of attracting FDI to the central state and its sub-national state units.
Internationalists thus talk about the “international” economy instead of the “global” economy. Whereas the expression “international economy” suggests that activities in one state can have an effect on other states, according to internationalists the expression “global economy” suggests a level of integration and stronger connection such that effects in two places are caused by the same event. As evidence of an “international economy” rather than a “global economy”, internationalists argue that state-based economies have co-ordinated advantages of greater economic wealth and more prosperous lifestyles for their citizens and have therefore tended to be more supportive of growing international economic connections including decentralisation as a means of allowing sub-national state units in appropriate circumstances to gain fully from the advantages of scale which they may have when interacting with the global economy. However, when any of these developments in international economic connectivity begin to threaten the interests of the state, the state will attempt to prevent or limit the effects in question (Kelly and Prokhovnik, 2004: 114).

An example of such state action was the unilateral imposition of levies ranging between 8 per cent and 30 per cent by the US in 2002 in order to protect its domestic steel industry. According to President George W. Bush, these levies were necessary in order to assist US steel producers to adjust to the “level playing field” of the international economy.

The above discussion regarding globalisation has highlighted the various characteristics of globalisation as well as the variety of types of globalisation (such as economic and political globalisation), as well as the various interpretation of the effects of globalisation. This discussion has been necessary in order to lay the foundation for a discussion of FDI as a feature of economic globalisation. As mentioned in chapter 1 of the study, the problem which the study seeks to address is the impact of FDI on the South African state and its sub-national state units. In the next chapter of the study, the nature and characteristics of MNCs and FDI will be discussed in greater detail, with particular attention to the nature and flow of FDI to developing states as well as the impact of FDI on states. The discussion which follows in chapter 3 will, as mentioned above, draw on the theoretical foundation provided by this chapter in order to demonstrate that FDI is a feature of economic globalisation.
CHAPTER THREE
FOREIGN DIRECT INVESTMENT AS A FEATURE OF ECONOMIC GLOBALISATION

“I find it rather easy to portray a businessman. Being bland, rather cruel and incompetent comes naturally to me.”
- John Cleese

“I ran the wrong kind of business, but I did it with integrity.”
- Sydney Biddle Barrows

1. INTRODUCTION

Chapter 2 of the study highlighted the various characteristics of globalisation and the variety of types of globalisation (such as economic and political globalisation), as well as the various interpretation of the effects of globalisation. The problem which the study seeks to address is the impact of FDI as a feature of economic globalisation on the South African state and its sub-national state units.

This chapter discusses how MNCs play an important role in the global economy, especially as they invest in national and sub-national economies. The increased importance of MNCs in the global economy is a result of the increased internationalisation of national and sub-national economic spaces through both inward and outward economic flows as well as the extension and deepening of the activities of MNCs as they shift focus from the national to the global and sub-national (Sorensen, 2006: 192).

This chapter firstly defines the terms MNC and FDI before providing an analysis of Strange’s financial power structure. Such an analysis is necessary as FDI falls within the realm of the financial structure which can be viewed as a hybrid system that is on the one hand partly a global system, and on the other hand a series of national financial and monetary systems, even though these national structures are increasingly susceptible to influences and pressures from outside the state’s borders. The chapter then goes on to identify the types of FDI, the extensity and intensity of FDI, and the flow of FDI. The chapter will highlight how the flow of FDI is concentrated in the USA, the European Union and Japan, with Africa garnering substantially lower levels of FDI than other regions of the world.

The study then analyses the drivers of FDI, being both the forces that drive MNCs to invest abroad as well as the forces which drive states and sub-national state units to attract FDI. In this regard, particular attention is paid to how the characteristics of African economies such large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework promote the attraction of FDI to African states such as South Africa. Such an analysis is necessary in order to determine
what impact FDI will have on South Africa and its sub-national state units. This chapter also seeks to broadly outline the various positive and negative impacts that FDI can have on a state before the theoretical analysis developed in this chapter is applied to the South African state and its sub-national state units.

2. FDI AS ECONOMIC GLOBALISATION

As discussed above, economic globalisation can take many forms and has many features. One such form is FDI. Critical to any discussion of FDI would be a discussion of multinational corporations (MNCs) and the role that they play in the global economy. Indeed, Balaam and Veseth (2005: 377) argue that the international trade, global finance, national security, and knowledge structures are all affected by MNCs and the competition between MNCs as these organisations compete for sub-national, national, regional, and international markets. The importance of MNCs in the global economy can be highlighted by statistics indicating that over 63,000 MNCs own approximately 700,000 affiliates in nearly every country in the world. Furthermore, both MNCs and their foreign affiliates account for approximately a quarter of global GDP (Jensen, 2006: 24).

2.1 What is a Multinational Corporation?

Held et al. (1999: 237) characterise an MNC as a company:

i. that extends over the border of the parent state;
ii. whose headquarters remain in the parent state;
iii. whose governance, organisational capability, and packaged offering stretch across the political boundaries of the parent and host states; and
iv. that establishes, acquires, and administers a network of inter-related businesses.

Thus an MNC in its broadest sense is a company which produces goods or markets its services in more than one state. In its narrowest sense, an MNC is a company which, through FDI, controls and manages subsidiaries in a number of states outside its parent state (Held et al., 1999: 237).

In addition to the “location-specific” characteristics highlighted above, MNCs can also be said to have the following “investment-related” characteristics (Jensen, 2006: 28):

i. MNCs have high levels of research and development relative to sales;
ii. there is a large share of professional and technical workers in the workforce;
iii. they produce products that are new and/or technically complex; and
iv. there are high levels of product differentiation and advertising.

2.2 Defining FDI

Various forms of investments can be made by MNCs, including portfolio investments and FDI. This study focuses on FDI. The latter has several characteristics, including that (Jensen, 2006: 23):

i. it is a form of private capital flow;
ii. the capital flows from the MNC’s host nation to a location outside the MNC’s host nation, which location include a sub-national state unit;
iii. the capital flows consist of, *inter alia*, equity capital, inter-company debt, and reinvested earnings; and
iv. the investment gives the MNC a measure of control over the management of the company invested in, which is usually over 10 per cent of the ownership of that company.

FDI is characterised by Kelly and Prokhovnik (2004: 91) as a form of lending. These authors cite the investment by an MNC in a host country by which an MNC is able to exercise direct control over the investment as a form of lending to the host country by the parent country of the MNC. FDI also constitutes a feature of economic globalisation as according to Khor (2000: 3) the process of globalisation can best be expressed by focusing on the economic aspects of globalisation such as the breaking down of economic barriers; an increase in the spread of international trade and financial activities, particularly FDI; as well as an increase in the production activities of MNCs.

Based on these characteristics and for the purpose of this study, FDI can be defined as follows:

FDI is the flow of an MNC’s private capital from its host nation to another nation. The private capital flow takes the form of an investment, which investment gives the MNC a measure of control over the management of the company invested in. This measure of control is usually in excess of 10 per cent the ownership of the company invested in and constitutes a feature of economic globalisation.
Having defined FDI, the study now turns to deal more closely with MNCs, and their use of FDI.

2.3 A Brief Overview of MNCs and their Investments

Before dealing with MNCs and their investments, it is necessary to lay a theoretical foundation for any such analysis. In this regard, this study draws on the work of Strange (1994) in relation to the global financial structure since FDI (which is one of the key foci of this study) falls within this structure.

2.3.1 The Financial Structure

According to Strange (1994: 90), the international financial structure can best be seen as a hybrid system that is on the one hand partly a global system, and on the other hand a series of national financial and monetary systems, even though these national structures are increasingly susceptible to influences and pressures from outside the state’s borders as evidenced by processes such as decentralisation and policies such as LED. Thus whilst the markets that make up the financial structure are international, the authorities are predominantly national.

The financial structure thus has two important components, namely (Strange, 1994: 90):

i. the structures of the political economy through which credit is created; and

ii. the monetary systems which determine the relative values of the different monies in which credit is denominated.

Credit is thus an important component to any developed economy since it is an important form of wealth creation. It is thus imperative that credit should be able to reach all parts of the economy, and that reach has to be done in a regular and reliable manner, otherwise the economy, on which the credit depends, could suffer (Strange, 1994: 91). Within the context of FDI, if MNCs are unable to raise capital through means such as credit in order to invest in economies, then no investment may take place. Thus, as noted earlier, credit forms a vital component of any developed economy.

Whilst Strange focuses on credit and credit creation as a critical component of the financial structure, Balaam and Veseth (2005: 20) argue that the financial structure can be viewed as the basis on which it is determined who (be it persons or states) has access to money, how
they have access to such capital, and the terms on which they are granted access to it. The financial structure thus has two principal foci, namely:

i. how access to scarce resources can be purchased using money; and
ii. the extent to which capital creates obligations for states and people.

The importance of the financial structure thus lies in the fact that international finance pays for trade and investment (in the case of this study, FDI).

2.3.2 A Brief Overview of the MNC – FDI Nexus

MNCs are central to the process of economic globalisation. As mentioned above, they account for approximately a quarter of global GDP and approximately two-thirds of world trade with up to a third of all trade being intra-firm commerce between branches of MNCs (UNCTAD, 1995: 23). MNCs also account for approximately 80 per cent of world trade in technology and the majority of private research and development (Held et al., 1999: 236).

The influence of MNCs on the international economy is certainly not a new phenomenon. Although as discussed above globalisation itself is not a new phenomenon and as industrialisation gathered momentum during the 1800s, so too did international investment. In this regard, FDI grew rapidly during the classical Gold Standard period from the 1870s to 1914 with approximately 35 per cent of long-term investment constituted as FDI by the outbreak of the First World War (Held et al., 1999: 239). Further evidence of the old role of FDI is that the Middle Ages in Europe also saw the initiation of systematic cross-border trading operations that were carried out by institutions of a private, corporate nature that often had state backing and support (Hirst and Thompson, 2005: 19).

Fast forwarding to the end of the Second World War it should be no surprise that as the only significant global economy not directly affected by Second World War, companies from the United States of America accounted for at least half of the initial expansion of FDI in the 1950s and 1960s, particularly in resources. However, as traditional investment locations for US companies such as Canada and the United Kingdom began relying on protectionist policies to protect their industries, so US companies began expanding into other markets. Not to be outdone, European and Japanese firms also began investing abroad during the 1970s. Whereas the Europeans and American MNCs tended to use their most technologically advanced production techniques overseas, Japanese MNCs tended to keep such technology in Japan (Held et al., 1999: 243).
Greater movement towards the creation of regional trading blocs, such as the European Union, during the 1990s provided MNCs with incentives to locate production within these blocs. Whilst the fear that these regional trading blocs would limit MNCs’ ability to invest outside these blocs initially spurred MNCs to invest outside them, Held et al. (1999: 243) cite how merger and acquisitions accounted for around 70 per cent of all inward FDI into the OECD states between 1986 and 1990 as MNCs sought to purchase existing production networks. Blocs like the European Union have also emphasised policies such as decentralisation as a means of promoting economic efficiency to attract FDI to the bloc via sub-national state units, as can be seen in the European Union programme called “Europe of the Regions” (Committee of the Regions, Internet Source, 2007).

Changes at the regional level are not the only explanation for the increase in flows of FDI during the 1990s; between 1991 and 1996 95 per cent of the 599 changes to national FDI regulations worldwide resulted in greater liberalisation in the flows of FDI (Held et al., 1999: 243; Jensen, 2006: 24). Indeed, evidence of the pervasiveness of MNCs in all areas of the world can be seen in statistics indicating that in 1998 there was 7,932 parent corporations based in developing states (of which 30 were in Africa) and 129,771 foreign affiliates located in developing states (of which 134 were in Africa) (Held et al., 1999: 245). Whist FDI stock amounted to US$3.2 trillion in 1996, the MNCs controlling this stock were responsible for sales, both domestically and internationally, of US$7 trillion (Hirst and Thompson, 2005: 68).

In 2006 there were approximately 63,000 MNCs owning nearly 700,000 affiliates and the current stock of world FDI is well over US$5 trillion whilst trade in goods and services amounts to approximately US$3 trillion (Jensen, 2006: 24). In 2005, FDI to Africa was US$31 billion, which according to UNCTAD (2006: 3) was the highest amount of FDI to flow to Africa on record. In 2004, 85 of the top 100 MNCs had their headquarters in the United States, the European Union, and Japan, or the so-called “triad”. In terms of South African MNCs, Anglo American was the 36th largest MNC in the world and SAB Miller was ranked at 117 (UNCTAD, 2006: 31).

MNCs can thus be representative of the stretching of economic and business relationships as well as corporate activity as these organisations expand their production and distribution networks across the globe, as seen in the characterisation of globalisation as discussed above. However, as Held et al. (1999: 237) note, whilst some MNCs may operate on the basis of owning plants, outlets, and/or subsidiaries around the world, many more MNCs are increasingly making use of third parties for the production of their goods since these third parties are able to offer MNCs high-quality production at a competitive price. Typically MNCs enter into outsourcing arrangements with these third party producers who are located in
states outside the MNC’s parent state. This results in global production networks being created by means of contractual relationships, rather than through ownership of the means of production, which global production networks can draw in sub-national state units.

As a result of attracting MNCs to invest in specific locations, sub-national state units are increasingly being drawn into the global economy. A more detailed discussion of how sub-national state units are being drawn into the global economy (through policies such as decentralisation and programmes like LED) will follow in chapters 4 and 8 of the study. Suffice it to say at this point that it would increasingly appear that states are using decentralist policies as a means of providing the preconditions as well as the material and non-material infrastructure for the emergence of new spaces for interaction between the various state units (national as well as sub-national) at both a national and international level (Roudometof, 2005: 119).

2.3.3 MNCs and Their Investments

Investments by MNCs can take a variety of forms, for example portfolio investments and FDI (as mentioned above). The importance of private flows of capital is highlighted in statistics indicating that whereas private capital flows accounted for only 44 per cent of capital flows in 1990, by 1996 this figure stood at 85 per cent with FDI as the primary form of such private capital flows. In 2005, the international inflows of FDI amounted to US$916 billion and outflows amounted to US$779 billion (UNCTAD, 2006: xvii). However, the increase in the flows of FDI have been disputed by authors such as Hirst and Thompson (2005), who argue that flows of FDI that are currently being experienced do not exceed the flows of FDI experienced prior to 1914.

2.3.3.1 The Types of FDI

Broadly speaking, two types of FDI can be found (Jensen, 2006: 23):

i. “greenfield investments”, being investments where MNCs construct subsidiaries in foreign markets from the ground up. These firms choose between locations across the globe, providing the financial capital and managerial know-how to establish a subsidiary. These greenfield investments can be made in virtually any industry, from manufacturing, to agriculture, and to services; and

ii. “brownfield investments”, being investments more common in developing economies. These investments exist in established firms and are normally acquired by MNCs by purchasing existing companies and are a means of MNCs gaining access to foreign
markets. Increasingly MNCs are using the privatisation programmes in developing countries as a means of investing in those developing countries as well as programmes and policies such as decentralisation and LED.

More specifically, the World Bank (2004, Internet Resource) identifies four types of FDI, namely:

i. market-seeking investments which are aimed at reaching sub-national, national, or regional markets. Typically the production of household consumer products falls into this category of FDI;

ii. resource-seeking investments, which are aimed at countries rich in natural resources that MNCs look to develop and exploit;

iii. efficiency-seeking investment, which is often a way of consolidating an initial investment made by an MNC and thus constitutes a form of follow-on investment; and

iv. strategic asset-seeking investment, which occurs when MNCs undertake investments, acquisitions, or alliances to promote their long-term strategic objectives.

The implication for developing states is that they need to identify and target investors of specific types of FDI based on the resources within their economies. Increasingly sub-national state units are making use of local investment agencies as a means of identifying and targeting specific forms of FDI. For the purposes of the study, particular attention will be paid to the roles of the Gauteng Economic Development Agency (GEDA) and the city of Johannesburg’s investment unit’s programmes to identify and attract FDI, particularly through programmes such as LED.

But as will be noted again later in this chapter, the flow of FDI to African states, for example, can vary based on the requirements of the investors. So whereas Angola may attract predominantly resource-seeking investments, South Africa may attract market-seeking investments.

2.3.3.2 The Extensity and Intensity of FDI

Whereas the period immediately after the Second World War witnessed significant increases in world trade and domestic investment⁸ which led to export driven growth between 1950 and 1994, a shift began occurring in the 1980s with an increase in the flow of FDI to industrial countries in particular with flows of FDI to developing states accounting for only

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⁸ In Europe this was largely as a result of the Marshall Plan.
approximately 34 per cent of all FDI flows during 1995 and 1996 (Hirst and Thompson, 2005: 69).

The importance of FDI is underscored by the fact that global FDI continues to outpace global trade, with FDI growing at an average rate of 13 per cent and trade only growing at an average rate of 7 per cent between 1980 and 1997. Increasingly this gap has been widening with FDI growing at 25 per cent in 1998 and 28 per cent in 1999 (Jensen, 2006: 24). However, as Jensen (2006: 24) notes, the relationship between FDI and trade may be misleading in the light of increased intra-firm trade. For example, IBM imports components from a subsidiary in China; this will be reflected as a Chinese export and an American import, even though the trade in question was intra-firm.

However, FDI has also proved to be one of the most stable forms of private capital flows. Whereas international capital flows plunged over 14 per cent, decreasing the total to emerging markets from 11 per cent of world capital flows in 1997 to 4.5 per cent by 1999 during this same period, FDI flows to developing states remained relatively stable and showed some increases in 1999 and 2000 (Jensen, 2006: 25).

Indeed, the total of developing states' FDI increased from 21 per cent in 1991 to 36 per cent in 1997, dipping back to 25 per cent in 1998 (Jensen, 2006: 25). Jensen (2006: 25) argues further that this decrease in developing states' share of FDI was more the result of increased flows of FDI to developed states as a result of the "dot com" merger mania of the 1990s than a decrease in the flow of FDI to developing states.

2.3.3.3 The Flow of FDI

Having established the importance of MNCs in the international economy, as well as the types and intensity of FDI flows, an important question that needs answering is, where does all this investment go?

This is perhaps one of the most contentious issues amongst analysts who focus on FDI.

Whilst there has been an increasing extensity and intensity in FDI flows, as Held et al. (1999: 247) note there have been distinct and uneven patterns in the extensity and intensity of FDI flows. As Hirst and Thompson (2005: 71) indicate between 1991 and 1996 60 per cent of FDI flows were between North America, Europe, and Japan (hereinafter referred to as "the Triad"). The Triad also accounted for 75 per cent of the total stock of accumulated FDI in 1995. However, whilst the majority of FDI flows between North America, Europe, and Japan,
Hirst and Thompson (2005: 72) argue that developing states are becoming increasingly important sources of FDI as a result of the activity of MNCs based in developing states.

Contrary to Hirst and Thompson’s arguments about the flow of FDI, Held et al. (1999: 250) argue that although there is evidence of a regional clustering of FDI stock, there also appears to be a significant flow of FDI between the various worldwide regional groupings. Whereas Asia attracted only US$4.1 billion in FDI (or approximately 7.5 per cent of all worldwide FDI flows) in 1960, by 1994 this figure had increased to US$334.8 billion in FDI (or approximately 14.3 per cent of all worldwide FDI flows). In the case of Africa though, stocks of inward FDI have slipped from US$3 billion (or 5.5 per cent of all worldwide FDI flows) in 1960 to US$55 billion (or only 2.3 per cent of all worldwide FDI flows) in 1994 (Held et al., 1999: 249). Indeed, the flow of FDI to Africa declined by 41 per cent from US$19 billion in 2001 to just US$11 billion in 2003 (Jensen, 2006: 27).

In terms of the flows of FDI to Africa, whilst returns on investments in Africa have been increasing since the 1990s, poor infrastructure, distant geographical location, low productivity and a high-risk environment are deterring many investors outside the mining, oil and tourism industries. These factors, coupled with the high cost of transport, may deter many would-be investors (Mills, 2002: 88). However, it would appear that there is a variation in the nature of FDI that flows to African countries. In the case of countries in the Southern African region, this can be highlighted with the examples of:

- Angola, which has been able to attract significant levels of FDI for its oil industries;
- Lesotho, which has attracted FDI for its export-orientated textile industries; and
- South Africa, which attracts predominantly manufacturing investments.

The fact that FDI is concentrated amongst several states reflects its stratification rather than its regionalisation, according to Held et al. (1999: 250). This could be interpreted as meaning that the flow of FDI is uneven and organised hierarchically. Held et al. (1999: 250) further argue that even if the flow of FDI is stratified, there does not appear to be patterns of regional concentration of FDI with regional trade being more concentrated than FDI flows.

If there is an increased level in the flow of FDI, this begs the questions, what drives MNCs to invest abroad? What attracts these significant flows of FDI to states? Whilst certain of these factors may be specific to developed states, this study will focus on those factors that have an impact on the flow of FDI to developing states such as South Africa.
2.4 What Drives These Flows of FDI?

Based on the above it would appear that the levels of FDI (both FDI stocks and new investments) are increasing considerably. But why would MNCs look to invest abroad? Balaam and Veseth (2005: 382–387) identify several possible motives that would induce a company to invest abroad. These motives include the following:

2.4.1 The Presence of a Location-Specific Advantage

The presence of a firm-specific advantage may not be the only motivating factor for an MNC to invest abroad. An MNC may be able to maintain its firm-specific advantage and never invest abroad, rather opting to export its products to other states.

However, by investing abroad, an MNC may be able to respond to its customers’ changing requirements and tastes that much quicker than were it to remain in its home state. A further location-specific advantage would be the by-passing of import restrictions. This means that by investing in another market an MNC is able to produce its goods locally, thus reducing transport and labour costs whilst negating the impact of trade barriers that may exist in the market that the company is investing in (Balaam and Veseth, 2005: 386; Jensen 2006: 42).

Indeed, regional trade agreements and arrangements such as the North American Free Trade Agreement (NAFTA) or the European Union (EU) often place greater barriers to imports than foreign companies operating within the region under national treatment regimes (McGuire, 1999: 152).

2.4.2 The Product Life-Cycle Theory

A hybrid of the above two advantages is the “product life-cycle theory”. This theory states that when a company releases a new product into the market, the company will face few competitors, an example being when IBM released the personal computer. This means that the company will locate the production of the new product close to its customers and research and development centre. This allows the company to adapt the product to the needs of the primary market and overseas markets are serviced by way of export (Balaam and Veseth, 2005: 382-383; Jensen, 2006: 43).

However, as the production and the technology become more routine and easily imitated, a gap in the market is created for other companies in overseas markets to challenge the innovating company in its overseas markets. In order for the innovating company to retain its
overseas markets, it will need to establish local production facilities in overseas markets (Balaam and Veseth, 2005: 383).

2.4.3 Bunching

An additional motive for investing abroad is for a company to deny its competitors the edge of being the only company operating abroad. By bunching in specific markets in which a competitor has invested, other companies will hope to minimise their risk and maintain a stability or equilibrium in the market (Balaam and Veseth, 2005: 386). An example of bunching can be found in the European chemical industry. Major players, such as Ciba, BASF, and ICI have all moved the production of their bulk chemicals from Europe to Asia.

2.5 What Attracts These Flows of FDI?

Within the context of African economies, Asiedu (2006: 74) argues that large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework promote FDI. Such an investment framework for FDI could take the form of a local economic development (or “LED”) programme. In this regard, Görg and Strobl (2004: 3) argue that the greater the backward linkages that exist between local firms and MNCs, the greater the possibility that local firms and sub-national state units will benefit from the externalities of the MNC. Such linkages can be provided by LED programmes that promote specific industries or services, for example. Wolf (2004: 233) also argues that an important factor that attracts FDI is a legal system that is strongly rooted in the rule of law. Not only is the rule of law an important factor in attracting FDI; but also countries with better investment climates, as evidenced by the level of corruption, political openness, the quality of the regulatory regime, government effectiveness, and political stability are all political factors which can assist in attracting FDI (Wolf, 2004: 233).

Whilst the dominant belief is that low wages and relatively high skill levels are the main factors in attracting FDI to states, Marais (2001: 113) argues that these two factors are not the most important considerations for foreign investors. Rather, factors such as the size of the domestic market, the price (relative to) exchange rate stability, and political and institutional stability are important determinants in attracting FDI. Regarding the point that low wages attracts MNCs to invest in states, Wolf (2004: 235) argues that there is overwhelming evidence that MNCs in fact pay their workers more and treat their workers better than domestic companies operating in the same jurisdictions and sectors as themselves.
Marais (2001: 113) argues further that by emphasising FDI as a means of spurring economic growth means that domestic capital can be let off the hook. States such as South Korea and China have shown how, by harnessing domestic capital investment, high rates of return on investments can be generated. Not only did these states harness domestic capital investment, but they were able to generate continued cycles of investment and growth by requiring that large portions of the surplus generated by domestic capital investment be reinvested in targeted activities and industries. It is these high returns on investments generated by domestic capital that attracts foreign investors to invest in the domestic economy.

2.6 The International Regulation of FDI

Attempts at the regulation of FDI at the supra-national level have been undertaken in two fora of note, the WTO (in the form of Agreement on Trade-related Investment Measures or “TRIMS”) and the OECD (in the form of the Multilateral Agreement on Investments or “MAI”). At the sub-national level, the ability of sub-national state units to attract FDI is often determined by the rules of decentralisation that are applied by the central government. Thus to some degree central governments may be able to control and regulate the flow of FDI across their borders, particularly in relation to their sub-national state units.

2.6.1 TRIMS

The increased importance of FDI as a feature of economic globalisation is also reflected by the increased speed of trade liberalisation since the implementation of the Uruguay Round in 1994. With regards to FDI, TRIMS represents an attempt by the members of the WTO to increase the speed of trade liberalisation in the field of investment. At the time of negotiating the formation of the WTO, the United States argued that there was a need to regulate investment measures that distorted trade (International Trade Centre and Commonwealth Secretariat, 1995: 206). Indeed, the United States wanted to go so far as to regulate the policy issues affecting the flow of FDI so as to bring international policies in line with the GATT principle of national treatment. Not only the United States but also many other developed states hoped that TRIMS would result in increased investment in their economies (Balaam and Veseth, 2005: 126).

Whilst this proposal was accepted by some developed states, many developing states argued that GATT’s mandate did not permit the negotiation of investment issues and that any such negotiations on investment issues would need to also include negotiation on the trade
distortions induced by MNCs, such as transfer pricing and restrictive business methods (International Trade Centre and Commonwealth Secretariat, 1995: 206).

Whilst the final TRIMS agreement agreed to at the Uruguay Round is weak and narrow in focus (Sell, 2000: 179) it reaffirms two GATT principles, namely:

i. national treatment; and

ii. the prohibition of quantitative restrictions on investment policies that directly affect trade flows.

This means that TRIMS prohibits investment laws that discriminate in favour of local businesses in areas of local investment and ownership linked to trade (Buckman, 2004: 50).

In practice, TRIMS requires that national governments inform the WTO secretariat of various performance requirements such as local content that are in violation of the GATT principles identified above. Member states are then obliged to eliminate these trade-related investment measures within the period allowed to them in terms of the Uruguay Round (being two years for developed states, five for developing states and seven for transitional states calculated from 1 January 1995) (Sell, 2000: 179).

Interestingly the TRIMS agreement does not guarantee the rights of establishment and national treatment for foreign investors. In addition to this, export requirements have been left untouched by TRIMS (Sell, 2000: 179). However, TRIMS is not the only attempt by certain quarters of the international community to regulate investment.

2.6.2 The OECD MAI

The OECD’s attempt at a MAI would have required signatory states to remove barriers to entry and operations of foreign companies in all sectors, allow foreign companies full equity ownership, and to treat foreign investors at least as well as local investors and companies. There would also be no control over the flow of funds to or from a signatory state and local requirements such as technology transfer or other social goals would have been prohibited (Khor, 2000: 6).

Had the OECD’s MAI been approved, the Global Policy Forum (1997, Internet Source) argues that developing states would have been at a disadvantage, in particular since OECD members receive approximately 65 per cent of global FDI and are the source of 85 per cent of global FDI. As OECD members increase their investments in developing states, they could
have pressurised developing states to become signatories to the MAI, an agreement in which
developing states had no role in negotiating and drafting. However, by October 1998 it
appeared that the OECD's MAI was “clinically dead” (South-North Development Monitor,

Whilst the OECD’s attempts to implement the MAI failed, in 2006 the OECD published a
document entitled “Policy Framework for Investment”. Whilst the preamble of the document
states that the proposed framework is not binding on member states, the OECD (2006: 8)
views the framework as a flexible checklist that states can utilise to enable policy-makers to
ask the right questions when evaluating investments. This is certainly a far cry from a binding
international agreement on the regulation of international investment.

Whilst the burden of concluding an MAI was shifted to the WTO, where member states
conducted preliminary negotiations between 1995 and 1996, by 1999 there was still no
further progress on the conclusion of a WTO-based MAI. Since the collapse of the Seattle
WTO meetings in 1999 the WTO has not developed a programme for negotiations for an
investment agreement (Khor, 2000: 35).

2.7 The Impact of FDI and Assessing the Impact of FDI

With the significant levels of FDI being made around the world in mind, the study now turns
to evaluate the positive and negative impacts of FDI.

2.7.1 The Positive Effects of FDI

It is often argued by neoliberals and positive globalists that those states that have ostensibly
“liberal” policies towards FDI, or some form of active MNC involvement in their economies,
have performed well compared to those states with less favourable policies. This observation
by such analysts is then used as proof that liberal policies towards FDI benefit the host state.
Not only does a liberal FDI policy framework mean that these states attract capital; but they
also attract the technologies, managerial practices, and distribution networks in export
markets that MNCs are able to offer host states and which drive the growth and excellent
trade performance that these states experience (Chang, 2004: 250).
In addition to the aforegoing, scholars have identified several possible positive effects of FDI on the host states of MNCs. These positive effects include:

i. productivity and technology spillovers;
ii. increased exports;
iii. increased employment; and
iv. increased economic growth.

These effects will now be assessed in greater detail.

2.7.1.1 Productivity and Technology Spillovers

Not only is the investment that MNCs bring important to the host states; the technology that these companies bring with them is also important. Based on the investment-related characteristics of MNCs highlighted above, it would appear that there is a potential for technological transfer to the host state which can lead to technological advances and potentially greater economic growth for the host state (Görg and Strobl, 2005: 137). For sub-national state units that MNCs invest in, the productivity and technological spillovers can considerably increase economic development and growth within the sub-national unit but it can lead to stratification within a state since some sub-national state units may benefit more than others from FDI and the productivity and technological spillovers resulting from such investment.

With regard to spillovers, the insight is that such a firm possesses some intangible asset (such as a design, technology, or managerial skill) that not only makes such a foreign affiliate profitable, but it also warrants maintaining control of such an entity for fear of losing the intangible asset. It is this intangible asset that makes FDI so attractive for host states and both the central and sub-national levels (World Bank, 2002: 91).

The technology that MNCs possess can either be transferred directly or indirectly. Direct transfer occurs when an MNC makes its technology available by means of a joint-venture or licensing agreement. However, MNCs have a direct interest in avoiding the dissemination of their trade secrets and in this regard agreements regulating joint-ventures and licence agreements normally contain strict confidentiality provisions unless the technologies are disseminated as a result of companies consuming the products made by MNCs, or when MNCs share their technologies with suppliers (the so called “forward” and “backward” linkages) (Jensen, 2006: 29).
Whilst licensing or the sale of its technology may be an option for an MNC, Balaam and Veseth (2005: 384) argue that MNCs prefer to retain ownership over their foreign subsidiaries for two reasons:

i. the MNC is able to capture all the benefits that flow from the advantage that they possess; and
ii. supply or licensing agreements carry a certain amount of risk and uncertainty with them.

Indirect transfers occur when employees, for example, who are familiar with an MNC’s technology leaves the employ of an MNC, taking the knowledge with them. Indirect transfers can also occur between local firms and MNCs operating in the same country (Jensen, 2006: 29).

2.7.1.2 Increased Exports

A further benefit of MNC investment for host states is that MNCs typically invest in export sectors that lead to the generation of foreign exchange for the host states when the MNCs export their finished products.

However, as Jensen (2006: 31) notes, FDI does not always lead to higher levels of host state exports since some MNCs may invest in the host state for the purpose of serving the local market and not necessarily for export purposes. In the case of South Africa, recent large investments by MNCs have focused on companies in South Africa’s service sector9. Thus whilst the profits of the acquired South African firms may leave the country, the acquired firms do not necessarily produce goods for export which could generate foreign exchange for South Africa.

2.7.1.3 Increased Employment

It is estimated that MNCs employ approximately 70 million workers worldwide with around 22 million of these workers located in foreign subsidiaries. At the same time that MNCs invest in their chosen locations, the result is often an increase in the number of local companies to serve and complement the new foreign companies (Jensen, 2006: 31). Furthermore, as mentioned above, evidence would suggest that MNCs pay and treat their workers better than local firms, which can also have a positive impact on the location in which the MNC is

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9 In particularly Barclay’s acquisition of ABSA and Vodafone’s acquisition of Venfin, which gives it a 50 per cent stake in South Africa’s Vodacom.
investing. In addition to increased employment, FDI by MNCs can also result in an increase in school enrolments in countries with a higher initial skill endowment (Lorentzen, 2006: 2).

The employment created by MNCs is often regionally concentrated with MNCs investing in specific locations, with host states at both the central and sub-national levels often providing incentives to invest in specific locations that may historically have enjoyed less economic development (Jensen, 2006: 31). In South Africa, the government actively promotes investment in specific regions known as Industrial Development Zones (IDZs) such as Coega, the deep water harbour development situated north of Port Elizabeth as well as through LED programmes such as those adopted by the province of Gauteng and the city of Johannesburg.

2.7.1.4 Increased Economic Growth

The cumulative effect of these positive effects of FDI, especially when combined with other domestic conditions, should be higher economic growth for the host state at both the central and sub-national levels. This economic growth can lead, however, to an uneven distribution of economic growth within a state at the sub-national state level. Domestic conditions that can lead to an increase in economic growth, when coupled with FDI, include instances when states are pursuing an export promotion strategy (Jensen, 2006: 32).

2.7.2 The Negative Effects of FDI

Whilst the discussion above has highlighted the positive effects of FDI for states, there is often a negative portrayal of the role of MNCs and FDI in the global economy. It is possible to distinguish between the negative effects of FDI per se and the effects of competition between states competing for FDI (Jensen, 2006: 33).

2.7.2.1 The Negative Effects of FDI per se

The negative portrayal of MNCs and FDI is often associated with dependency theory. Dependency theorists such as Raul Prebisch and Theotonio Dos Santos argue that developing states have several distinct disadvantages in their relationships with MNCs, particularly bargaining power (Ferraro, 1996, Internet Source). Dependency theorists have also argued that the political and economic elites often create an “unholy alliance” with MNCs investing in their economy by excluding the citizens of the state as each actor in this alliance seeks to extract the best possible advantage for itself from the alliance (Jensen, 2006: 33).
It has also been argued that the process of FDI can lead to “denationalisation” in that the profits generated by companies acquired by MNCs are often expatriated to the parent state of the MNC. Typically in a developed state, if one relies on the statistical evidence provided above, this leads to the enhancement of the wealth of the parent state leaving little, if any, capital in the host state for the development of the local economy (Jensen, 2006: 33). Khor (2000: 36) goes on to argue that FDI appears to have a negative effect on domestic savings in that whilst it allows the host state to increase its consumption, FDI also leads to an outflow of profit and other investment income from the host state. This can lead to the “decapitalisation” of the host state since the outflow of capital from the host state tends to increase over time as the stock of foreign capital rises (Khor, 2000: 36). Not only can the inflow of FDI lead to decapitalisation, it can also lead to denationalisation as foreigners could come to dominate the host state’s wealth stock at the expense of local investors (Khor, 2000: 36).

A further criticism of FDI *per se*, is that whilst the figures seem to indicate that the level of MNC activity is increasing worldwide, Chang (2004: 252) argues that the pace at which this activity is happening is actually slower than what most positive globalists argue and most MNCs remain international firms with a strong base in their parent states, which they use for their assets and production activities. Rather than locating further afield, most MNCs would appear to rather move into economies within the same economic region as the parent state of the MNC (Chang, 2004: 252).

Perhaps one of the greatest problems with FDI *per se* is that there is a lack of understanding of the impact of FDI on host states and their sub-national state units. In particular, Khor (2000: 36) argues that the link between investment liberalisation and macroeconomic performance has not been researched in sufficient depth.

In order for developing states to benefit from FDI, Khor (2000: 36-37) argues that developing states need to ensure that:

i. the rate of growth of domestic investment needs to exceed that of FDI; and

ii. there must be a strong trade effect (i.e. exports should exceed imports) to offset the effect of capital reduction described above.

In sum, developing states seeking to attract FDI need to ensure that the policies that they adopt afford the host state and its sub-national state units the right and powers to regulate the entry, terms of conditions, and operation of FDI, as well as ensuring that any investment
policies favour the growth of local companies if FDI is to play a positive role in the host state (Khor, 2000: 40).

2.7.2.2 Increased Competition to Attract FDI

In more recent times though, the emphasis amongst scholars appears to have shifted from focusing on the direct negative effects of FDI to focusing on the competition generated amongst (and within) states competing to attract FDI. Thus whilst most scholars would agree that FDI can have a positive impact, the process of attracting FDI can lead to substantial costs for governments.

Whilst the competition to attract FDI could be seen as producing benefits for both investors and host economies, this view of FDI is predicated on the observation that when seeking a location for a major investment, investors focus on countries that are able to meet the “fundamentals”, namely political and macroeconomic stability, market access, and long-term growth potential, rather than on the fiscal and financial incentives offered by prospective host governments (Oman, 2000: 17).

Opponents of such a view argue that substantial costs for governments (at both the central and sub-national levels) increase the level of public subsidies offered to investors, being fiscal and financial incentives, until the level of these incentives far outweigh any potential benefit from the FDI that the incentives were meant to attract (Oman, 2000: 19). Naturally the costs to governments will also impact on the sphere of government which is attempting to attract the FDI. Thus if provincial or local government is attempting to attract FDI and offer various incentives, then logically it will be the citizens within that specific sphere of government that will need to shoulder any potential subsidies.

In this regard, Jensen (2006: 34) highlights the case of the bidding war between various states in the US to attract a Mercedes-Benz assembly plant. Alabama, the winning state, provided an incentive package of US$250 million to Mercedes-Benz which equates to US$168,000 per job created by the investment of Mercedes-Benz.

3. THE END OF THE THIRD WAVE OF GLOBALISATION?

Clement Atlee stated, “We cannot create a heaven inside and leave a hell outside and expect to survive”. This also seems to be a central thesis advocated by Robertson (2003), namely that waves of globalisation will come to an end when the gaps between the “haves”
and the “have-nots” become so great that the wave of globalisation in question is no longer able to support itself. This has been of particular importance in the area of international trade.

Indeed, Jacques (2006, Internet Source) argues that the freer movement of trade and capital has been a fundamental characteristic of the current wave of globalisation and that the Doha Round of the WTO was a further attempt by those members of the international community in favour of free movement of trade and capital to keep the process going. However, at the time of compiling this study, the Doha Round seems doomed to failure and according to Jacques (2006, Internet Source), this could signal the end of the third wave of globalisation.

As mentioned above, the challenge for this current wave of globalisation is to ensure that the citizens of developing and least developed states have greater access to their respective national economies and that their standard of living is improved. One of the primary institutions to help achieve these goals is the state.

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This chapter has identified how FDI can be viewed as a feature of economic globalisation by showing how MNCs are having greater importance in the global economy as a result of the increased internationalisation of national and sub-national economic spaces through both inward and outward economic flows as well as the extension and deepening of the activities of MNCs as they shift focus from the national to the global and sub-national. The chapter also demonstrated that within the context of the African state, factors such as large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework (such as LED programmes) can play an important part in attracting FDI to states.

Since the research problem of the study is concerned with the impact of FDI on the South African state and its sub-national state units, this chapter sought to begin assessing such an impact of FDI on the South African state by explicating the general positive and negative effects of FDI on states. In this regard it was noted that FDI can have the following positive effects on host states: an increase in productivity and technology spillovers; an increase in exports; an increase in employment; and increased economic growth. However, the negative effects of FDI include the denationalisation of the profits of MNCs as well as an increase in competition between sub-national state units in host states to attract FDI.

Having identified FDI as a feature of economic globalisation here and having discussed globalisation in detail in chapter 2 of the study, the study now turns to provide a theoretical
framework for the analysis of the South African state and its sub-national state units by discussing and analysing the concept of the state in further detail, before analysing the South African context.
CHAPTER FOUR
THE STATE AND ITS SUB-NATIONAL UNITS –
YESTERDAY, TODAY, TOMORROW, TOGETHER?

“It is wonderful to be here in the great state of Chicago.”
- Dan Quayle

“Government, n. A modern Chronos who devours his own children. The priesthood are charged with the duty of preparing them for his tooth.”
- The Devil’s Dictionary

1. INTRODUCTION

The state has a significant impact on citizens’ lives. The state regulates, in one form or another, its citizens’ birth, education, working lives, and ultimately, death. In chapter 1 of the study, the problem statement and research aims of the study were set out. In chapters 2 and 3 of the study the issue of globalisation, more particularly FDI as a feature of economic globalisation, was assessed. One of the other core concepts in the problem statement posed in chapter 1 was the issue of sub-national state units, and the impact of FDI on the state and its sub-national state units. This chapter deals with firstly the state and its sub-national state units before considering the relationship between globalisation and sub-national state units as sites of globalisation. By dealing with the relationship between sub-national state units and globalisation in general terms in this chapter, the study applies the theoretical elements developed in chapters 2, 3, 4 and 5 to South Africa and its sub-national state units in the subsequent chapters.

Before defining the concept of the state, the study assesses the general characteristics of the state, namely territory, institutions, and sovereignty. It will also differentiate between political and economic sovereignty before dealing with the economic characteristics of the state. Having assessed these various characteristics of the state, the study then defines the state in the light of those characteristics. Not only does the study focus on the state, it also focuses on the sub-national state units that make up the state and how power can be decentralised to these sub-national state units in a variety of manners, such as devolution.

As will be noted, the concept of the state is also predominantly a European construction, and its origins lie in the result of the conflicts between European peoples. Indeed, the study notes that even this European construction of the state is not a static ideal, but rather a construction that has continually been worked on and adapted. In this regard, perhaps the clearest evolution of the European construction of the state can be seen in the European Union project currently under way. However, not only is the state continually adapting and changing, but also the various interpretations of the state are continually adapting and
changing. Thus in the case of the European states, the state was initially a means of differentiating between the internal and the external, as well as a means of keeping the external out of the internal. This appears to be changing as European states continue to integrate themselves into the global economy both at the supra-national level (by means of the European Union) as well as at the sub-national level (by means of the programme called “Europe of the Regions”) in a bid, amongst other reasons, to attract FDI. For this reason, the study also focuses on the various interpretations of the state in political theory.

2. WHAT IS THE STATE?

The state means many and different things to different people. Three basic characteristics that a state should possess in order to be considered a state are institutions, sovereignty, and territoriality (Opello and Rosow, 1999: 2). However, within the context of International Political Economy (IPE) Watson (2005: 179) argues that the state has been under-theorised and has been used as shorthand for political authority and that politics is the means by which the state achieves its pre-given national interest.

As Opello and Rosow (1999) and Watson (2005) indicate, there is no single, definitive conceptualisation of the state. Accordingly, in order to arrive at a definition of the state that will be used in the study, the characteristics of the state will be assessed and based on these characteristics a definition of the construct will be arrived at and applied in the study.

Not only is there not one single definition of the state, but there are a variety of interpretations of the state which are dependent on ideology. Each of these ideological interpretations has its own norms and rules that inform the manner in which the institutions of the state, for example, are interpreted. These interpretations include those of:

i. Weber, who argued that the state has a monopoly on violence as the practical expression of a state’s sovereignty (Heywood, 2002: 87);

ii. Smith, who argued that the economy functions best when left alone by the state since the economy would be guided by the invisible hand of the market (Heywood, 2002: 183);

iii. Marx, who argued that the state cannot be understood separately from the economic structure of society in which all citizens are equal (Heywood, 2002: 90); and

iv. Fukuyama, who stated that “history”, or the single, coherent, evolutionary process, when taking into account the experience of all peoples in all times, had ended and that there would be no further progress in the underlying principles and institutions of
the state, because all the "really big questions" had been settled and the liberal state had won (Fukuyama, 1992: xii).

2.1 The Primary Characteristics of the State

In order to arrive at a definition of the state the study explores the three requirements for statehood advocated by Opello and Rosow (1999), namely sovereignty, institutions, and territory. These characteristics are also highlighted by Axtmann (2004: 26) who argues that the modern state project aimed at replacing the various competing jurisdictions (for example the Church, monarch, nobility, and merchants) with the institutions of the centralised state. Not only did the state replace the authority of sub-national actors but also sub-national state units which the state subsumed within its territory (such as city-states). The state is thus the supreme authority over the people, resources, and all other authorities or institutions located within its territorial confines. A more detailed discussion of the origins of the state will follow later in this chapter. It is also pertinent to note at this point (as will be again later in the study) that globalisation appears to be reversing this centralising trend which the state has been exercising for a number of years through policies such as decentralisation as power is transferred to sub-national state units.

2.1.1 Territory

Perhaps the least contentious characteristic of the state is that of territory. According to Heywood (2002: 87) the state is a territorial association. The state’s jurisdiction is thus geographically defined and extends to all those who live within the state’s defined boundaries – whether they are citizens or not (Roskin et al., 1994: 28). Axtmann (2004: 260-261) argues that the 19th century saw the notion of the state come to stand for the idea that legitimate government could only be based on the principle of national self-determination and that the “state” and the “national” should ideally be identified with one another. This had the effect of drawing the concepts of “society” and the “state” closer to each other. Thus a state’s ability to protect its perceived “national interest” rests on the state being able to guarantee the physical security of its citizens through the exertion of force within the territorial bounds of the state (by means of police forces, for example) as well as externally through the use of the military (Axtmann, 2004: 261).

Axtmann (2004: 261) also argues that another key consideration for the modern state is its ability to identify who belongs within the territorial bounds of the state, and who does not. In doing so the state is able to extract rates and taxes from its citizens in order to further advance and develop the institutions of the state (such as sub-national state units) in the
name of the national interest. The power of the state to extract rates and taxes from its citizens is not limited to the central state. In some decentralised states, sub-national state units also have the power to raise rates and taxes for use within their economies.

2.1.2 Institutions

The traditional division of institutions (or trias políticas) has been the executive, the legislative, and the judicial. In terms of this model, each of these institutions has its own duties and responsibilities, whilst at the same time being able to limit the execution of power exercised by the other institutions. This is achieved by a series of checks and balances and it is essential to keep each of these institutions independent in order for them to fulfil their oversight roles.

The state consists of a series of public institutions (Heywood, 2002: 87; Roskin et al., 1994: 30). These public institutions are responsible for the making and enforcement of collective decisions and are set in contrast to private institutions and associations (for example, corporations and families) which make and enforce decisions for these private institutions, thus satisfying their individual interests. Furthermore, these institutions can be located within different spheres of government including the national, provincial (or regional), and the local. The role of these institutions is often determined by the central state, as is often the case with decentralised sub-national state units where power can be delegated by means of legislation passed by the national parliament, for example.

It is important to note though that whilst private institutions may be able to make and enforce decisions applicable to them, these decisions can be subordinated to the public interest by way of, for example, review by the independent judiciary, which are public institutions. This highlights the argument that public institutions are involved in two processes: legitimisation and domination (Heywood, 2002: 87).

By legitimisation it is meant that the decisions of the state are viewed as being binding on the members of a society as these decisions are made in the public interest or for the common good (Heywood, 2002: 87). Whether these decisions are accepted by all the members of a society is a different issue. Public institutions are also involved in the process of domination in that state authority is backed up by coercion (Heywood, 2002: 87). This means that the state has the capacity, if necessary, to back up its decisions with force or what Weber called “legitimate violence” (Heywood, 2002: 87).
2.1.3 Sovereignty

A critical characteristic of the state is the concept of sovereignty. Modern understanding of the concept of sovereignty is perhaps most informed by the writing of Thomas Hobbes and his concept of the “Leviathan” state. According to Hobbes’ oft-cited phrase, without a centralised and unified entity, generally a monarchy, life would be “solitary, poor, nasty, brutish, and short” (Hobbes, 1996: 84). This centralised and unified entity is thus intended to balance, regulate and control the self-interest of individuals. Indeed, the modern state project aimed at replacing the competing, and often contentious jurisdictions (exercised by royalty, the church, landed gentry, and merchants) that would have existed at Hobbes’ time, through the institutions of the centralised state (Axtmann, 2004: 260). As will be noted later, to some degree the ability that the state has to control competing jurisdictions is being undermined by the various drivers of globalisation and through processes such as decentralisation. For example, sub-national state units are increasingly engaging with other sub-national state units and MNCs to attract FDI without the mediation of the central state, thus potentially undermining the control of the central state over its sub-national state units.

Broadly stated, sovereignty can be viewed as the ability to exercise absolute, unrestricted power above all other associations and groups within a given society (Heywood, 2002: 87). A more focused definition is provided by Axtmann (2004: 260) who defines “state sovereignty” as the final authority within the political community which lies with the state whose will, both legally and rightfully, commands without being commanded by others and whose will is thus absolute because it is accountable only to itself. In contrast to these definitions of sovereignty which emphasise power, Keohane (1995: 176) defines sovereignty as a bargaining resource for a politics characterised by complex transnational networks.

The notion of sovereignty as a means of influencing the internal as well as the external can also be found in the definition of sovereignty provided by Sorenson (2006: 199), who views sovereignty as not only constitutional independence (which constitutes the juridical core of sovereignty) but also as a set of rules that regulate how states play the game of sovereignty and how they interact with each other. From the above it is clear that sovereignty implies the ability of the state to project power (both hard and soft) within and without its territory by means of its institutions, including sub-national state units.

Following from Keohane’s definition of sovereignty, states engage with both other state and non-state actors from within and without its territorial borders. These other state and non-state actors form the basis of the complex transnational networks that Keohane cites in his definition of sovereignty and can also include networks of sub-national state units. In
essence this means that the state acts as a gatekeeper or intermediary between the society located within its territorial boundaries and the outside world (Grieco and Ikenberry, 2003: 95). Sub-national state units can also function as a gatekeeper as that control movement through their territorial jurisdiction. In its role as the gatekeeper between the “inside” and the “outside” the state has the ability to choose which state and non-state actors it will allow in and which actors it will keep out.

Indeed, this distinction between the internal and the external is also highlighted by Krasner (2001: 232) who argues that internal sovereignty refers to the acceptance of a given authority structure and the ability of officials to exercise control. External or international legal sovereignty according to Krasner (2001: 233) refers to the mutual recognition accorded to juridically independent territorial entities that are capable of entering into voluntary contractual agreements. From the above it would appear that in reaching an understanding of the concept of sovereignty it is important to recognise both forms of sovereignty (internal and external) as important.

If sovereignty is to be viewed as consisting of both internal and external sovereignty and, as Keohane suggests, states have to manage relationships with other state and non-state actors located within and without their borders, then this could imply that the ancient notion that sovereignty is absolute is incorrect. Indeed, such an argument is made by Ansell and Weber (1999), who argue that sovereignty should not be viewed as a “closed system” but rather as an “open system”. These authors argue that applying open systems theory to sovereignty allows theorists to view state boundaries (and thus sovereignty) as multidimensional and fluid rather than fixed, as would be required by closed system theory. It is arguable that as a result of policies of decentralisation, which can either be a direct or indirect response to globalisation, sub-national state units are gaining greater autonomy from the central state as well as access to global markets and MNCs through such means as FDI. This view has certain implications when assessing the impact of globalisation on the state later in the study. This further highlights the multidimensional and fluid nature of sovereignty.

A variation on this theme is that proposed by Lindberg (2001: 176), who argues that like and unlike organisations challenge states both from without and within, which is an extension of the argument of the double dilemma of sovereign states proposed by Buzan (1991). Lindberg (2001: 176) goes on to argue that the dilemma faced by states not only arises from the threats posed by the internal and the external but also from the threats of units drawing on different resources that actors mobilise for the reproduction, redefinition, or termination of political organisations. Within the context of the study the foci will be the role of sub-national state units in challenging the sovereignty of the central state as they compete to attract FDI.
from MNCs. Furthermore, sub-national state units are also engaging in supra-local relationships with other sub-national state units, thus also further potentially challenging the sovereignty of the central state. Again, these arguments will have implications when assessing the impact of globalisation on the state. It is thus arguable that MNCs, like the IFIs (as will be discussed below) are also challenging states' sovereignty.

The challenge that sovereignty faces is that it needs to adapt to a phase in world history in which there is considerable interaction between states and sub-national state units, when the concept of sovereignty itself developed at a time of limited interaction between the states of Europe (Holton, 1998: 90). The adaptation of sovereignty can be seen in the distinction between “political sovereignty” and “economic sovereignty” (see below). Sovereignty is also being adapted by states as a response to globalisation by increasingly adopting decentralisation policies and thus potentially enhancing the importance and role of sub-national state units within the state, especially to attract FDI (Lorentzen, 2006).

For the purposes of the study, sovereignty will be taken to denote the role that the state fulfils in projecting its power as the intermediary between the “outside” and the “inside” as it chooses which state and non-state actors it will allow in and which actors it will keep out.

2.1.3.1 Political Sovereignty versus Economic Sovereignty

If states do indeed have the ability to determine what can be let in and what should be kept out, then political sovereignty can be defined as a state’s permanent and exclusive privileges over its political activities, and economic sovereignty can be defined as a state’s permanent and exclusive privileges over its economic activities, wealth, and natural resources (Zhongying, 2005, Internet Source).

As noted in chapter 2, Khor (2000: 4) argues that a state’s ability to influence areas of policy such as the economic, social, cultural, and technological spheres of national life have become increasingly eroded as a result of the process of political globalisation and decentralisation, which means that a state’s political sovereignty can be eroded as it is diffused to sub-national state units. As evidence of such claims, Khor (2000: 5) argues that the policies of the IFIs have played a significant role in diminishing state sovereignty. For example, SAPs and PRSPs advocated by the IMF cover not only macroeconomic policies (thus leading to the liberalisation of the economies of developing states subjected to these policies) but also social policies that deal with welfare. Not only is change being imposed from above, but also from below as a result of decentralisation, which as a policy can be
imposed by the IFIs through SAPs and PRSPs. As will be noted later in the study, decentralisation can be seen as a response to globalisation.

In the case of the policies of the WTO, for example, it would appear that the policies of the WTO are weighted against the interests of developing states in that WTO agreements require that states pass domestic legislation and that state policies (such as those dealing with intellectual property rights as well as the regulation of agriculture and services) be altered so as to bring state legislation and policies into line with the requirements of the WTO. Failure to comply with WTO rules can result in trade sanctions being imposed against non-conforming states through the WTO’s dispute resolution mechanism (Khor, 2000: 6). But as Jawara and Kwa (2003: 6-7) note, the WTO’s dispute resolution mechanism is biased against developing states due to issues such as the cost of lodging a complaint as well as the difficulty in having a decision implemented.

The net result is that both the political and economic sovereignty of states can be impacted on by the policies espoused by the IFIs. Not only can political and economic sovereignty be challenged by the IFIs, but also by MNCs as they seek to extract incentives from sub-national state units (for example) that want MNCs to invest in their economies. The question as to what extent the policies of these external entities have impacted on South Africa’s political and economic sovereignty will be assessed in chapter 6 of the study.

2.2 Economic Characteristics of the State

Strange (1996: 73–82) highlights several economic characteristics of states. These characteristics include:

i. the responsibility of the state to maintain the value of the state’s currency in light of the fact that a market economy cannot function without a stable medium of exchange and the economy cannot grow unless savings are secured against depreciation;

ii. the state choosing the appropriate form of development; this means that the state must choose between models that determine how far the state must intervene in the market by owning and/or controlling the means of production and distribution; acting as the regulatory authority over private enterprise; and assuming responsibility for social welfare, which may include policies like decentralisation and LED since sub-national state units may have a comparative advantage over the central state;

iii. correcting the tendency of market economies to operate in boom and bust cycles, most notably through Keynesian-type policies;
iv. providing some form of social welfare for those most vulnerable in society since the state should shield its citizens from economic insecurity;

v. the responsibility for taxation, which can be decentralised to sub-national state units in part;

vi. controlling foreign trade, especially imports. Strange (1996: 78) argues that the content of imports is determined by companies and their response to the market whilst the direction of exports and imports is determined by supply and demand and governments have very little ability to penalise imports from specific sources. This is perhaps most vividly demonstrated in South Africa by the declining fortunes of the local textile industry in the face of cheaper Chinese imports;

vii. the development of economic infrastructure by the state for the purpose of enhancing economic growth, which may involve the state adopting policies of decentralisation as a means of ensuring economic efficiency to attract FDI;

viii. developing a competitive market within the state by taking steps to prevent monopolies developing and also acting against existing monopolies. Strange (1996: 80) highlights how South Africa’s transition involved not only the political transition, but also an economic transition since the South African economy (during apartheid) had been dominated by four large conglomerates and it was becoming increasingly expensive for the state to maintain these conglomerates. A competitive market is also needed to attract FDI since one possible factor driving MNCs to invest in an economy, as discussed in chapter 3 of the study, is the size of the economy since MNCs seek to make a profit from their investments.

2.3 Arriving at a Definition of the State

In light of these characteristics of the state, it can be defined as:

a political association that establishes sovereign jurisdiction not only within its defined territorial borders as it exercises authority through public institutions which are not only institutions of government and also other elements of the body politic (for example the independent judiciary and military), but also beyond its defined territorial borders as it engages in increasingly complex transnational networks.
3. THE ORIGINS, FORMS, AND INTERPRETATION OF THE MODERN STATE

3.1 The Thirty Years War and Treaty of Westphalia

The beginning of the 17th century in Europe was marked by one of the bloodiest series of conflicts that Europe had experienced. The origins of these conflicts lay in the attempt by Rudolf II, the Holy Roman Emperor, to reinstate Catholic power in Germany which had been lost as a result of the birth of the Protestant movement. By May 1635 these conflicts had resulted in war between France and various German Protestant leaders allied on one side, and the Hapsburgs on the other side, as the French and Germans sought to limit the territorial expansionism of the Holy Roman Empire.

This conflict was ultimately ended on Saturday 24 October 1648 with the signing of the Treaty of Westphalia. Whilst the socio-economic consequences of this war were devastating it is the political consequences of this war that were to have the most lasting impact on Europe and indeed the world: the formation and development of the modern state.

The Treaty of Westphalia enshrined the principle of “cuius regio, eius religio” (the prince can determine the religion of his territory) (Krasner, 2001: 232). In essence this meant that the state became the religious authority (both de jure and de facto) within a given territory to the exclusion of others. Absent though from this principle in the understanding of state sovereignty is the role of the state as the intermediary between the “internal” and the “external”.

What this Treaty did was to provide an important platform from which the concept of sovereignty could be further developed into the concept of sovereignty as it exists today. For example, the idea that states should not interfere in the internal affairs of other states was not enshrined in the Treaty of Westphalia. Rather the principle of non-intervention was developed in the latter half of the 18th century by theorists such as Emer de Vattel and Christian Wolff (Krasner, 2001: 232). What the Treaty did achieve though was a shift in the balance of powers from the Church to the state.

The Treaty of Westphalia also created the necessary preconditions for the state to develop systems of control and supervision which it could deploy to control its citizens (Axtmann, 2004: 260), which in more recent times can include decentralisation as a means of retaining

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10 Estimates suggest that the total population of Germany fell by at least 20 per cent; some regions suffered a loss of over 50 per cent as a result of casualties and the displacement of their residents. Except in port cities such as Hamburg and Bremen, economic activity went into decline all across Germany.

11 Interestingly, this principle was actually first set out in the Peace of Augsburg of 1555.
control. Central to the understanding of sovereignty espoused by the Treaty of Westphalia is the notion of territoriality, in that the state must be in control of territory in order to be sovereign. So whilst the drafters of the Treaty of Westphalia did not conceptualise the state as an intermediary between the “internal” and the “external” what they did achieve was the creation of a spatial dimension of territorial integrity created by the delineating of territorial boundaries which separated the domestic from the international (Axtmann, 2004: 260). These boundaries are arguably now being broken down as a result of decentralisation.

The study would thus argue that whilst the significance of the Treaty of Westphalia cannot be denied, it should be borne in mind that this treaty did nothing more than provide the legal and theoretical framework from which modern states could evolve. Whilst the Treaty of Westphalia did lead to a wave of state formation, the creation of the modern European states that exist today would only happen much later. For example, the state of Germany would only come into being in 1870, and Italy in 1871.

Just as the Thirty Years War resulted in a wave of state creation, so too waves of state creation have often been the result of cessation of armed conflict. In between these various waves of state creation, the state itself has undergone a series of transformations as its role and responsibilities to its citizens have shifted and been contested. One of the more recent transformations is a result of economic globalisation and the challenges posed to state sovereignty by the IFIs, MNCs, and decentralisation.

3.2 Interpreting the Forms and Functions of the Modern State

The legal and theoretical framework provided by the Treaty of Westphalia has been used by key ideological theorists to explain the origins of the state, the development of the state, and its impact on society. Heywood (2002: 88) argues that the issue of the nature of state power has dominated modern political analysis and theoretical disagreement in the field of Political Science. For example, should the role of the state be enlarged, or should the state’s role be curtailed? Should power concentrated in the centre be exercised lower down?

Certainly neo-liberals would argue that the state should withdraw from as many functions as possible and hand over responsibility of those functions to the market. This approach is evident from policies that the IFIs impose on developing states through, for example, SAPS, PRSPs, or the Highly Indebted Poor Country initiative (or HIPC). In contrast Marxist theorists would argue that there remains an increased need for the state to regulate the market and society.
3.2.1 Liberalism

For liberals the role of the state is thus to ensure the existence of freedom and equality of its citizens. The role of the state is to ensure order and stability within society whilst at the same time the state needs to be constrained to ensure that it (the government) does not become a tyranny against the individual. The role of government must thus be limited through the fragmentation of power and the creation of checks and balances amongst the various institutions of government and the formalisation of such checks and balances in a written constitution embodying a bill of rights which defines the state’s relationship with its citizens (Heywood, 2002: 44). To put this succinctly, politics should be influenced by the economy and *vice versa*; and the market should be influenced by the state and *vice versa*.

Two of the primary principles of liberalism are liberty and equality. However, Adams (1993: 49) argues that these two principles can be contradictory in that if one strives for equality in society, this can lead to the limitation of peoples’ freedom. On the other hand, if you offer people too much freedom, this can lead to inequality in society. For liberals, the state should also mediate these two requirements of its citizens.

3.2.2 Marxism

For Marx, the socio-economic organisation of society is fundamental since it not only makes all the other aspects of society possible; it also determines the nature of all other aspects. Thus in any society, the kinds of laws and government is a direct result of the prevailing socio-economic organisation of a society (Adams, 1993: 181). In essence this means that economics should determine politics.

For Marxists, the state is central to ensuring a “command economy” in which the economy was planned and administered centrally through a network of economic ministries and planning committees. The need for a command economy is based on the notion of collective ownership in preference to private ownership of the means of production. Whilst Marx anticipated that the state would whither away as class antagonism abated, he did not rule out a period, called the “dictatorship of the proletariat”, during which period state control would be extended over the economy. The guiding principle for Marx was that the state would ultimately fade away. In practice, though, the collectivised state in the USSR, for example, became increasingly permanent, pervasive, and powerful before its ultimate collapse (Heywood, 2002: 98).
3.2.3 Realism

As Brown and Ainley (2005: 63) note, for realists the state is central to an understanding of international relations. Despite the importance of the state to realists, realism *per se* does not have a clear theory of the state. Realism does, however, characterise the state as the central decision-making and enforcement machinery within the territorial confines of the state.

Holton (1998: 130-131) argues that realist approaches take states and inter-governmental organisations to be the dominant actors and interstate bargaining and conflict to be the principal processes at work within the global arena. For realists the interstate system is thus regulated primarily through the balance of power and the interstate system is in essence anarchic or in a “state of nature” (Heywood, 2002: 128). Realists have acknowledged that not all states in the interstate system are equal and that certain states are more dominant than others. The resulting hierarchy of states imposes a measure of order on the interstate system. The emphasis that realism places on the robustness of the state and interstate bargaining is important in light of the number of analysts who argue that the state is dead. Accordingly, conflict and strife are not the exception, but rather the rule of international relations (Nel, 2005: 29).

3.3 The Internationalisation of the Modern State Post-1945

The conclusion (and adoption) of the United Nations Charter in 1945 also introduced a change to the nature of the modern state. Whereas the modern state prior to 1945 was premised on the basis that states would not interfere in the internal affairs of other states, the United Nations Charter and the manner in which it has been implemented has changed this manner of interaction between states in important areas such as human rights, for example.

3.3.1 Human Rights and the Internationalisation of the Modern State

With regards to the international human rights regime, it could be argued that sovereignty no longer means a guarantee of international legitimacy. Implicit within certain legal instruments is the notion that in order for a state to be legitimate, it should uphold democratic norms and values, such as the respect of human rights in the context of the international human rights regime and human rights law (Held *et al.*, 1999: 65).

The internationalisation of a particular normative reification of the state can also be evidenced by the creation of “cosmopolitan law” which, although created by states, creates powers and constraints, rights and duties, which transcend the states that created this body
of law, but at the same time has far-reaching national consequences (Held et al., 1999: 73). Evidence of this cosmopolitan law is the global human rights systems and its associated legal instruments and the conventions dealing with the conduct of warfare. Whilst certain of the Geneva Conventions pre-date the creation of the UN, certainly their importance has been enhanced by the subsequent renegotiation of the Conventions in 1949 and 1977.

The effect of the aforegoing, especially in the area of human rights, according to Held et al. (1999: 73) circumscribe the scope of sovereignty. This issue will be explored later; suffice to say at this point that since the creation of the UN states appear to be more willing to allow limited intrusion in their internal affairs, especially when human rights are at issue.

3.3.2 The IFIs and the Internationalisation of the Modern State

The context in which the IFIs were established is important in order to track how the role of the IFIs have changed since their establishment. As mentioned in chapter 2, free trade was viewed by the American government as a means of ensuring that the ravages of the Great Depression and the Second World War could be avoided. According to the American government's interpretation of these two events, both stemmed from protectionist policies adopted by states between the First and Second World Wars. The IFIs were created at the Bretton Woods conference in June 1944 to prevent the economies of the world slipping back into the protectionist modes that had come to dominate their operation since 1918 (Grieco & Ikenberry, 2003: 127).

The creation of the IFIs has played an important part in leading to the circumscription of the scope of economic sovereignty as the state has become increasingly internationalised. Indeed, the founding principles of the IFIs include (Peet, 2003: 49):

i. the enabiling of multilateral trade; and

ii. the promotion of international monetary co-operation.

The direct and indirect power which the IFIs wield over their member states comes in various forms. In the case of the IMF, this power comes from the granting of loans to governments experiencing crises in balance of payments and having difficulty making interest and principal payments on foreign debts. Power is also exercised by the IMF through the conditionality attached to the stabilisation and adjustment programmes that are imposed on the granting of sometimes desperately needed loans. This conditionality is based on the neo-liberal principles codified in the Washington Consensus (Peet, 2003: 100).
As in the case of the IMF, the power of the World Bank resides in the policy conditionality attached to the SAPs and PRSPs prescribed by the IFIs. The World Bank is also able to exercise power through its project lending activities. The traditional focus of these loans was on infrastructural projects. The logic adopted by the World Bank was that if the infrastructure of member states could be increased, this would lead to enhanced economic growth. However, the World Bank began shifting the focus of its lending to social programmes in the 1980s. Whilst the World Bank has been able to push both infrastructural and social projects through where governments have previously been unable to, this has come at the cost of the World Bank which has regularly drawn criticism from environmental groups for the impact that these projects have on the global commons (Peet, 2003: 134; Armstrong, Lloyd, and Redmond, 2004: 239).

4. SUB-NATIONAL STATE UNITS AND THE MODERN STATE

Whilst some states are able to concentrate all power in the central state without the need to delegate responsibilities to lower levels of government, it would appear to be an accepted norm in state theory that some areas of responsibility and functioning of the central state need to be transferred to lower levels of government for the execution thereof. Central to the study is the question of the relationship between decentralised sub-national state units and economic globalisation as manifested by FDI.

The issue of the transfer of power to lower levels of government is an important question in developing states. More particularly, even though the governments of developing states are politically answerable to the electorate through elections and developing states have inherited bureaucratic institutions from their former colonial masters, the question is whether these institutions have become more democratic and open to participation by subordinate groups within the societies of these developing states. As mentioned in chapter 2, the process of globalisation can also be seen as taking place at not only the global and the national levels, but also at the sub-national level in the form of glocalisation (Sassen, 2006; Roudometof, 2005: 116). Indeed, Murray (2004: 1) argues that the spatial dispersal of MNCs over considerable distances requires a territorial concentration of certain functions at the sub-national state level. Accordingly, there is a need to not only focus on the national structures of states, but also the sub-national to assess what impact, if any, economic globalisation as manifested by FDI is having on sub-national state units.

Key to an understanding of sub-national units is the process of decentralisation. It is this process that is important for the creation of new sub-national state units or the enhancing of powers and responsibilities of existing sub-national state units. The concept of
decentralisation is not new. Work (2002: 5) argues that the process of decentralisation (in an African and global South context) dates back to the 1950s and 1960s when the British and French prepared to grant their colonies independence by devolving certain responsibilities to local authorities. It is the argument of the study that the process of decentralisation is a form of glocalisation. Glocalisation, in the form of decentralisation, provides the preconditions as well as the material and non-material infrastructure for the emergence of new spaces for interaction between the various state units at the sub-national, national and international levels (Roudometof, 2005: 119).

For Beall (2005: 253) sub-national state units have the greatest potential to engage more effectively with women. This is in contrast to the feminist view of the capitalist state that argues that the concept of capitalist patriarchy captures the relationship between the capitalist class structure and the hierarchical sexual structure (Kantola, 2006: 122). At the same time decentralisation has become one of the core components of political conditionality in international development discourse. Not only does decentralisation appear to have been mainly driven by donors, Beall (2005: 255) argues further that decentralisation has proved a panacea to the disenchantment with bloated central bureaucracies and kleptocratic central states. Whilst decentralisation may be a panacea for bloated central bureaucracy, as Heller (2001: 132) notes, there is no specific reason why localised forms of government are more democratic than forms of government located at the central state level. In this regard, the UNDP (2002: 67) notes that whilst decentralisation can lead to the reinforcement of the power and influence of local elites, decentralisation can help poor people most when local politics are democratic, coupled with the presence of strong structures and participatory practices.

A number of factors can lead to the implementation of a programme of decentralisation within a state. For example, important drivers in the process of decentralisation could be political stability, service delivery, poverty reduction, and equity. Additional drivers (and potential benefits) of decentralisation could include more flexible administration; more effective administration; and greater political and administrative transparency (Vista-Baylon, 2001: 161). A further important argument in favour of decentralisation is the thesis that as a result of the process of decentralisation, the state will be closer to its citizens and thus better able and equipped to extract information on local preferences and needs and how best to meet these preferences and needs at a lower cost to the state. At the same time, by engaging in the process of decentralisation, it is expected that service delivery will be boosted (De Mello, 2004: 4).
However, the potential benefits of decentralisation need to be weighed against the potential costs and risks associated with decentralisation. Such costs and risks could include: a loss of scale of economies and the generation of duplication; co-ordination problems between the central state and its sub-national state units; institutional constraints which minimise the potential efficiency gains associated with decentralisation; and a possible degradation in the overall governance within the state (Heller, 2001: 132). However, in the developing world, decentralisation has often become associated with the rolling back of the state, the extension of bureaucratic control, and the privatisation and marketisation of social services and as Heller (2001: 132) noted, governing involves the exercising of power and there is no specific reason why localised forms of governance should be more democratic than centralised forms.

4.1 Defining Decentralisation

So what is decentralisation? According to Vista-Baylon (2001: 157), decentralisation can be viewed as the process whereby certain centralised powers or control are moved to areas where operations take place. This movement of power involves not only the redistribution of power by incorporating citizens (also known as vertical redistribution), but also by expanding the domain of collective decision-making (also known as horizontal redistribution) (Heller, 2001: 140). However, this definition does not describe the various modes and permutations of the process of decentralisation, which will be discussed below.

Wittenberg (2003: 6) identifies two types of decentralisation. The first is the so-called British model of decentralisation in terms of which there is a functional separation with hierarchical control by the central state over its sub-national state units. The sub-national state units within the state are formally autonomous within the areas of jurisdiction assigned to them. In terms of service delivery and the British model of decentralisation, municipalities are viewed as service delivery agencies with specific functions, finances, boundaries, and central control in relation to service delivery. A further feature of the British model of decentralisation is that the sub-national state units within a state exercise their powers ultra vires, meaning that their powers are specifically delegated to them by the central state which can also override their decisions (Schiavo-Campo and Sundaram, 2001: 130).

In contrast to the British model of decentralisation is the so-called German model of decentralisation in which there are overlapping jurisdictions with generalist control. In terms of this model of decentralisation there are strong regional and local executives who maintain some control over what the deconcentrated offices of national line departments do within their territories whilst also sharing this control with the national ministries (Wittenberg, 2003:...
6). In contrast to the British model of decentralisation, the German model tends to proceed from the allocation of different functions to the central state and its sub-national state units, which allows for wide variations in municipality size and capacity for service delivery. The German model of decentralisation can also be characterised by the “general competence principle” in terms of which sub-national state units can exercise all powers that are not explicitly reserved for the central state (Schiavo-Campo and Sundaram, 2001: 130).

As will be noted in chapter 6, the German model of decentralisation was largely the model adopted by the post-apartheid South African state.

4.2 The Modes of Decentralisation

Broadly speaking, four modes or dimensions of decentralisation can be identified, namely geographic, functional, administrative and fiscal decentralisation.

4.2.1 Geographic Decentralisation

The process of geographic decentralisation involves dividing the state into smaller sub-national state units and assigning jurisdictional powers across these sub-national state units. Factors that could influence the division of the geographical space of the state include: settlement patterns; language and tradition; and scale of economies (Vista-Baylon, 2001: 156).

4.2.2 Functional Decentralisation

Functional decentralisation entails the distribution of the state’s authority and responsibilities across the different functional entities of government. This entails determining the type, amount, and mix of government services that need to be distributed and then the state creates entities to deliver the services (Vista-Baylon, 2001: 156).

4.2.3 Political and Administrative Decentralisation

Political decentralisation involves the relocation of the decision-making process to lower levels of government with the intention of promoting greater interaction amongst locally elected representatives and civil society in the aspects of the decision-making process allocated to the different levels of government. Whilst federalism is the most usual form of political decentralisation, it is possible for political decentralisation to occur within unitary states (Vista-Baylon, 2001: 156). Whilst it can be assumed that in most cases political
decentralisation occurs in a democratically constituted manner, in the case of the apartheid South African state the political decentralisation to the Bantustans was one of the most radical forms and experiments in undemocratic political decentralisation (Wittenberg, 2003: 5).

Administrative decentralisation moves the process of decision-making to the state’s sub-national state units and thus can encourage citizens to engage in the decision-making processes of government. As Wittenberg (2003: 5) notes, administrative decentralisation occurs in nearly every political system. It also involves identifying administrative tasks that need to be executed and then assigning those tasks to designated actors within the state’s sub-national units (Vista-Baylon, 2001: 156-157). There are also differences in the extent to which the regional offices of national line departments have flexibility in carrying out their mandates; whether there is regional co-ordination between line departments or whether these line departments operate in parallel with each other (Wittenberg, 2003: 5). A further important aspect of political and administrative decentralisation is that the institutions developed as a result of decentralisation should also have links to civil society and the private sector (Work, 2002: 6).

4.2.4 Fiscal Decentralisation

Fiscal decentralisation is the transfer of expenditure and revenue responsibilities from the central state to the state’s sub-national state units (Vista-Baylon, 2001: 157). This transfer takes a combination of considerations into account such as the size and character of transfers, or the level of tax autonomy if sub-national state units, or both. The borrowing capacity of sub-national state units is also taken into account when determining the allocation and transfer of funds (Yemek, 2005: 3). For De Mello (2004: 7), fiscal decentralisation can be viewed as the process whereby the collection of information on local preferences and needs can be shortened between the providers and recipients of public goods and services so as to boost service delivery.

By decentralising revenue resources to lower levels of government, citizens are encouraged to take on more responsibility for social and economic development, which leads to a more pro-investment economic climate for attracting FDI (De Mello, 2004: 8).

4.3 The Degrees of Decentralisation

Having identified the various modes of decentralisation, the study now turns to the various degrees of decentralisation to which these modes can be implemented. In particular, the
study highlights four forms of decentralisation, namely deconcentration, delegation, devolution, and divestment. Deconcentration represents the least advanced form of decentralisation, whilst devolution represents the most advanced form of decentralisation.

### 4.3.1 Deconcentration

Vista-Baylon (2001: 158) argues that deconcentration involves the shift of the administrative workload from central state officials to subordinate field staff in the regions, provinces, or districts of the state. This does not lead to decision-making being passed to sub-national state units, rather decision-making remains vested in the central state (Vista-Baylon, 2001: 158). However, deconcentration can be viewed as the first step in the process of decentralisation.

Thus in deconcentrated systems, local governments are not distinct entities and there is no mechanism at the local level for mandatory horizontal policy co-ordination and integration amongst different sub-national state units. In such systems, the local population will normally only participate in the implementation of centrally determined policies (Martinussen, 2004: 210). Whitford (2002: 174) argues that the choice to decentralise by deconcentration is a regular choice for large organisations in large spatially dispersed democracies, even though such deconcentration may lead to a loss of national political control.

### 4.3.2 Delegation

Whereas deconcentration involves the shifting of the administrative workload within the central state, delegation is a process that is more extensive than deconcentration since authority is delegated to sub-national state units which are ultimately accountable to the central state but do not necessarily form part of the central state (Vista-Baylon, 2001: 158). Delegation may or may not involve deconcentration depending on whether the central state agencies or sub-national state units concerned establish a branch office system for their operations (Martinussen, 2004: 211), however, the delegating central body retains the bulk of accountability (Work, 2002: 6).

The organisations and sub-national state units to which authority is delegated can be said to have the following characteristics (Vista-Baylon, 2001: 158):

i. they are technically and administratively capable of performing specialised functions;
ii. they may be exempt from central rules on personnel;
iii. they may be able to charge users directly for services; and
iv. they have broad authority to plan and implement decisions without the direct supervision of central ministries (although they are ultimately accountable to the government).

According to Martinussen (2004: 211), delegation usually occurs in the energy, communications, water and transport sectors of economies.

4.3.3 Devolution

In terms of the four possible degrees of decentralisation devolution can be seen as the most advanced form of decentralisation. Devolution is based on the notion that political power and legitimacy originate and naturally belong with the central state. Accordingly, all decentralisation to sub-national state units requires special justification. According to Martinussen (2004: 211), devolution is the transfer of authority and responsibility to regional or local governments with their own discretionary authority. For Work (2002: 6) an ideal characteristic of any devolved entity is that the devolved entity should be an independent and elected authority.

Perhaps one of the most interesting examples of devolution in the 20th century was that of the United Kingdom where parliamentary supremacy was the central if not the only constitutional doctrine in British constitutional law. This has resulted in Westminster being the “sun around which every planet revolves” since 1707 and the Act of Union (Bogdanor, 2001: 1). Indeed, Bogdanor (2001: 1) argues further that the United Kingdom was one of the most highly centralised countries in the world prior to the process of devolution undertaken by Tony Blair’s Labour government.

4.3.4 Divestment

According to Work (2002: 6), divestment occurs when responsibility, or other public functions, is transferred from government to voluntary, private or non-governmental institutions. This is often done with the participation of the public. Divestment can thus involve the partial contracting out of the providing of services or administrative functions of the state, or full privatisation.

4.4 Regulating Decentralisation

For Work (2002: 3) decentralisation is inextricably linked with good governance since one of the aims of good governance is to ensure that society organises its collective decision-
making and action related to political, economic, and cultural affairs through the interaction
between the state (at both the central and sub-national levels), civil society, and the private
sector by means of a series of mechanisms and institutions through which civil society and
other groups (such as the private sector) are able to articulate their interests and exercise
their legal rights and obligations. At the same time it is important to note that local
government (as a decentralised form of sub-national state unit) is fundamentally multi-
sectoral in that is brings together a variety of issues within one developmental policy,
programme, or project (Atkinson, 2002: 3).

In order to ensure effective decentralisation so that civil society and the private sector are
able to effectively articulate their interests, legal rights and obligations, several conditions
need to be met, including:

i. a favourable political environment for decentralised decision-making, which includes
   a context in which sub-national state units can exercise autonomous decision-making
   powers; citizens being able to access and influence decision-making bodies; and the
   central state taking steps to strengthen the sub-national state units (Vista-Baylon,
   2001: 169);

ii. the central state providing a legal framework within which the various state units can
   operate to avoid conflicts arising between decisions made at the various levels of
   government (Vista-Baylon, 2001: 169);

iii. a high degree of central state capacity since decentralisation requires greater co-
    ordination between the various levels of the state, which requires greater regulation
    (Heller, 2001: 138); and

iv. a well-developed civil society, since a well-developed civil society can provide new
   sources of information and feedback as a result of the participatory requirements of
   decentralisation (Heller, 2001: 139).

The only entity that is able to provide such an effective framework is the state, working in
conjunction with civil society and the private sector. For Work (2002: 3), a democratic and
decentralised state is thus an imperative to ensure the successful implementation and
achievement of development goals. Within the context of a possible legal framework for the
regulation of decentralisation within a state, Vista-Baylon (2001: 170) argues that the central
state needs to exercise a degree of regulation over the sub-national state units to which it
devolves powers in order to ensure that when the sub-national state units exercise their
allocated powers no contradiction with the policies of the central state occur. Scholte (2004:
3) argues that rather than withering away, new sites of governance and regulation have
emerged including the sub-national state level, which also requires that powers be decentralised to sub-national state units.

Therefore, to avoid possible contradiction in policies between the various levels of government, the framework for decentralisation is normally provided by the state’s constitution. The constitution should thus provide a broad outline setting out the rules of decentralisation for the state. Included within such rules of decentralisation would be issues around geographical delimitation; the areas of competency and responsibility of the sub-national state units; the institutions that will exercise the areas of competency allocated to the central and sub-national state units; and the conditions for the establishment of detailed rules for decentralisation within the state (Vista-Baylon, 2001: 170).

Whilst the constitution of the state thus functions as the broad framework for decentralisation, the working details of decentralisation are then left to enabling legislation. This enabling legislation then defines the actual parameters of decentralisation, as well as the provisions for inter-governmental fiscal relations (Vista-Baylon, 2001: 170). Not only will legislation regulate the relationship between the central state and its devolved entities, but factors such as the nature of government; the extent of centralisation of functions and resources; and the central state’s ideology towards the control of the sub-national state units will also play a role in determining the relationship between the central state and its sub-national state units (Vista-Baylon, 2001: 176).

Three modes of control over sub-national state units are identified by Vista-Baylon (2001: 177). These modes of control are:

i. under-control, whereby each level of the state competes with the other levels of the state and each level of the state is almost sovereign;

ii. over-control, whereby the sub-national state units established through the process of decentralisation are tantamount to administrative arms of the central state; and

iii. perverse regulation, whereby sub-national state units exercise some degree of political autonomy, but perverse incentives characterise the relationship between the sub-national state units and the central state.

Having discussed the various modes and degrees of decentralisation, as well as the means of regulating the process, the study now deals briefly with the relationship between cities and decentralisation.
4.5 Cities and Decentralisation

What role do cities play in decentralised states? Urbanisation has been an important feature of economic development for hundreds of years. The high density of people and enterprises within the urban space can promote economic efficiency through the sharing of information amongst producers; more efficient labour markets; and savings in transport costs of input and final products. Cities are thus a vital component to economic growth (Naudé and Krugell, 2004: 2). As Schiavo-Campo and Sundaram (2001: 143) note, megacities have a special need for good governance due to the number of people residing in the cities as well as due to the importance of such cities in national economies. In particular, such cities have an important role to play in local economic development, which is also a contributing factor to the need for good governance within such sub-national state units.

For Sassen (2001: 3) the importance of cities lie in their ability to become pivotal points in the international economy. It is within this context of an increasingly globalised international economy that the economic activities of financial firms have led to new forms of centralisation. In particular, as economies begin to emphasise service industries as important economic growth points, there is a greater proportion of services and service-related inputs. Coupled with the development of regional and national markets, there is an increasing need for the state to be able to provide specialised services in order for global cities to be able to operate effectively (Sassen, 2001: 330) if they are to achieve their goals, such as the attraction of FDI for purposes of economic development and growth. The result is an increasing need for the state to be able to respond to the needs of the cities possibly leading to greater decentralisation of competencies in favour of the cities.

The process of decentralisation of greater powers to cities has also been driven by donor agencies that have encouraged the establishment of city-level sector authorities for water, housing, and transport, for example, which have been modelled on similar agencies in developed economies (Schiavo-Campo and Sundaram, 2001: 144). Whilst donor funds have been available for the establishment of such agencies, Schiavo-Campo and Sundaram (2001: 144) note that such agencies and their infrastructure often fall into disrepair as a result of the limited ability of local governments to levy their citizens for the use of such services. Local governments were expected by donors to assume responsibility for the maintenance of such agencies and services. This undermines the process of decentralisation within the local government sphere.

12 Whilst Sassen’s (2001) analysis focuses on the role of New York, London and Tokyo, the study will later assess the role of Johannesburg as a pivotal point in the international economy, especially in relation to the role of Johannesburg in the greater African economy.
This chapter has provided a theoretical framework for analysing the Westphalian ideal of the state, as well as the sub-national state units that form part of this Westphalian ideal. This has been necessary since the problem that the study seeks to address is the impact of FDI on the South African state and its sub-national state units. Accordingly the chapter has addressed the characteristics of the state as well as the differing interpretations of the state. The chapter has also dealt with the concept of decentralisation and the various modes and degrees of decentralisation. Such an analysis is necessary given that the problem that the study addresses relates not only to the central state but also the central state’s sub-national state units.

The characteristics of the Westphalian ideal of the state perhaps best relates to developed states. In the next chapter, the development of the state in the developing world is analysed. The importance of such a discussion lies in the developing nature of the South African state. It is thus important to assess how the characteristics of the Westphalian ideal state should be applied to developing states in order to be able to discuss the nature of the South African state in sufficient depth.
CHAPTER FIVE
THE MODERN STATE IN THE DEVELOPING WORLD AND THE STATE’S RELATIONSHIP WITH GLOBALISATION

"You will find that the State is the kind of organization which, though it does big things badly, does small things badly, too."
- John Kenneth Galbraith

"The marvel of all history is the patience with which men and women submit to burdens unnecessarily laid upon them by their governments."
- William H. Borah

1. INTRODUCTION

Several problems arise when the ideal Westphalian construct of the state is imposed on developing states as a result of the process of colonisation. In this chapter the study assesses the relationship between the Westphalian ideal of the state and the construction of the state as it arose in developing states, with a particular focus on the African state and the various interpretations of the modern African state. The study also assesses the response by developing states to globalisation. The chapter also assesses the structure of these developing states as a result of policies such as SAPs and PRSPs, for example.

As noted in previous chapters, globalisation can take many forms. Whilst the focus of the study is predominantly on economic globalisation, it is also necessary to take into account how the process of political globalisation is impacting on the state, in particular with regards to the political sovereignty of states. The chapter focuses on the various interpretations of the relationship between globalisation and the state (namely the hyperglobalist, sceptical, and moderate approaches to the state-globalisation debate) and then integrates these interpretations with the focus of the study, namely FDI and the impact that FDI has on the state and its sub-national state units.

2. THE MODERN STATE IN THE DEVELOPING WORLD

Just as Phillips (2005: 36) argues that theoretical arguments around globalisation have become focused on the advanced industrial states in the world, so too is it necessary when surveying the state to move beyond any focus on the development of the state in Europe and review the development of the state in the developing world.

What is clear from the aforegoing is that the modern state is a creature with its origins in Europe. The modern state was created via a series of complex internal political processes of conflict, consolidation, and contestation in the transformation of European societies from agrarian to industrial societies (Leftwich, 2005: 145). In sharp contrast to the internal
development of the state in Europe, the modern state has arguably been imposed on the developing world as result of colonialism (Opello and Rosow, 1999: 203).

Thus the institution of the modern state has been imposed on the developing world by external forces, being the European colonial powers, and developing states have little heritage of a formal state structure to draw on (Lindberg, 2001: 177). However, as Leftwich (2005: 145–148) notes, colonial rule left a lasting impact on the characteristics of the states that the various colonial powers left behind at the end of the process of decolonisation.

In many respects, these characteristics are suggestive of the nature of colonial rule, being extractive, rather than developmental (Leftwich, 2005: 146). By this it is meant that generally the colonial powers sought to extract as much wealth as possible from their colonies with little regard for the development of the colony. This is in contrast to the state project in Europe, the purpose of which was the development of the European states.

2.1 State Development in Europe versus State Development in the Developing World

Nationalism in the developing world was bound up with programmes to transform colonies into modern sovereign states. For the European colonial powers this involved transforming the colonial societies that they ruled over from “traditional” societies to “modern” societies. For the colonial powers, traditional societies were represented by small villages, subsistence farming, and simple social structures. In contrast, European society with its cities, commercial agriculture, and complex social structures represented modern society. The colonial powers believed that by transforming their colonies from traditional to modern societies, their colonies would undergo the same developmental process that the colonial powers had gone through, and ultimately the colonies would end up looking like the colonial powers (Opello and Rosow, 1999: 201).

Three problems exist with such an interpretation:

i. It assumes that European states have reached the end of their development as states. However, the state project does not appear to be completed in Europe. In this regard Cooper (2004) argues that European states are transforming themselves into post-modern states with the European project embodied by the European Union. This point is further emphasised by Lindberg (2001: 175), who argues that state consolidation is a continuous process that needs to be attended to by the rulers of a state.
ii. It considers the positive aspects of the state to be a gift from Europe and the negative aspects to be the result of the failure of former colonial peoples to live up to European standards (Opello and Rosow, 1999: 202).

iii. It can be used as a justification for repressive regimes in post-colonial states on the basis that such regimes are normal and even justified in young and immature states outside Europe whilst at the same justifying the intervention by developed states (such as those found in Europe) in the affairs of these "pre-modern" states (Opello and Rosow, 1999: 203).

Rather than following the colonial powers’ path of state development, Opello and Rosow (1999: 203) argue that the state in post-colonial states developed reflexively in the context of local cultures, power struggles among competing elites, the colonial experience, and race relations produced by the encounter between European and non-European peoples.

2.2 Characterising the African State

How do the characteristics of the state identified above apply in the context of African states in light of these states’ development as a result of the colonial experience? The study now turns to this question bearing in mind the general characteristics of the state discussed above as well as dealing with these characteristics in the context of Africa’s colonial experience.

2.2.1 Institutions and the Development of the African State

Lindberg (2001: 175) argues that institutions generally have built-in incentives for actors occupying and using them to extract resources, and then use the various kinds of resources in such a way as to rearticulate, adapt, or restructure those institutions. However, Lindberg (2001: 175) goes on to argue that established institutions increase the cost of setting up new institutions. This in turn impacts on a new African government's ability to fulfil election promises such as fighting corruption when the institutions that it inherits both formally and informally promotes a system of patronage and corruption. For instance, in Kenya President Mwai Kibaki swept to power on an anti-corruption ticket only to have his own government beset by claims of corruption (BBC, 2005, Internet Source).

Lindberg (2001: 176) argues that African states have generally been threatened by units drawing on different resources in both the domestic and the international spheres. In this respect “warlordism” can be viewed as not the implosion of the African state but rather a new
means of building political authority that benefits both rulers and private foreign firms as a result of the creation of disorder (Lindberg, 2001: 176).

One local variable that has led to the challenging of state institutions within African states is that of ethnicity (Opello and Rosow, 1999: 203). The colonial experience both complemented and clashed with local conditions generating spaces within which institutions could be challenged, the most important space being ethnicity. Ethnicity provided an alternative centre around which political life could be organised in and against the new territorial state (Opello and Rosow, 1999: 203). Opello and Rosow (1999: 203) further argue that competition between contending elites for control of the institutions of the state and direct rule came to be organised around ethnicity with different leaders drawing their support from particular ethnic groups whose solidarity they constructed and played upon.

The result is a symbiotic relationship between private military firms and weak-state rulers (warlords) which results in strongmen being driven away from valuable resources and the old patronage networks being replaced by new commercial partnerships. This has resulted in authors such as Chabal who argues that African states mask the realities of deeply personalised political relations and that the legitimacy of the state in Africa is embedded in the patrimonial networks of patrons and their clients (Erdmann and Engel, 2006: 16). Thus the instrumentalisation of disorder becomes a means of managing neo-patrimonial systems in times of changing incentives so that strongmen are prevented from gaining access to resources to threaten the incumbent and insulates the institutions of the state from being penetrated by society (Lindberg, 2001: 176).

Indeed, the symbiotic relationship between weak-state rulers and commercial interests is one of the challenges in the development of effective public institutions and the liberation of institutions in developing states that have been captured by these special interests (Leftwich, 2005: 150). The result of the public institutions being captured by special interests is that these institutions no longer act in the public interest but rather have become informally privatised and used to advance private interests (Leftwich, 2005: 150). Leftwich (2005: 150) highlights the development of civil service commissions in developing states as a means of differentiating the civil service from the political leadership and protecting the bureaucrats from political interference.

2.2.2 Sovereignty in the African Context

Whilst various authors have argued that elites in African countries adopted the principles of sovereignty not only as a means of extracting the maximum wealth both internally, for
example through revenue and externally, through aid and loan flows, but also because the international system recognised these states as a consequence of having to maintain the state system. The result was the preservation of African states in the absence of objective viability since the existence of the states suited the interests of African, Western, and Eastern political elites (Lindberg, 2001: 177). Lindberg (2001: 178) argues that these arguments are flawed in light of the fact that sovereignty has never been absolute, but rather an open system.

Rather than viewing control over territorial borders, military defence capacity, domestic coercive control, national identity, and resource mobilisation as constant characteristics of sovereignty and states, in the context of African states Lindberg (2001: 178) argues that these characteristics should rather be viewed as independent variables. The Westphalian state should rather be viewed as an ideal construction of what states should be rather than as an absolute.

It is pertinent to note at this point that not all European states followed the same trajectory in their state formation. Thus while Europeans may have viewed their states as having been formed in a bottom-up approach, as what France experienced in the French Revolution, in reality, the majority of European states were formed as a result of a top-down approach to state development whereby the state developed institutions and decentralised power to sub-national state units before allowing universal suffrage. In this manner, the state was in an institutionally sound position to deal with the competing claims of its citizens. Similarly, as has been argued above, the majority of African states are the product of the colonial experience and thus were formed in a top-down approach to state development, not completely dissimilar to that experienced by Europe. However, one significant difference between the European state formation project and that of Africa is that African states were not afforded an opportunity to develop institutions before allowing universal suffrage. Rather, African rulers had to build their states whilst at the same time having to compete with their opposition in elections\(^\text{13}\) (Bratton and Chang, 2006: 1062).

Indeed, the challenge of establishing hegemony and maintaining sovereignty within a state’s borders and in relation to regional and international political forces is not an experience unique to African states. Leftwich (2005: 150) highlights how many modern European states have all gone through a similar process; for example, the 19\(^{th}\) century French educational policy and system was used to build a sense of national identity and unity. Indeed, Spain still grapples with this problem today in the Basque and Catalan regions. Whilst the issue of developing and maintaining sovereignty is not an issue unique to developing states, Leftwich

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\(^\text{13}\) Well, sometimes …
(2005: 150) argues that the issue has been compounded in Africa by the colonial experience which imposed artificial borders and biased patterns of recruitment into the colonial administration. To this end, some form of state building is required in African states as a means of ensuring that there is some degree of national and/or multinational integration and cohesion to ensure that the state-building project does not fail.

2.2.3 The Reactive Development of the Post-Colonial State

The result of these factors is that African states have followed a path of reactive development. It is also necessary to take into account not only those factors discussed above but also the fact that the global system of states as well as the international financial architecture have pushed post-colonial states to develop in a specific manner (Opello and Rosow, 1999: 203). Nowhere is this more apparent than in the policies of the IFIs, in particular the SAPs of the 1980s, which embodied the principles of the Washington Consensus, and now PRSPs. The combined result is that sovereignty within the post-colonial states has been limited from without and not always contested from within.

Bratton and Chang (2006: 1062) illustrate this point by arguing that whilst democracies created during the first wave of democratisation developed a modern state before universal suffrage was introduced and were thus able to democratised “forwards” on an institutional foundation of rule of law, a vibrant civil society, and the accountability of governors, this has often not been the case for democracies created during the third wave of democratisation. For democracies established since 1975, the state has often democratised “backwards” by introducing mass elections without the benefit of the institutions that first wave democracies were able to establish first without universal suffrage. Governors of third wave democracies thus face a double challenge in that they need to complete the construction of the state but at the same time compete against their rivals in free elections.

2.2.4 Patrimonialism and Neo-Patrimonialism in an African Context

Picard (2005: 11) argues that patrimonialism operates through the civil service when a state’s leadership uses the rungs of the “civil service ladder” to bind office holders in the central bureaucratic apparatus to the lower echelons of the bureaucracy both in the capital and the outlying regions of the state. Whilst patrimonialism may mediate and soften the control exercised by the central state, it can lead to the weakening of governance structures in a state’s sub-national units. Picard’s arguments reinforce those of Chabal who, as noted above, argues that the legitimacy of the state in Africa is embedded in the patrimonial networks of patrons and their clients (Erdmann and Engel, 2006: 16).
In order for democracy to succeed, two important elements are required (Picard, 2006: 8):

i. an organised state structure, and
ii. societal strength, based upon the values of civil society and democratic institutions embedded in a wider network of state and social organisations.

African states were based on colonial administrative institutions and manifestations of centralised local states which have a negative impact on ordinary citizens and few indigenous roots within society. With the creation of weak governments and the adoption of colonial administrative institutions, what resulted were unplanned patronage-based corrupt civil services whose function was to ensure political calm, rather than to focus on the development needs of their respective societies (Picard, 2006: 8).

In the case of the South African state, the civil service operated by the Nationalist government was one based on patronage with senior civil servants playing a major role in decision-making. This model of patronage fits the argument of Public Choice theorists who argue that the narrow pursuit of self-interest ensures that public officials cannot be trusted to deliver collective welfare (Hay, 2002: 8). The challenge for any future post-apartheid government would be the reform of this civil service. Whilst the reform of the civil service undertaken by the ANC government is beyond the focus of the study, it will be shown later that the civil service plays an important role in the process of attracting FDI and retaining a state’s stock of FDI.

Within the context of developing states, Leftwich (2005: 149) argues that developing states often find it difficult to establish state institutions that are independent and operate in an environment that is free of patrimonial rule and patronage. In addition to a lack of independent state institutions, developing states often have to compete with regional and local political forces that challenge the hegemony and sovereignty of the state within its borders.

The result of the colonial experience in Africa was particularly devastating. As Picard (2005: 15) notes, Africa lacked the institutional protection of Asian states, and the cosmologies on which these institutions were based, which resulted in a cultural hegemony that destroyed what pre-colonial institutions and polities existed. Whilst a truly civil polity may have existed in some African states prior to the end of colonialism, the existence of such a civil polity proved to be a brief flirtation that would not overcome the dominant and more enduring heritage of the colonial state.
The “silent revenge” of the colonial state on the post-colonial African state would be the corrosive authoritarian personality of the colonial state and the adoption of this corrosive personality by subsequent post-colonial African leaders as well as a patronage-client system that controls entry into the public service without providing the necessary human resource development to ensure the development of contemporary officials (Picard, 2005: 17).

In contrast to these arguments, Herbst (2000: 252) argues that African states have created more institutions as a means on mediating the pressures from international markets and cross-national flows of people compared to any time in the past. Rather the African state does not seem to be melting away in the face of globalisation as national boundaries in African states have become of greater importance. Instead, the failure of the African state can also be interpreted as a result of the method of state consolidation adopted by post-independence African leaders, namely to gain control over a core political area (either the capital, or critical urban areas, and those areas with the state’s economic resources and consequently wealth) and then rule over the outer lying areas of the state in a varied manner, depending on the degree to which infrastructure could be developed and the state security apparatus deployed. Power thus originated and radiated from the centre whilst diminishing the further away from the centre one moved (Herbst, 2000: 252).

3. THE STATE AND GLOBALISATION

When interpreting the relationship between the state and globalisation it is imperative to remember that not all states are the same. This point has been demonstrated above as the development of the state in the developing world has been contrasted against the experience of European states. As Lindberg (2001: 174) so succinctly states the problem: “when do international pressures have the opportunity to fundamentally transform states?”

3.1 Approaching the State – versus – Globalisation Debate

As with globalisation, there are broadly speaking three dominant approaches with regards to the interpretation of the impact of globalisation on the state, namely the “hyperglobalist”, “sceptical”, and “transformationalist” approaches (Phillips, 2005: 90). Within each of these schools of thought it is also necessary to consider how they assess the nature of the change that is or is not occurring in the relationship between the state and globalisation.

3.1.1 The Hyperglobalist Approach
The hyperglobalist approach advances a view of globalisation as being an inexorable, encompassing, and irreversible process of integration which renders national entities (such as states, economies, societies, systems of regulation, modes of governance) obsolete. Hyperglobalists further argue that the state is not equipped to discharge its government and governance functions in an increasingly globalised world and, furthermore, the state’s ability to discharge these functions is systematically being eroded by the power of markets and global capital in the form of FDI. Proponents of the hyperglobalist approach argue that non-state actors (both public and private) such as MNCs are becoming the new sites of authority in the global political economy (Phillips, 2005:92). Not only non-state actors but also sub-national state units may have a comparative advantage in the global economy of hyperglobalists and as a result of decentralisation, political and economic power can flow to these sub-national state units.

In the field of International Political Economy, one of the foremost proponents of the hyperglobalist approach is Susan Strange. Strange (1996: 3) argues that heads of governments have failed to realise that they have lost the authority over national societies and economies that they used to wield. Whilst Strange (1996: 5) acknowledges that in certain aspects the power of government appears to be increasing, she argues that not only are states ineffective in the areas of government that matter most, for example, in the provision of stable capital for trade and investment but more ineffective in the areas that are “optional for society”. For example, in some respects it is now left to sub-national state units to attract FDI, as a feature of economic globalisation, through policies and programmes such as LED.

The “globalisation orthodoxy” espoused by hyperglobalists rests on the perceptions of the constraints on the viability and efficacy of expansionary fiscal and monetary policies in conditions of high capital mobility, and the risks associated with macroeconomic divergence, which can result in FDI flight. The globalisation of financial markets is seen by hyperglobalists as implying a situation in which expansionary policies generate pressure on governments, both from markets and other governments to defend or devalue the state’s currency with implications for the foreign reserves position of the state in question (Phillips, 2005: 93) as well as impacting on a state’s ability to attract FDI. The role of the state is thus to develop and promote policies that maintain a stable and flexible exchange rate environment, the exchange rate ultimately being determined by the market rather than by political actors within the state.

How do hyperglobalists account for the change in the international state system? As mentioned above, a word often used in relation to the state in the hyperglobalists debate is
“obsolete”. The problem with this approach to indicating change is that the old must have been done away with and been replaced by something new (Holsti, 2004: 17). While taking into account that the world has indeed become increasingly interconnected (through the increasing importance of sub-national state units for example) there is little to suggest that the Westphalian order has indeed been done away with. This would be more indicative of transformation than the state being rendered obsolete. It would appear that hyperglobalists are thus too quick to assert that wholesale change has occurred when rather the change that has and is occurring appears to be the result of greater interconnectedness and complexity than wholesale change (Holsti, 2004: 17). This argument is echoed by Scholte (2004: 3), who argues that rather than withering away, new sites of governance and regulation have emerged including the sub-national state level. Governance and regulation now occurs at a number of sites including at the municipal, provincial, national, regional and global levels.

3.1.2 The “Sceptical” Approach

At the opposite extreme to the hyperglobalist approach is the “sceptical approach”. Proponents of the sceptical approach have two arguments:

i. they either challenge the interdependence of the modern economy; pointing out that the world economy is no more integrated now than what it was in the pre-1914; or

ii. they argue that national institutional foundations have neither been washed away by globalisation as a force of divergence nor have national institutional foundations been compressed by globalisation as a force of convergence (Phillips, 2005: 94).

Proponents of the sceptical approach also argue that the world is in fact less connected today than it was prior to the outbreak of the First World War. With regards to the aggregate levels of, as well as flows of FDI, the sceptics argue that FDI is not a truly global phenomenon but rather highly concentrated within and between the developed world (Marsh, Smith, and Hothi, 2006: 175). Proponents of this view would tend to argue that the state has not been wrought asunder by globalisation but continues to play an effective role in regulating and controlling the market. While this may be the case, this argument appears to underestimate the role that sub-national state units are playing to attract FDI through policies such as LED.

3.1.3 The Moderate Approach

Phillips (2005: 95) points to a more moderate approach to the interpretation of the impact of globalisation on the state. Proponents of this view argue that whilst globalisation does
represent a force for change that is altering the institutional foundations of states and indeed the world, this will ultimately not lead to the single world system that the hyperglobalists support. Rather than a single world system, proponents of the moderate view argue that states have to adapt and transform themselves and whilst some states and sub-national state units are being drawn closer into the globalised world, others will be excluded (Phillips, 2005: 95). This would appear to be the case in a contest between developed and developing entities but can also be seen as sub-national states compete with each other and central states to attract FDI.

The moderate approach of interpreting the impact of globalisation on the state would seem to suggest that globalisation is a constraining force on the state (Weiss, 2003: 5). This constraining force can be summed up in the following statements:

i. the world is becoming more interconnected through increasing economic openness and the growth of trans-border networks that accompany this process as well as drawing sub-national state units directly into the global economy;

ii. interconnectedness is increasing the power of global economic and political networks of interaction at the expense of the national economic and political networks as sub-national state units attempt to attract FDI; and

iii. as states adapt and transform themselves, through processes such as decentralisation for example, to an increasingly globalised world their capacity to achieve their goals at the central state level are becoming increasingly eroded by globalisation.

The result of the moderate approach is a system in which states themselves drive the process of globalisation, whilst markets are dependent on states. However, as Stewart (2005, Internet Source) notes, whilst some states have keenly advanced the cause of globalisation in recent years, it seems that they have miscalculated the full impact that globalisation would have on their economies which is perhaps leading to a new era of protectionism. In this regard Stewart (2005, Internet Source) notes the recent attempts by the French government to try and stave off the purchase of the French energy giant Suez Gas Company by the Italian company Enel.

The process of globalisation thus needs to be seen as a continual process whereby a state of globalisation is achieved, according to proponents of the moderate approach. Since globalisation is not a new process, the nature of the change that the world is undergoing is not new but the level of integration is, as can be seen by the increased role of sub-national actors in the global economy. What this means for the state is that whilst it is not being laid
waste by globalisation, the role that it is playing is changing in the context of a polycentric political-economic system in terms of which the borders of old are becoming more permeable than what they were in the past (Marsh, Smith, and Hothi, 2006: 175), with a new emphasis on the role of sub-national state units in the global and national economies.

Rather than focusing on the constraining effects of globalisation, Weiss (2003: 15) highlights how the constraints on the state’s ability to collect taxes, for example, as a result of globalisation is leading to increases in taxation and spending. The only negative aspect of increasing financial openness is increased income inequality. Thus, rather than leading to a “race to the bottom”, globalisation in principle should not hinder governments from pursuing their economic and social goals for three reasons (Weiss, 2003: 15):

i. Increased exposure to the global marketplace through globalisation leads to greater social insecurity and the state needs to act to resolve this insecurity through sustained or increased domestic compensation, especially as a result of sub-national state units becoming integrated into the global economy through decentralisation.

ii. MNCs still welcome incentives offered by host governments but at the same time accept that the state needs to provide skilled labour, for example, which requires the maintenance of tax revenue in exchange for the services and incentives offered by host governments as well as increasingly by sub-national state units.

iii. In the face of increased competition posed by globalisation to key economic sectors governments need to find new ways to respond to these challenges through policy responses, new regulatory regimes, and restructuring reforms such as decentralising power to sub-national state units.

This enabling view of globalisation is consistent with the moderate approach as it suggests that the process of globalisation is an ongoing one as both states and markets have been transformed as a result of their interaction with each other.

In light of the diverse arguments surrounding the impact of globalisation and the state, the study now turns to focus on economic globalisation, more particularly FDI (as a feature of economic globalisation), and the state.

3.2 Assessing the Relationship between the State and Economic Globalisation

As discussed in previous chapters, globalisation is the process whereby a state of globalism is achieved. When states engage with the process of globalisation the question for states is how globalisation will advance the state’s economic and social goals (Grieco and Ikenberry,
2003: 93). For the purposes of this section, the focus will be on economic globalisation and FDI and the state’s engagement with these processes, not only at the central government level, but more importantly for the purposes of the study, at the sub-national state level.

It would appear that there is no consensus on the part of analysts of the various “schools of thought” identified above regarding the nature of the relationship between the state and globalisation. How then should one assess the relationship between the state and globalisation? A framework for assessing the impact of globalisation on the state is offered by Holsti (2004: 18), who argues that by assessing international institutions within international politics, such international institutions can be used as markers of change in international politics. For Holsti (2004: 24) the importance of investigating international institutions as markers of change is due to the significant changes that have occurred in the international state system in the past 300 years. Accordingly, international institutions and the changes that they have brought to the international state system can be seen as a good indication of the changes that globalisation have made to the international state system.

A further possible framework to gauge the changes that globalisation has made to states is provided by Mosley (2003). Regarding the impact of economic globalisation on the state, Mosley (2003: 6) argues that modern academic literature is divided into two groups; one that advocates convergence, and another that advocates divergence. Convergence theorists argue that increased internationalised trade and finance has led to the limitation of governments to make autonomous policy decisions (Mosley, 2003: 6). In contrast to the arguments of convergence theorists are those of divergence theorists, who argue that economic globalisation will lead to variations in the domestic policies adopted by states and the latter are thus able to gear their policies to suit the type of MNCs that they want to invest in their countries. These theorists argue further that economic globalisation requires greater (not less) government intervention in order that governments could be able to attract the type of investments that they want (Mosley, 2003: 9).

The study now turns to assess the arguments of the proponents of the various approaches by comparing their ideological claims as to how the state has changed against the framework of analysis offered by Holsti by using sub-national state units and FDI as markers of change.

3.2.1 The State Obsolescence Argument

As discussed above, the argument that the state is retreating is typically advanced by the hyperglobalist theorists. Whilst the arguments of hyperglobalists are ostensibly plausible,
there appear to be several theoretical difficulties with their arguments (Holsti, 2004: 62). These difficulties include the following:

i. These authors confuse power and authority. For example, Strange (1996: 53) argues that power should be gauged by the ability of a person or entity to influence outcomes, rather than control over institutions and/or the possession of capabilities. If one follows Strange’s logic then diverse entities such as financial markets, international organisations and criminal groups are able to influence outcomes, which means that they have authority – and authority flows from power. The problem with Strange’s logic is that one can argue that any entity that has power has authority. Authority may imply that the person or entity exercising authority has the right to rule, the ability to make law, and the ability to enforce those laws. Whilst MNCs do exercise a measure of power analogous to that of states, this does not necessarily mean that these institutions have authority over states. Rather this relationship is indicative of an inability on the part of states to exercise their full policy choices and may also decentralise power for such relationships to sub-national units that may have a comparative advantage to attract FDI over the central state. This may mean that a state’s autonomy is being eroded, but autonomy and authority are two different things (Holsti, 2004: 63).

ii. Hyperglobalists view power and influence in zero-sum terms. If someone has lost power and influence, then that lost power and influence has been accrued to by another person or entity. It is possible that the power and influence of states and MNCs could be increasing at the same time and that states may promote the power and influence of MNCs as a means of projecting their own power and influence (Holst, 2004: 63), particularly with shifts of power to sub-national state units. This is perhaps most evident in the case of the development of Concorde as a means of projecting the power and influence of not only the developers of the Concorde, but also the aeronautical power and prestige of the British and French governments in the face of post-colonial loss of power and influence. In the case of states and markets, markets according to Watson (2005: 179) are mere collections of individuals and that states’ interactions with the markets are becoming increasingly intertwined and complex as a result of organisations such as the WTO. The creation of organisations such as the WTO is also evidence that states actively promote the interests of the capitalist system.

iii. Relatively speaking, the state is a new phenomenon (Hirst and Thompson, 2005: 256) and the role of the state has been continually expanding and contracting depending on the challenges faced by particular states. For example, whereas states in the 19th century provided the most basic of economic necessities and a functioning
judiciary, but the 1940s this had changed as European states in particular began to implement policies that resulted in the creation of the welfare state. Indeed whilst most states during the 1990s, including South Africa, tended to argue that bureaucracies needed to be curtailed, the evidence would tend to suggest that most state bureaucracies have actually been growing (Holsti, 2004: 66). These factors would hardly tend to suggest that the state is being eroded by globalisation. Rather it can be argued that another change in the role of the state is occurring.

iv. Hyperglobalists tend to confuse lack of support for a government with a lack of loyalty to the state. In the majority of states there are opponents to the state typically organised in the fashion of opposition parties to the government of the day. The end goal of these opposition parties is often to replace the government of the day. Within a democratic system this is normal practice. In the case of secessionism, there are groups who lack loyalty to a particular state with the express intention of establishing a state of their own. Thus whilst they lack loyalty to a particular state, their express intention is to establish a state of their own to which they can be loyal. They are thus not denying the legitimacy of statehood as such, but only of a particular state (Holsti, 2004: 67).

If the arguments of the hyperglobalists have theoretical difficulties, then what approach could be adopted to analyse the relationship between globalisation and the state?

3.2.2 The State Complexity Argument

For Wolf (2001: 184) the contrast in the role of the state between the second and third waves of globalisation is that whereas the mode of state policy formation in the second wave of globalisation could be characterised as unilateral and discretionary, in the current and third wave of globalisation the mode of state formation can be characterised as multilateral and internationalised. This is in contrast to the “state obsolescence argument”, as discussed above. This notion of state complexity will now be discussed in greater detail.

The role of the state has become greatly expanded since the end of the Second World War as European states in particular have implemented policies which introduced, and in many ways have entrenched, the welfare state (Sorenson, 2006: 193). At the same time these states have been taking steps towards the increased globalisation of capital, securities, and finance in the form of FDI, for example, which have served to secure the interests of the major economic players within the states' various economies whilst at the same time having to balance the interests of the majority of the population (Holsti, 2004: 65). Member states of the European Union have also decentralised power to sub-national state units to bring
government closer to European Union citizens as well as integrate their markets more closely into the global economy through the programme known as “Europe of the Regions”.

Changes since the 1980s have resulted in an altered role for the state. For developing states, as noted in chapter 2, the 1980s heralded the introduction of the Washington Consensus and SAPs and more recently PRSPs, whilst European states underwent a form of “structural adjustment" of their own in two ways (Sorenson, 2006: 193):

i. European state activity moved away from stressing economic management towards stressing procedural-regulatory functions. The new impetus of the European project since 1992, sparked by the Maastricht Treaty, was towards deeper integration which enabled the free movement of goods, services, capital, and people within the Union; and

ii. political authority has become disaggregated into a variety of agencies to interact with a wide range of private companies, groups, and organisations to enhance existing market-based or government-based arrangements which may be considered to be insufficient by actors within the state.

In addition, whereas in the past national governments ruled within defined territorial boundaries, today there is a greater emphasis on governance. Governance relates to activities not only at the national level, but also activities at the local and international levels as well as including governments, units of government, international organisations, non-governmental organisations and other non-state actors. This emphasis on governance is also evident as governments increasingly become enmeshed in complex networks of international organisation and supra-local organisation to which they make varying commitments, as well as in the fact that non-state actors are also playing a role in the process of governance (Sorenson, 2006: 195).

Whilst hyperglobalists would argue that this increasing complexity is resulting in the shrinking of the state as the state transfers some of its powers to international organisations (like the European Union and the United Nations) as well as to sub-national state units, proponents of the moderate approach would argue that co-operation between states leads to their strengthening since states are now able to achieve powers of regulation that they would not have otherwise had (Sorenson, 2006: 195).

Not only is globalisation resulting in increasingly complex interactions between states, globalisation is also resulting in the revaluation of one’s understanding of sovereignty. Whilst constitutional independence remains intact, the regulative rules of sovereignty appear to be
changing. Whilst states may transfer some of their political authority to organisations located at the supranational level (for example the WTO) as well as sub-national state units through decentralisation, this can result in new sources of authority for states that are subjected to this transfer of power. These new sources of authority can thus be seen as complementing and/or strengthening the regulative power of states (Sorenson, 2006: 200). However, in the case of the WTO its ability to complement and/or strengthen the regulative powers of states could be called into question as a result of the inability of WTO member states and Pascal Lamy, the Director-General of the WTO, to advance the Doha Round of trade talks.

The effect has been to transform the state into a multifaceted entity which has become diffused into complex networks with a variety of actors. From the above it would also appear that the new era of multi-level governance ushered in since 1945 and the formation of the UN has led to systematic intervention in the affairs of states that is in contrast to the principle of non-intervention. The role of the state in relation to markets and capital would thus not appear to be diminished, but rather transformed as it responds to the challenges (both positive and negative) presented by economic globalisation. This transformation can include decentralisation to sub-national state units. As Sorenson (2006: 201) argues, if economic globalisation and multi-level governance is leading to a change in the understanding of sovereignty, this does not necessarily mean that states have moved beyond sovereignty. Since constitutional independence remains a critical and dominant principle of political organisation, it is rather how the game of sovereignty is played between states (as expressed through sovereignty’s regulative rules) as well as within states (through policies such as decentralisation) that will develop and change.

So whilst the drivers of globalisation (as identified in chapter 2) may be opening economies, at the same time these drivers are reinforcing constraints that may have already developed within domestic national politics as well as creating new centres of authority as a means of attracting FDI. However, Wolf (2001: 189) identifies three reasons why the state will continue to be of importance:

i. in order for societies to integrate into the international economy, such integration is dependent upon the quality of public goods offered by the state. In order for the state to give effect to these public goods and for its citizens to take advantage of these public goods, a legal framework is required. Only the state can provide such a legal framework;

ii. the state provides its citizens with a sense of identity and belonging which provides citizens with a measure of security that most citizens would not be prepared to give up; and
iii. international governance is dependent on the ability of states to provide and guarantee stability. The international order is still premised on the state which has the monopoly on coercive power within its defined territory and jurisdiction.

3.2.3 FDI and the State – Obsolescence or Complexity?

The above discussion focused on the relationship between globalisation and the state. Since FDI is a central theme of this study, a pertinent question to ask would be how FDI can be interpreted in light of the obsolescence and complexity arguments discussed above. Given the argument evolved thus far, it would appear that MNCs are still highly dependent on states to provide the necessary framework for investment.

As noted in chapter 3, factors which contribute towards such a framework include: good infrastructure, low inflation, an efficient legal system, and a good investment framework. These are all factors that only the state can provide and sustain in order to ensure that it remains a viable and attractive market for FDI. Thus, rather than leading to the state becoming obsolete, MNCs would appear to need a strong and viable state to provide the necessary framework for FDI, which may also result in decentralisation and the movement of power to sub-national state units. This would suggest that the relationship between FDI and the state is one of complexity as the two appear to be dependent on each other in order to operate in an effective manner.

3.2.4 The Sub-National Level as a Site for Globalisation?

Sassen (2003: 1) interprets globalisation as a process that involves two dynamics. The first dynamic is the formation of global institutions and processes, whilst the second dynamic takes place at the local level within states. This second dynamic has traditionally been constructed in national terms despite the fact that the processes involve trans-boundary networks that connect multiple local actors (Sassen, 2003: 2). For example, Murray (2004: 2) argues that in addition to being sites for managing global trade, international banking and finance, cities now also function as highly concentrated command points in the organisation of the global economy as well as important sites for the location of MNCs’ headquarters.

However, it is important to consider that globalisation, and the adoption of decentralist policies, can be viewed as political choices that, if compatible with the policy goals of the central state, will adapt. This means that regardless of who is demanding that the central state implement decentralist policies (such as MNCs), such policies will only be adopted by the central state if it suits its policy goals. However, this is not to ignore that in the case of
some developing states, they are not able to take such a stance and may have decentralist policies thrust upon them by the IFIs, for example. This point is also echoed by Scholte (2004: 9) who argues that whilst stronger states can influence global activities and exploit the new geography created by globalisation, weaker states have tended to lose relative power in the face of globalisation and globalism. This is not to diminish the importance of globalisation and FDI in often encouraging the trend of decentralisation as well as creating the space to enable the possibility for sub-national state units to take greater initiative in playing a growing role in supra-territorial interconnections as well as interconnections with other sub-national state units, which “supra-local” connections have often occurred and unfolded without the central state as the intermediary (Scholte, 2004: 22).

For example, within the context of the African continent, a regional organisation of urban authorities was established in 1975. In the case of provincial governments, some provincial governments (such as some federal states in Brazil and India) have bypassed their respective central states and established direct relationships with the IFIs. This is not to say that as a result of globalisation sub-national state units have gained a greater policy initiative over the central state. Rather, as Scholte (2004: 25) notes, all state units have faced pressures to accommodate foreign investors as well as their local constituents. In the case of sub-national state units, not only do they have to contend with MNCs and states, but also growing centres of supra-state governance that hold regional and global spheres of activity.

Furthermore, as a result of globalisation, sub-national state units are often perceived as having gained an enhanced role in the process of governance. Sub-national state units increasingly promote territorial and functional transnational linkages with other sub-national state units thus resulting in the diminished capacity and role of the central state (MacLeod and Goodwin, 1999: 505). This is particularly as a result of the changing monopoly that the state has had as the organiser of identity and solidarity and as the sole champion of sovereignty (Reis, 2004: 253). Scholte (2004: 3) argues that with the end of statism, or the condition where governance is more or less equivalent to the regulatory operations of territorial national governments, governance has become multi-layered and cross-cutting.

For Scholte (2004: 3) this does not mean the end of the state, but rather that regulation occurs at a number of sites including the municipal, provincial, national, regional and global. At the same time there are increasing interconnections between these various sites of regulation with no single level dominating the other, as was the case during statism where the state was dominant in terms of territorialist circumstances.
With regards to the relationship between globalisation and decentralisation, Wittenberg (2003: 7) argues that local choices may lead to a greater variety in lifestyle options for the citizens of a state and citizens are able to “vote with their feet” and thus greatly enhance the economic growth and development in specific sub-national units within a state to which FDI is attracted. In this regard, Murray (2004: 4) argues that in aspiring to become “world-class cities”, local governments may adopt policies that seek favour with MNCs by creating nested sites of luxury living and leisure whilst poorer citizens are left to fend for themselves.

Not only can globalisation be perceived as having given more power to sub-national state units, but it has also offered many opportunities for national and cross-border networking, co-operation, and exchange among local authorities. This means that local government can be just as open as national government, perhaps even more so (ILO, 2004: 68). Furthermore, economic reform (often spurred by globalisation, as can be evidenced by the adoption of GEAR by the South African government) can also lead to the considerable reduction of barriers to foreign trade and FDI, as well as the manner in which government intervenes in the domestic economy (Srinivasan, 2003: 7).

Globalisation, according to Scholte (2004: 20-21), has furthered the discussion of public-sector governance to sub-national state units in three important ways:

i. with the rapid growth of global relations making statism largely impractical, sub-national state units have moved to fill the gaps in effective governance;

ii. globalisation has posed a number of problems to which sub-national state units may be in a comparatively advantageous position to deal with such as creating local conditions to attract FDI; and

iii. global communications allow sub-national state units with the infrastructure to bypass the state in their day-to-day operation.

Thus whilst sub-national state units may have acquired a relative autonomy from the state, in the case of developing states in the global South the power of regional and global financial institutions can limit the autonomy of sub-national state units insofar as these sub-national state units continue to interact with and be shaped by national governments (Scholte, 2004: 21) as they attempt to attract FDI.

In light of the above arguments, sub-national state units can be viewed as a site for globalisation. However, as Sassen (2006: 174) notes, decentralisation in the case of the USA was framed during the Reagan presidency as an opportunity for sub-national state units to regain control over those areas of authority that had previously been ceded to the federal
government. However, whilst the process of decentralisation undertaken during the Reagan presidency was framed in terms of increasing the authority of sub-national state units in the USA, these reforms also had the effect of providing the regulatory framework and apparatus for greater participation of the USA in the global economy (Sassen, 2006: 174).

The example highlighted by Sassen above also highlights how the prime policy objective of the state appears to have shifted from the well-balanced domestic performance of the national economy to its overall international competitiveness leading to the rise of concepts such as the “entrepreneurial city” (MacLeod and Goodwin, 1999: 506) as sub-national state units seek to integrate themselves into the global economy through the attraction of FDI. MacLeod and Goodwin (1999: 506) also argue that the state has willingly adopted policies and programmes to alter the shift in its economic focus (so as to attract FDI, for example) and structure of its economy through processes such as globalisation and globalisation. At the same time, pursuing policies of decentralisation allows the state to find new ways to fashion and continue any successful political project.

For Bauman (1998: 42) policies of decentralisation are not only driven by the state, but also by MNCs that depend on freedom of movement in order to pursue their interests and thus require states to be weak and politically fragmented, whilst at the same time remaining states. Not only has the alternation in the relationship between the market and states been changed as a result of a change in policies adopted by sub-national state units such as cities, but also as a result of the drivers of globalisation. Drivers such as telecommunications and technology have intensified networks and the flows of information and other resources which tend to transcend country borders resulting in foreign investors and their capital not requiring any specific “motherland” or “fatherland” (Reis, 2004: 253). Thus at the same time foreign investors are increasingly able to create and intensify networks with sub-national state units such as cities without the need to engage the central state. Telecommunications, as a driver of globalisation, has also played a role in making the statist form of governance unviable since governments are not able to effectively block all forms of communications that cross their borders. Similarly, governments are no longer able to effectively control global trade. Rather, governments have been reduced to simply having to intervene in global trade (Scholte, 2004: 7).

This notion of the sub-national as a site of globalisation is also emphasised by Brenner (2003: 297) who argues that the focus of current policies of decentralisation includes promoting territorial competitiveness and attracting external capital investment (such as FDI) within the context of globalisation as a supraregional trend. Decentralisation for Brenner (2003: 297) is a mechanism for the promotion of economic development policies through
which the state can enhance place-specific socio-economic assets as a means of attracting FDI. As will be discussed in chapter 8 of the study, the economic development policies and programmes adopted by sub-national state units are increasingly focusing on spatial planning, infrastructure investment, and political-economic co-ordination at the level of the city.

Brenner (2003: 300) argues that during the 1980s a new pattern of uneven regional development and territorial competition began to occur with local governments developing novel strategies for local economic development and growth as a means of dealing with place-specific problems and to adjust to the requirements of external capital as a means of attracting new sources of FDI. Indeed, the increasing importance of cross-border capital, trade, and investment flows suggests that decentralisation must take international reactions, such as those of MNCs, into account. Furthermore, since private capital flows such as in the form of FDI are far greater than loans and grants from bilateral and multilateral sources, policy-makers in developing countries have to be sensitive not only to possible reactions of foreign investors to any policy changes, but also to the fact that credibility and reputations also matter (Srinivasan, 2003: 7).

Urban regions, for example, are becoming restructured in such a manner that metropolitan governance has become redefined from a vertical, co-ordinating, and redistributive relationship within the state to a horizontal relationship in which sub-national state units compete against one another with the central state co-ordinating this new competitive and developmentalist relationship as the sub-national state units located within a given state compete to attract FDI (Brenner, 2003: 303). As states adopt policies furthering decentralisation within their territorial bounds, so these policies appear to be emphasising economic regeneration with sub-national state units acting as the key sites for this economic regeneration to attract FDI. Within these key sites for economic generation, Brenner (2003: 307) argues that the contemporary “glocalising” state is concentrating industrial capacities, infrastructural investments, and labour. In addition to focusing their efforts on key sites, sub-national state units in conjunction with the central state have been increasingly adopting entrepreneurial approaches to LED as the prevalent political-institutional mechanism for the increased glocalisation of the state as a response to FDI.

Thus as the state becomes increasingly drawn into the global economy through globalisation, so the state is increasingly internalising the international constraints posed by globalisation in the form of FDI into domestic policies with the result that states have to proactively engage in various forms of policies promoting specific locations in order to ensure that the state’s sub-national state units are competitive on a global scale as they seek to attract FDI. Whereas
uneven economic development within a state may have previously prompted the state to seek to redress the imbalance, as a result of the adoption of policies promoting decentralisation within states such uneven economic development is rather used as the basis on which to determine and mobilise specific economic development strategies (Brenner, 2003: 308) to attract FDI, for example. At the same time decentralisation can lead not only to uneven economic instability, but it can also lead to macroeconomic instability for several reasons including (Srinivasan, 2003: 9):

i. an efficient response to the shocks posed by economic globalisation to several sub-national state units or an entire national economy becomes considerably more difficult if the responsibility for implementing the appropriate policies is vested in large part to sub-national state units; and

ii. central governments would rarely be able to commit themselves not to bail out sub-national state units if they accumulate unsustainable levels of debt.

Globalisation and its various drivers (such as telecommunications, as noted in chapter 2) have also affected the spatial spread and management of cities. In order to enhance their competitiveness and attractiveness for FDI, cities need to continually build and improve upon their communication and transportation infrastructures. But at the same time the needs of foreign investors must be balanced against the social priorities posed by the poor and environment (Schiavo-Campo and Sundaram, 2001: 148).

Whilst globalisation tends to emphasise the supra-territorial aspects of the process, Scholte (2004: 7) argues that globalisation has also loosened crucial underpinnings of statism and advanced various non-territorial identities and solidarities (such as class, gender, profession, race, and religion) as well as reinvigorating more localised solidarities. A further result of the end of statism is that both citizens and governors are more inclined to give prominence to values such as economic growth and development through policies that seek to attract FDI. These values are not necessarily territorially bound or given a higher priority than loyalty to the state.

At the same time it is necessary to avoid an interpretation of the state in terms of which it is purely perceived in economic terms. Purcell (2002: 299) argues that if the interpretation of the state espoused by regulation theory is adopted, there is a latent impression that any decentralisation within a state occurs purely as a response to shifts in the world economy. Purcell (2002: 313) argues that in addition to economic considerations, the state may be pressured into restructuring itself and implementing policies of decentralisation as a means of continuing to ensure that it (the state) remains legitimate in the eyes of its citizenry and
can be perceived by its citizenry as meeting their expectations. Purcell’s argument is reinforced by Paasi (2004: 537), who argues that it is necessary to take into account a number of factors such as governance, politics, and culture when attempting to understand the process of state rescaling.

As will be discussed later, one can argue that the policies of decentralisation adopted by the South African government and the LED programmes adopted by South Africa’s sub-national state units can be viewed both as a response to the pressures exerted by economic globalisation (in the form of FDI) as well as a means of meeting the challenges posed by unemployment and poverty within the sub-national state units. Whilst the focus of the study is on the economic impact of economic globalisation on the South African state, it is also necessary to take Purcell’s arguments into account to ensure that a holistic perspective of state restructuring is maintained.

This chapter has not only analysed the relationship between the Westphalian ideal construct of the state, but it has also analysed the relationship between globalisation and the state. With regards to the development of the state in the developing world, it was noted that in developing states competition between contending elites for control of the institutions of the state and direct rule came to be organised around ethnicity with different leaders drawing their support from particular ethnic groups whose solidarity they constructed and played upon. Furthermore, the majority of African states are the product of the colonial experience and thus were formed in a top-down approach to state development, not entirely dissimilar to that experienced by Europe. However, one difference between the European state formation project and that of Africa is that African states were not afforded an opportunity to develop institutions before allowing universal suffrage.

With regards to the relationship between the state and globalisation, the various interpretations of globalisation highlighted in chapter 2 were applied to the relationship between globalisation and the state. It was argued that rather than leading to the state becoming obsolete, MNCs would appear to need a strong and viable state to provide the necessary framework for FDI, which may also result in decentralisation and the movement of power to sub-national state units. This would suggest that the relationship between FDI and the state is one of complexity as the two appear to be dependent on each other in order to operate in an effective manner.
The question is how the characteristics of the developing state and the relationship between FDI, as a feature of globalisation, and the state can be applied to the South African state and its sub-national state units. In the subsequent chapters of the study, the theory developed in previous chapters will be applied to the South African state and its sub-national state units.
CHAPTER SIX
THE SOUTH AFRICAN STATE

“Being latecomers to freedom and democracy, we have the benefit of the experience of others.”
- Nelson Mandela

“Nothing can so alienate a voter from the political system as backing a winning candidate.”
- Mark B. Cohen

1. INTRODUCTION

In previous chapters of the study the theoretical basis has been laid for analysing the two primary concepts at the heart of the study, namely economic globalisation (with FDI as a feature of economic globalisation) and the state and its sub-national state units. The question is then, how do these characteristics of the modern state in the developing world and the process of economic globalisation apply to South Africa? More particularly, what characteristics of the South African state, and the economic policies adopted by the South African state and its sub-national state units attract FDI and to what degree have such policies been adopted to attract FDI?

In order to answer this question, the study first assesses the characteristics of the South African state in light of the theory discussed in chapter 4. Accordingly this chapter focuses on the three primary characteristics of the state namely territory, institutions, and sovereignty. This chapter discusses the other economic characteristics of the state. The study assesses the nature of decentralisation in post-apartheid South Africa. This is necessary in light of the radical transformation of the nature and functions of sub-national state units in South Africa after 1994. The chapter assesses the relationship between all three “spheres” of government and how power is exercised amongst these three spheres.

However, before discussing the characteristics of the South African state, the chapter first discusses the development of the South African state from Union in 1910 until the transformation of the apartheid state in 1994 as a result of the negotiated settlement at CODESA. The focus is on the economic policies and state structure of the South African state in order to explain and highlight the radical transformation of the South African state in 1994.

2. THE SOUTH AFRICAN STATE

As discussed in chapter 4 of the study, the state can be defined as a political association. It establishes sovereign jurisdiction within its defined territorial borders as it exercises authority
through public institutions that are not only institutions of government but also other elements of the body politic. The state also establishes sovereign jurisdiction beyond its defined territorial borders as it engages in increasingly complex transnational and supra-local networks and relationships. Furthermore, several characteristics of the state were identified, including territory, institutions, sovereignty, as well as the economic characteristics of the state. Chapter 4 also analysed the concept of decentralisation as well as the relationships between globalisation (particularly FDI as a feature of economic globalisation) and the state.

How can these characteristics be applied to the South African state? Before being able to answer this question it is necessary to briefly discuss the evolution of the South African state from its creation in 1910 to its current incarnation. This is due to the radical changes that have been made to the South African state, especially as a result of the negotiated transition from the apartheid South African state to the post-apartheid South African state. During this discussion of the various incarnations of the South African state, attention will be paid to both the political and economic structure of the South African state.

2.1 The Origins of the Modern South African State

The post-apartheid South African state that was ushered in with the 1994 elections was radically different from its predecessors. Enshrined in the Constitution of the Republic of South Africa Act 108 of 1996 is the principle of constitutional supremacy. This principle is in sharp contrast to the Westminster doctrine of parliamentary supremacy, which was the form of government prior to the introduction of constitutional democracy in 1994. Within the context of this study, a further transition that was made was the reintegration of the South African state and economy into the global economy and how this reintegration has occurred as a result of greater decentralisation within the South African state through the adoption of policies such as GEAR. How did the South African state make such a transition?

2.1.1 The Union of South Africa (1910–1948)

The modern South African state was created as a result of the Union of South Africa, which was formed in 1910 pursuant to the end of the Second Anglo-Boer War as a union between the two former Boer republics, being the Zuid-Afrikaansche Republiek (or “ZAR”) and the Orange Free State, and the British colonies of the Cape of Good Hope and Natal. In terms of the role of the provinces within the greater Union, they had some functions decentralised.

An interesting point is that when the founders of the south Irish state were choosing a name for their state they chose the “Irish Free State” which was modeled on the name of the Orange Free State.
to them, such as healthcare, but otherwise power was concentrated in the central state (Atkinson, 2002: 5).

Not only did the Union represent a reversal of the rights of black South Africans, it also represented an attempt to replace British colonial values and legacy with Afrikaner values, particularly from 1924 onwards when JBM Hertzog's National Party came to power. The increased intervention in the economy by the National Party was particularly due to an opposition to capitalism amongst Afrikaners particularly due to the cheap African labour that capitalism preferred and the international connections that it represented. A further distinguishing feature of Afrikaner economic advance in the 20th century was the development of a prominent Afrikaans dominated public sector (Picard, 2005: 31).

It is arguable that the measures adopted by the South African government, such as influx control, was used as a means of ensuring that the MNCs that operated the mines, and which had invested (in some cases in the form of FDI) considerable sums of money, which drove the South African economy at the time, would have access to a cheap pool of labour to keep the primarily mining economy functioning. The systematic promotion of Afrikaner interests both politically and economically would certainly have an impact on the future South African state as issues, such as skills shortages, in the economy would be brought to the fore in the 1960s and beyond.

In terms of the structure of the Union, it was modelled on the Westphalian ideal of the state due to the colonial relationship between the United Kingdom and South Africa. The South African state thus functioned as the mediator between the internal and external and was responsible for the maintenance of South Africa's internal and external sovereignty.

2.1.2 The Apartheid State (1948–1994)

The drive towards the Afrikanerisation of the South African civil service began in all earnestness in 1948 when the National Party narrowly defeated Jan Smuts' South African Party with a policy platform that advocated apartheid. The National Party viewed control of the civil service and military as vital to its control of the South African state and soon began placing hand-picked Afrikaners in the upper echelons of the civil service and military. The National Party was thus able to create a vast system of state patronage, not only through its placement of Afrikaners in the civil service and military, but also through its use and appointment of Afrikaner businesses for government work (Picard, 2005: 36).
Whilst the National Party initially espoused the politics of Afrikaner nationalism, after their victory in 1948, they were able to consolidate its political dominance as white unity increased in the face of growing internal and external pressure regarding the government’s policy of apartheid. By exiting from the British Commonwealth in 1961, the South African government sought to ensure that it would be the sole mediator between the internal and external in controlling and determining the limits of South Africa’s sovereignty. As the policies of the apartheid state became increasingly oppressive and led to South Africa being further ostracised from the international community and global economy, so the open system of sovereignty (Ansell and Weber, 1999) would not apply to the South African state.

2.1.2.1 State Structure in the Apartheid State

Whilst the problem of establishing a morally acceptable framework in which Afrikaners would be able to maintain a firm grasp on power would never be solved by successive white governments, the government’s solution to the second problem was the creation of “grand apartheid” in terms of which each of the ethnic groups in South Africa would ostensibly be entitled to sovereign independence. The aim of grand apartheid was thus to create 10 separate states where each relevant ethnic community would be granted full political rights (Schrire, 2005: 265).

Whilst some traditional leaders were prepared to accept the concept of grand apartheid, which led to the creation of four “independent” homelands, in reality these independent homelands were not recognised by the international community who saw these homelands for the “banana republics” that they were. As was noted in chapter 4 of the study, the decentralisation of political power to the Bantustans was perhaps one of the most radical forms of undemocratic political decentralisation witnessed.

Perhaps the most dramatic change in the structure of the apartheid state came in 1984 when the tricameral parliament was introduced. The tricameral parliament was an attempt to further entrench the apartheid state and the Afrikaner grip on power, whilst at the same time legitimating the apartheid state both locally and internationally by including South Africans of Indian and coloured origins. Black South Africans were not given their own chamber in Parliament on the basis that they were afforded full political representation in the homeland states.

15 These being Bophuthatswana, Ciskei, Transkei, and Venda.
16 Except for the few supposedly ignorant international musical artists (such as Rod Stewart, Queen, and Barry Manilow) and a certain business tycoon in the gaming industry.
Not only were the executive and legislative arms of the state harnessed by the apartheid state, but also the judicial arm of the government. The role of the Courts in upholding the structure of the South African state, especially in relation to the homelands cannot be emphasised enough. One such case was the township of Moutse, which was unilaterally incorporated into the homeland of Lebowa. When the matter was ultimately heard before the Appellate Division in 1987, the Appellate Division again ruled in the government’s favour (Abel, 1995: 465).

Within the white communities of the apartheid state, the regional level of government was fulfilled by the provinces. In June 1986 the old provinces were scrapped and reconstituted in terms of the Provincial Government Act which stipulated that members of the Executive Committees of the provinces would be appointed by central government. Whilst the nature of the legislation was centralist, there was also an increased allocation of functions to the provinces. In the sphere of local government, municipalities were based on the British model of decentralisation and had specific functions allocated to them, as well as their own dedicated bureaucracies (Wittenberg, 2003: 10-11).

2.1.2.2 The Economy in the Apartheid State

As in the period prior to 1948, the Nationalist government sought to actively intervene in the South African economy. These methods of intervention included (Marais, 2001: 20):

i. influx control and the pass law systems;
ii. the forcible intervention in the social and economic affairs of South African citizens; and
iii. intervening to ensure the survival of marginal capitalist enterprises and assisting with the birth of new Afrikaner enterprises.

The economy in the apartheid state was also characterised by the adoption by the government of policies favouring import-substitution. The government also intervened in the economy by raising tariffs and other trade barriers around fledgling and other vulnerable industries through the creation of parastatal corporations (Marais, 2001: 21). This can also be interpreted as a means of excluding MNCs from the South African economy due to the closed nature of the sovereignty exercised by the apartheid state.

The further economic growth experienced in South Africa during the 1960s that continued into the 1970s, also attracted large levels of FDI, particularly in the manufacturing sector of the economy. However, most of this investment was capital-intensive, which did not assist in
alleviating the unemployment problem that existed in the economy at that time (Marais, 2001: 30).

As the problems surrounding South Africa's foreign reserves became strained during the 1980s so the government elected to create a dual currency as a means of inhibiting the flow of money out of South Africa. By separating the currencies, the commercial Rand was never affected by fluctuations in the discount at which the financial Rand traded (Clark and Bogran, 1999: 342). Whilst this practice may have protected South African consumers from the fall in the value of the financial Rand and stabilised the balance of payments, it did little to attract foreign investors or encourage existing investor MNCs who would now have considerably more hurdles to getting their money out of South Africa if they chose to divest. MNCs' investments could thus be locked into the South African economy with little or no prospect of exiting.

However, the problem with South Africa's balance of payments was not the only problem facing the apartheid state. Until 1971, the foundation of the international economy and Bretton Woods system was gold, which was fixed in US dollar terms. When the USA withdrew from the gold standard in 1971, the price of gold was floated. The fluctuating gold price, coupled with the liberalisation of capital markets in the 1980, meant that gold's value as a refuge for foreign investors diminished (Hirsch, 2005: 21). This would have a significant impact on the South African economy given the dependence of the economy on the gold industry and the MNCs that operated in the mining industry and contributed vital FDI to the South African economy.

Despite attempts by the Nationalist government to introduce wide-ranging reforms during the 1980s, these attempts could not slow the slide of the economy as a result of international sanctions and divestment in the South African economy by a host of MNCs. According to Marais (2001: 67), the main effect of sanctions was to hamper the government's ability to secure financial assistance to offset its balance of payments problems, as well as reverse flows of FDI into South Africa.

As was noted earlier in this chapter, given the limited role and ability of sub-national state units in the South African economy to attract FDI, coupled with the highly centralist nature of the apartheid state, it would have been difficult for the individual provinces to attract FDI to their economies and sustain some form of economic growth once the down-turn in the South African economy, due to sanctions, occurred thus further contributing to the end of apartheid.
The institutional state in South Africa was thus ultimately shaped by the legacy of colonialism, the grand apartheid schemes from 1948 to 1972, the structural reforms introduced by the nationalist government after 1979, the township revolts of the mid-1980s, and ultimately the negotiations which led to the creation of the constitutional state in 1994.

2.2 The Primary Characteristics of the South African State

Having established the development of the post-apartheid South African state, the study now turns to apply the characteristics of the state identified in chapter 4, to the post-apartheid South African state.

2.2.1 Territory

As discussed in chapter 4, territory is an important characteristic of the modern state in that it assists states in defining who belongs within the territorial bounds of a state and who does not. In so doing the state is able to extract resources from its citizens as well as guarantee the physical safety of its citizens from internal and external threats.

As noted above, identifying who belongs and who does not belong in the South African state was a divisive issue during apartheid. This issue is now resolved as in terms of the preamble of the Constitution of the Republic of South Africa (1996: 1) “South Africa belongs to all who live in it”. In terms of physical territory and space that South Africa occupies, South Africa’s borders have remained relatively uncontested since the union of the four constituent components of the Union of South Africa in 1910. In some cases, South Africa has also gone so far as to open its borders with its neighbours, particularly with the creation of Peace Parks, which are wildlife sanctuaries that span South Africa’s borders with Mozambique and Zimbabwe (the Great Limpopo Transfrontier Park), as well as Botswana (the Kgalagadi Transfrontier Park), to name a few.

Also important to also note is that whilst the above deals with the territorial whole that constitutes the South African state, the provinces and municipalities that make up the South African state should not be disregarded as constituting part of the territorial characteristic of the South African state. In this regard, the territorial structure of the South African state has undergone a marked transformation from the four provinces and limited number of municipalities of the apartheid state to nine provinces and “wall-to-wall” municipalities under the post-apartheid regime. These sub-national state units which make South Africa will be discussed in further detail later in this chapter as well as in chapter 8 of the study. The intention of creating new provinces and municipalities was to facilitate service delivery since greater decentralisation to these sub-national state units would allow greater focus on the
part of the sub-national state units to attract FDI in terms of policies and programmes such as LED (Picard, 2005: 301).

2.2.2 Institutions

In line with the classical system of *trias politicas*, the Constitution differentiates between the roles and functions of the national executive, parliament, and the judiciary (chapters 5, 4, and Chapter 8 of the Constitution respectively). Furthermore, as stated in chapter 4, the concept of *trias politicas* requires that, in addition to carrying out their own duties and responsibilities, the various state institutions that make up the *trias politicas* exercise some measure of oversight over the other institutions in the *trias politicas*.

These twin concepts of independence and oversight are also carried through in the Constitution in that Parliament is required to ensure that all executive organs of the state are accountable to Parliament (Section 55(2)). The independence of the judiciary is also enshrined in Section 165(2) of the Constitution which states that Courts are independent and subject to the Constitution. It would thus appear that the institutions which comprise the South African state (in theory) embody the principles of *trias politicas*. Furthermore, in contrast to the apartheid state, the decentralised sub-national state units of the post-apartheid South African state have been constituted in a democratic fashion with all citizens within the sub-national state units voting for such structures (or having the capacity to vote) as well as being able to participate in the formation of LED policies and programmes undertaken by these sub-national state units to attract FDI, for example.

Having established that the public institutions of the South African state embody the principles of *trias politicas* it is necessary to consider to what degree these public institutions are involved in the two processes of legitimisation and domination identified in chapter 4. It was argued in chapter 4 that the process of legitimisation means that the decisions of the state are viewed as being binding on the members of a society. Domination, it was argued in chapter 4, means that the state has the ability to back up its decisions with force. Whilst it would appear that the majority of South Africans are prepared to abide by the decisions of the state, in particular in relation to decisions by the Courts, in terms of the ability of the South African state to back up its decisions with force, in this regard the South African state appears to be somewhat lagging when one surveys the available crime statistics for South Africa.
2.2.3 Political and Economic Sovereignty

Sovereignty, as per chapter 4 of the study, is to be understood as:

i. the final authority within the political community which lies with the state whose will, both legally and rightfully, commands without being commanded by others and whose will is thus absolute because it is accountable only to itself, both internally and externally; and

ii. an open system in terms of which the boundaries of the state are multidimensional and fluid

as the state acts as the intermediary between the society located within its borders and the outside world (including other state and non-state actors). The question is then to what degree the South African state has been able to retain its political and economic sovereignty in the face of economic globalisation, especially in light of the transfer of certain state powers (as discussed in chapter 4) to organisations located at the supranational level (such as the IFIs), its sub-national state units, and MNCs resulting in new sources of authority for states.

Chapter 4 further differentiated between political and economic sovereignty. In terms of the definition of political sovereignty in order to determine whether South Africa has been able to maintain its political sovereignty it will be assessed whether the South African state has been able to maintain its permanent and exclusive privileges over its political activities. In this regard it is important to note the effect of WTO policies (for example) on the South African state, as suggested by Khor (2000: 6). As noted in chapter 2, apparel manufacturers in the Western Cape increasingly having to contend with cheaper Chinese imports can be seen as an example of the impact of the policies of the IFIs on South Africa’s political and economic sovereignty as a result of South Africa’s WTO obligations to China as a fellow member of the WTO.

In terms of economic sovereignty, the post-apartheid governments have largely been able to retain South Africa’s limited economic sovereignty by avoiding a financial crisis which would require the intervention and the assistances of the IFIs in order to overcome any such economic crisis. As discussed in chapter 2, the IFIs were able to effectively entrench the principles of the Washington Consensus as a particular manifestation of economic globalisation on lending states during the 1980s. Many states subjected to the principles of the Washington Consensus were African states, including some of South Africa’s neighbours.
However, this has resulted in a catch 22 situation for successive ANC governments in that in order to retain South Africa’s economic sovereignty, the ANC has had to commit to economic policies approved by the IFIs. Nowhere is this more apparent than in the adoption of GEAR. As will be argued later in this chapter, GEAR can be viewed as a self-imposed SAP by the South African government. This in turn has led to the greater internationalisation of the South African state as South Africa’s economic sovereignty has been relatively circumscribed by the principles of the Washington Consensus, as embodied in GEAR. Investments by large MNCs in strategic industries such as resources (such as Mittal Steel’s purchase of ISCOR) and financial services (such as Barclay’s purchase of ABSA Bank) have also played a role in circumscribing South Africa’s economic sovereignty to a degree as profits leave South Africa, therefore affecting the current account and balance of payments leaving South Africa potentially more susceptible to international financial shocks.

A more detailed discussion of GEAR will follow later in this chapter. Suffice it to say that one of the primary foundations of GEAR is that the market, and not the state, would become the vehicle through which resources would be allocated and the means by which a degree of South Africa’s economic sovereignty would be handed to external actors.

2.2.4 Economic Characteristics of the South African State

Several economic characteristics of states were identified in chapter 4 of the study. A more detailed analysis of South Africa’s economic policies which have a direct impact on South Africa’s economic characteristics as a state are discussed later in this chapter. Suffice to say at this point, that when Strange’s (1996: 73-82) list of economic characteristics of a state are compared against the economic characteristics of the South African state, it would appear that South Africa largely complies with this list of characteristics. For example, the South African Reserve Bank is largely responsible for the maintenance of the value of the Rand (whilst this is not the primary function of the South African Reserve Bank) by protecting citizens’ savings against depreciation by maintaining an inflation rate between 3 per cent and 6 per cent, which is the primary function of the South African Reserve Bank (Vickers, 2002: 4).

Within the context of the study, the central South African state can also be characterised as:

i. developing economic infrastructure for the purpose of enhancing economic growth, which has seen the South African state adopting policies of decentralisation as a means of ensuring economic efficiency to attract FDI; and
ii. developing a competitive market within the state by taking steps to prevent monopolies developing and also acting against existing monopolies. As noted in chapter 4 of the study, Strange (1996: 80) highlights how South Africa’s transition involved not only the political transition, but also an economic transition since the South African economy (during apartheid) had been dominated by four large conglomerates and it was becoming increasingly expensive for the state to maintain these conglomerates. A competitive market is also needed to attract FDI since one possible factor driving MNCs to invest in an economy, as discussed in chapter 3 of the study, is the size of the economy since MNCs seek to make a profit from their investments.

As mentioned above, a further detailed analysis of South Africa’s economic policies which affect the economic characteristics of the state will follow later in this chapter.

2.3 **Sub-National State Units in the South African State**

In chapter 4 of the study various modes and degrees of decentralisation were highlighted. It was further argued in chapter 4 that whereas deconcentration represented the least advanced form of decentralisation, devolution represented the most advanced form of decentralisation. The question is how these various forms of decentralisation can be applied to the South African state.

The importance of the decentralisation process is highlighted by Heller (2001: 131) who argues that lower class collective action in the developing world has been blunted by uneven capitalist development, resilient social cleavages, and a variety of forms of bureaucratic authoritarianism. Except in few instances such as the cases of South Africa and Brazil where the lower classes have been able to drive the process of political transformation. It was also noted in chapter 4 that decentralisation can be interpreted as a response to globalisation by granting sub-national state units varying degrees and capacity to attract FDI.

However, as Yemek (2005: 2) notes in the context of decentralisation in South Africa, apartheid policies left a legacy of harsh economic and social inequality and the role of the public sector in the post-apartheid South African state is to provide a framework for social and economic development. If the public service is to provide a framework for social and economic development by attracting FDI with LED programmes and policies then fiscal decentralisation (as a mode of decentralisation) can provide a means of improving public service delivery while maintaining economic growth. This depends though on the design and institutional arrangements designed for its implementation (Yemek, 2005: 2). These
disparities can also affect the poorer provinces’ ability to attract FDI as these provinces are possibly more focused on so-called “bread and butter” issues than seeking to attract FDI. This possibly affords the central state more of a role in attracting FDI, such as the case of the motor industry in the Eastern Cape where central government has driven the process of incentivising the motor industry (Lorentzen, 2006). At the same time though, the investment by the motor corporations in the economy of the Eastern Cape is interacting favourably with regional development agendas as well as increasing the level of local capability (Lorentzen, 2006: 4).

The structure of the South African state, in particular the structure and composition of the homelands and the white provinces would have an impact on provincial authorities after the introduction of the post-apartheid state (Picard, 2005: 296). The structure of the apartheid state at the provincial level would ultimately impact the structure and implementation of decentralisation within the negotiated settlement. Two impacts included (Picard, 2005: 299):

i. the lack of retraining of homeland bureaucrats which would result in a lack of capacity for these bureaucrats in the post-apartheid South Africa; and
ii. a lack of information about the exact number of bureaucrats employed in the homeland administration meant that strategic plans regarding the human resource and organisational needs of the post-apartheid South African state would be difficult to plan and implement.

However, what further complicated matters was that a number of Bantustan leaders moved to the ANC’s banner during the negotiation process at CODESA. Wittenberg (2003: 32) argues that whilst this may have strengthened the hand of the ANC during the negotiation process it meant that the Bantustan bureaucracies had to be given meaningful roles in post-apartheid South Africa despite points raised by Picard above.

One of the principles agreed to in the final negotiated settlement was that existing civil servants at all levels of governments would retain their jobs, as well as an affirmative action policy to ensure significant increases in black access to the top ranks of the civil service. Indeed, both the ANC and the NP agreed that the restructuring of the national and provincial services was necessary in order to ensure that the social and economic needs of South Africa’s citizens could be met (Picard, 2005: 301). This would tend to suggest that not only would there be geographical decentralisation within the post-apartheid state (due to the creation of defined provinces) but also political and administrative decentralisation to ensure that citizens’ needs are met.
Furthermore, in terms of the negotiated settlement agreed to at CODESA, as noted above, the South African state would be transformed from four white provinces and ten homelands to nine provinces (at a regional or provincial level) and local authorities that ranged in size from Johannesburg to district councils which were made of small rural villages.

Not only did the CODESA negotiations deal with the structure of the national South African state. The negotiations also laid the framework for the structure and development of sub-national state units within the post-apartheid South African state and the relationship between the national and provincial spheres of government by setting out several so-called “Constitutional principles”. These Constitutional principles have subsequently been developed further into the inter-state relationships (i.e. between the central state and its sub-national state units) that exist at present in South Africa. This was required in terms of the CODESA agreements and the interim Constitution which required that the Constitutional Court certify the final Constitution on the basis that the final Constitution embodied the Constitutional principles.

What makes the Constitutional principles of lasting interest is that Section 74 of the interim Constitution states that no amendment or repeal of the Constitutional principles is allowed and have therefore had a lasting impact on the South African state and the final Constitution. The Constitutional Principles and the embodiment of these Principles in the final Constitution thus provide the necessary legal framework for decentralisation (as discussed in chapter 4) in the South African state.

Perhaps one of the most important features of the South African Constitution (in relation to the structure of the South African state) is that the Constitution does not typify the relationship between national, provincial, and local government in words such as “federal” or “commonwealth”. Rather, the Constitution merely refers to “spheres” of government. Since the relationship between the central and sub-national state units in South Africa is not defined within traditional decentralisation theory, this creates the possibility of greater flexibility for the South African state since it would not have to deal with perceived definitions and expectations arising from a specific terminology or definition of decentralisation theory.

As noted above, the South African constitution does not clearly define the relationship between the central state and its sub-national state units within the defined terminology of deconcentration highlighted above, rather the Constitution refers to various “spheres” of government. The result is a form of decentralisation within the South African state in which certain competencies may be delegated to the sub-national state units within the South African state and some competencies appear to be devolved to the sub-national state units.
An important consideration to bear in mind at all times is that even in those instances where certain competencies may be devolved to South Africa’s sub-national state units, the Constitution provides that the central state will always exercise a measure of influence over the manner in which these devolved competencies are exercised. This is since the central state retains concurrent powers over the devolved competencies. The maintenance of control by the central state over the competencies delegated and devolved to the sub-national state units within the South African state appears to be consistent with the theory of decentralisation discussed in chapter 4 since the central state may want to retain a measure of control over the sub-national units to avoid possible contradictions in policies between the various levels of the state.

How have these principles been implemented?

2.3.1 The CODESA Principles and the Relationship between the State and its Sub-National State Units

As noted in chapter 4 it is arguable that sub-national state units have the greatest potential to engage more effectively with women (Beall, 2005: 253). At the same time decentralisation has become one of the core components of political conditionality in international development discourse. Not only does decentralisation appear to have been mainly driven by donors, Beall (2005: 255) argues further that decentralisation has proved a panacea to the disenchantment with bloated central bureaucracies and kleptocratic central states. Whilst decentralisation may be a panacea for bloated central bureaucracy there is no specific reason why localised forms of government are more democratic than forms of government located at the central state level (Heller, 2001: 132). It is also possible as a result of decentralisation that the power and influence of local elites can come to dominate sub-national state units (UNDP, 2002: 67; Robinson, 2006, Internet Source). Within the context of the South African state Atkinson (2002: 3) argues that local government (as a form of decentralised sub-national state unit) is often the level of government closest to the people since local government offices are more often than not easier to reach than the offices of the central government. This spatial proximity to the citizens of local government thus enables councillors to concentrate on issues and local matters that are community-specific.

The CODESA constitutional principles 16 to 27 set out the relationship between the central state and the sub-national state units within South Africa, being the nine provinces. Three spheres of government within South Africa namely national, provincial, and local government are established in terms of principles 16 to 18. These principles further stipulate that at each
level of government there must be democratic representation. The exact powers, functions, and boundaries of the relationship between national and provincial government are defined more fully in the Constitution (Amato, 1994: 36). Whilst these principles may not delegate powers to the various spheres of government, these principles clearly delineate three levels of government in the South African state thus embodying the principles of geographical decentralisation discussed in chapter 4.

Principles 19 to 23 deal with the relationship between national and provincial government. More specifically these principles state that national and provincial government will both have areas of exclusive and concurrent powers. Furthermore each level of government must have the appropriate legislative and executive powers in order to exercise their respective areas of power as effectively as possible. This further highlights the adoption of the so-called German model of decentralisation by the South African state (Wittenberg, 2003: 6).

Principle 21 sets out various criteria which must be used for the determination of what powers should be allocated to which sphere of government (Amato, 1994: 157). These criteria include:

i. the level at which decisions can be taken most effectively in respect of the quality and rendering of services;

ii. the setting of minimum standards for the rendering of services in order to retain national unity;

iii. where uniformity is required, then the power should be allocated to central government; and

iv. provincial government shall have exclusive and/or concurrent powers for the purposes of provincial planning and development, as well as in respect of the socio-economic needs of the peoples of the province (Amato, 1994: 158).

From the above it appears that in instances when the maintenance of economic union or internal security is involved; or when unreasonable action by one province threatens the country as a whole; or the actions of one province damages one of the other provinces, then the national sphere of government will be entitled to intervene. This power of intervention also extends to matters of economic policy with regards to the maintenance of the South African economy (Roberts, 2003, Internet Source). This also highlights the German style of decentralisation adopted by the South African state (Wittenberg, 2003: 6; Schiavo-Campo and Sundaram, 2001: 130).
Perhaps most importantly, principle 23 states that where a dispute arises between provincial and central government concerning legislative powers allocated concurrently to national and provincial government, and a Court is unable to resolve the dispute, then the national legislation shall take precedence over the provincial legislation (Amato, 1994: 158). This principle thus clearly draws all power back to the central government and appears to effectively limit the ability of provincial government to exercise its own discretionary authority. As highlighted in chapter 4 this is an important characteristics of the process of devolution. This also means that it limits the possible instances of policy contradiction between central state and its sub-national state units (Vista-Baylon, 2001: 170).

It would thus appear from the discussion of the constitutional principles that although the sub-national state units within South Africa are afforded a measure of autonomy over their affairs (for example their socio-economic affairs) when a conflict arises between the interests of the provinces and central government then central government shall have precedence over the sub-national state units. At the same time sub-national state units are afforded a degree of autonomy to pursue LED programmes to attract FDI, for example. Again, in line with the theory of decentralisation discussed in chapter 4 there appears to be a measure of political and administrative decentralisation provided for in the framework of the interim Constitution and constitutional principles. What is also clear from the foregoing is that the drafters of the Constitutional Principles have sought to avoid any possible contradiction in policy (especially economic policy) between the central South African state and its sub-national state units.

Furthermore, by incorporating the relationship between the central South African state and its sub-national state units within the Constitution central government can neither abolish these sub-national state units nor unilaterally change the nature of a particular province or municipality. The position of the provinces is further entrenched within the structure of the South African state as a result of the representation of the provinces in the second chamber of parliament, being the National Council of Provinces (“NCOP”).

2.3.2 The Relationship between National and Sub-National State Units in the South African State

During the first certification hearing of the final Constitution by the Constitutional Court the Court ruled on 14 September 1996 that it could not certify the draft text of the final Constitution before it. This was due to the fact that the Court was of the opinion that the text did not fully comply with the Constitutional principles. In particular the Constitutional Court focused on the relationship between national and provincial government and found that the
draft text of the final Constitution before it did not adequately provide for legitimate provincial autonomy (Roberts, 2003, Internet Source).

The text was then amended by Parliament and a revised text was sent to the Constitutional Court on 11 October 1996. In its judgment of 4 December 1996 the Constitutional Court found that with regards to the amended text presented to it for certification did not comply with the constitutional principles. More specifically the powers and functions of the provinces were less and in some cases inferior to those accorded to the provinces in the interim Constitution. The Constitutional Court found that the disparity was not substantial and approved the final Constitution (Roberts, 2003, Internet Source).

One fundamental difference between the sub-national state units in the apartheid and post-apartheid states, in particular local government structures, was that whereas the post-apartheid South African state consisted of wall-to-wall local government structures this was not the case in the apartheid South African state. The result was that some newly created municipal structures lacked an administrative infrastructure as well as established tax bases as rural property was not valued or rated. One further effect of increasing central government intervention in the state of affairs of some provinces and local governments is increased budget allocations for sub-national state units as what occurred in 2007 (National Treasury, 2007, Internet Source). This can also affect the ability of sub-national state units to attract FDI.

In terms of the final Constitution what then is the relationship between national and provincial government; and provincial government and local government? The study now turns to briefly deal with these two relationships.

2.3.2.1 The Power of Central government over the Provinces

The final Constitution sets out the concurrent and exclusive powers of the provinces in Schedules 4 and 5 respectively and these Schedules can only be amended in the same way as the Constitution (i.e. a two-thirds vote in both houses of Parliament\(^\text{17}\)). The powers of central government are not specified in any Schedule to the Constitution. Section 44 though provides that Parliament may legislate on any matter including those matters allocated to the provinces in terms of Schedule 4 but excluding those under Schedule 5. However Parliament may intervene in the exclusive powers of the provinces (i.e. Schedule 5 of the Constitution) in the following circumstances:

\(^{17}\) These houses being the National Assembly and the National Council of Provinces
i. in order to maintain national security, economic unity, and essential national standards;

ii. in order to establish minimum standards required for the rendering of services; or

iii. to prevent unreasonable action taken by a province which is prejudicial to the interest of another province or to the country as a whole.

Regarding provinces’ ability to affect and influence national legislation, the South African Parliament comprises the National Assembly and the National Council of Provinces. Whilst the National Assembly’s members are elected on the basis of a national common voters roll and proportional representation the National Council of Provinces is composed of a single delegation from each province. Each provincial delegation has ten delegates. The delegates to the National Council of Provinces are comprised of the political parties active in a province and the number of seats allocated to each party is determined in the Constitution. The result is that the members of the National Council of Provinces are not elected by the public but are rather appointed by the political parties that they represent at the provincial level (Roberts, 2003, Internet Source). This means that provinces can also shape national legislation and policy relating to FDI and therefore the provinces can further advance and protect their interests at the national level.

2.3.2.2 The Power of Provincial Government over Local Government

The establishment of municipalities as well as mechanisms dealing with the monitoring and support of local government is a function of provincial government and is dealt with in the Constitution. Part B of Schedule 5 sets out certain competencies of local government over which provincial government has exclusive control. All other competencies relating to local government must be shared with central government in accordance with Schedule 4. Section 164 of the Constitution goes on to state that all other competencies not specifically delegated to provincial government remain under the exclusive control of central government. This also further evidences the adoption of the German model of decentralisation by the South African state (Wittenberg, 2003: 6).

In relation to the areas of competency that provincial government exercises over local government, provincial government is empowered to intervene in the affairs of local government where a municipality cannot or is unable to fulfil its statutory obligations, for example. However, any such intervention is subject to the approval of the minister of Provincial and Local Government who must provide his/her approval within fourteen days after receiving such a request from a provincial government (Roberts, 2003, Internet Source).
The spat between the ANC-led government of the Western Cape and DA-led government in the Cape Town municipality is perhaps instructive of the tensions and dynamics that exist between local and provincial government. In this instance the provincial minister for local government in the Western Cape was rumoured to be changing the nature of the executive leadership of the Cape Town municipality from a mayoral committee based system to a multiparty executive committee. This could result in the ANC dominating given the few number of seats that separate the ANC and DA in the Cape Town municipality (MacLennan, 2006, Internet Source).

Whilst this spat appears to have been resolved in an amicable fashion, the DA’s control over Cape Town appears to remain precarious as a member of the African Muslim Party was recently removed from the mayoral committee as he had been secretly negotiating with the ANC during the municipality’s December recess to form a coalition with the ANC to take control of the Cape Town municipality. The DA was able to retain control of the Cape Town municipality by forming an alliance with the Independent Democrats, the former bedfellows of the ANC (Dentlinger, 2007, Internet Source). This example highlights the potential for provincial governments to abuse the powers granted to them in the Constitution. This example also highlights the conflicts that will occur when sub-national state units are not run by the same party.

2.3.2.3 Other Considerations Regarding the Relationship between National and Sub-National State Units

The relationship between the South African central state and its sub-national state units is also largely determined by legislation with the role of local government being defined in 1998 Local Government White Paper as that of “developmental local government”. This means that sub-national state units were required to pursue integrated development planning with the involvement of communities and other stakeholders (Beall, 2005: 260). The concept of developmental local government will be discussed in greater detail in chapter 8. Suffice to say at this juncture that with regards to the relationship between the central state and its sub-national state units the ANC viewed developmental local government as a medium for national development (Beall, 2005: 260). Furthermore, depending on the focus of “developmental local government” adopted by sub-national state units, this can mean the difference between attracting FDI as a policy objective (as is the case with Johannesburg, for example) or attracting internal investment to achieve economic growth.

In terms of the income distribution to the sub-national state units, provincial government is largely funded by central government and local government is responsible for approximately
90 per cent of its own funding through rates and taxes. With regards to certain areas of service delivery, whilst provincial and local government may have to co-operate local government is very much the junior partner in such relationships. However, it is necessary to take into account the disparities in income and fiscal capacity between large metropolitan municipalities and small rural councils that were only formally created in 2000 with few economic resources. The lack of financial independence of a large proportion of South Africa’s local government structures can undermine the use of financial autonomy as an indication of strong decentralisation. The lack of financial capacity of rural councils also impedes their ability to effectively implement government policy regarding decentralisation as often such policy was drafted without the lack of capacity of such rural councils being taken into account. Moreover the need to attract investment, whether local of foreign (in the form of FDI) is further enhanced as a result of successive cuts in government allocations to local government structures (Beall, 2005: 261). This trend may have been reversed with the 2007 budget which saw an increase in the allocation of funds to local government (National Treasury, 2007, Internet Source) but the concomitant marketisation and dependency on FDI by sub-national state units needs to be borne in mind despite this increased allocation.

Adjusting the framework for revenue allocation to the three spheres of government can ensure that the needs of the poor communities are met. At the same time economic growth can be ensured by matching the needs of each decentralised government against these two requirements remains a challenge for the government. For example, in the 2005 Budget the allocation to the three spheres of government was formulated to reflect the outcomes of a review of provincial and local government fiscal frameworks that was conducted in 2004. As a result of this review R48.8 billion was added to the baseline allocations for provincial and local government in the Medium Term Expenditures Framework (MTEF) which means a net annual growth in national transfers of 10.2% to provinces and 13.3% to local government from 2005 until 2008 (Yemek, 2005: 3).The MTEF was further adjusted in terms of the 2007 budget with allocations to provincial government increasing by R24.6 billion and allocations to local government increasing by R5 billion (National Treasury, 2007, Internet Source).

2.3.3 A Brief Analysis of Decentralisation in South Africa

The sub-national state units that make up South Africa not only play an important role in the South African economy but also the regional economy as South Africa’s sub-national state units have begun to function as regional commercial and communication hubs with South Africa’s neighbours (Shaw and van der Westhuizen, 1999: 250).
Although formulated during the negotiations and prior to the 1994 election, the RDP also deals with inter-governmental relationships. What is clear from the RDP is that it was anticipated that the relationship between the South African national state and its sub-national units would be of a directive in nature. For example, the RDP states that whilst representative institutions must be developed at the local level to ensure the growth of local economies. However it would be central government that would determine clear guidelines and procedures for the reviewing of decentralisation incentives in the post-apartheid South African state (ANC, 1994: 83). The ANC’s commitment to representative institutions conforms with the notion of representative and democratic decentralisation highlighted in chapter 4 of the study.

Picard (2005: 303) argues that the provinces established as a result of the negotiated settlement inherited the worst traits of the homeland civil services, such as corruption and inertia. The concern of the ANC during the negotiation process was that some of the provinces could be controlled by an opposition party and thus not undergo changes in structure and content as well as lead to the devolution of regional government to political enemies of the ANC (Picard, 2005: 303). This was highlighted above with the example of the spat between the ANC and DA regarding the structure of the Cape Town municipality. At the same time opposition parties have supported the decentralisation process in South Africa as a means of countering the ANC’s control of central government. However the ANC has also supported the decentralisation process not only as a result of the support it received from civil society organisations during apartheid but also a means of addressing issues such as service delivery (Heller, 2001: 144) and the attraction of MNCs and FDI within the neo-liberal policy prescripts of GEAR (Terreblanche, 2002: 114). The tension between the ANC and the opposition parties during the negotiation process over the issue of decentralisation led to chapter 10 of the Constitution that dealt with decentralisation being sparse and doing little more than create a loose framework for the operation of local government (Beall, 2005: 257).

As a result of the challenges faced by the government in trying to integrate the wieldy homeland and provincial administrations in 1996 the government concluded that the civil service would be organised on a national and local government level with the role of the various provincial governments being downgraded (Picard, 2005: 307). These problems were experienced at a provincial level and local government level as a result of the discordant economic and social geographies enforced by successive apartheid governments (Heller, 2001: 143). This situation was further compounded by the change of structure of local government in 2000 when “wall-to-wall” decentralised local government structures were introduced.
As discussed above, one method of retaining greater control over the functioning of sub-national state units in South Africa was for the central government to have concurrent authority with provincial government over the areas of responsibility granted to provincial government in terms of the final Constitution. This meant that central government would have the right to intervene and thus ensure the implementation of national policy (Picard, 2005: 306).

The provinces also faced several problems in that functions were often decentralised to the provincial and local governments with little consideration for the skills available to these sub-national state units to effectively implement national policy, including policies to attract FDI with the implementation of GEAR (Terreblanche, 2002: 114). The situation was compounded by the lack of skills training at the provincial government level. This level of government was also tasked with ensuring that local government structures would be equipped with the necessary skills to implement their areas of administrative responsibility (Picard, 2005: 308).

Amin (2006: 97) argues that as a result of the central government’s policies of seeking to modernise South Africa’s industry the former homelands had become “dumping areas” for South Africa’s poor. Amin (2006: 97) argues further that for South Africa’s economy to succeed there needs to be some form of redistribution of the land in South African from white farmers to black family farmers as well as the redistribution of wages to black South Africans in order to ensure their economic advancement.

Indeed it appears that the continued existence of the provinces could be called into question. It is thought that the ANC government could be reconsidering the role of the provinces in the South African state. One possible view within the ANC according to Robinson (2006, Internet Source) is to retain the provinces in their current form and remove their political powers so that they would become administrative arms of central government. This would also mean scrapping the provincial legislatures and cabinets (Robinson, 2006, Internet Source). In effect this would make the provincial government equivalent to the old provincial administration of the apartheid state.

However, Robinson (2006, Internet Source) argues that the creation of the provinces in 1994 was a compromise between the unitarists and the federalists during the negotiations process and that since 1999 there has been a perceptible hardening of attitudes in the ANC to the provinces because of their perceived inefficiency. Robinson (2006, Internet Source) argues further that the ANC is a unitary and national organisation and is guided by the principles of democratic centralism. But under pressure from the IFP and NP the 1996 Constitution became a hybrid between the unitary and federal systems of government. Any such change
would also require a constitutional amendment and it needs to be borne in mind that the interests of the provinces are represented in the Constitution and the provinces are further represented in the second chamber of Parliament (Robinson, 2006, Internet Source).

However, there is little chance that the ANC will scrap the provinces in their entirety as the provinces have become a powerful means of dispensing patronage. Also at issue is the cost of the current provincial system. The political administration of provinces cost the taxpayer R16 billion in the 2005 financial year, or approximately 8 per cent of the total transfer of money to the nine provinces from central government, according to National Treasury statistics. Provincial ministers, their bodyguards and private secretaries absorbed up to R500 million in remuneration alone while the largely impotent provincial legislatures cost approximately R617 million to administer (Robinson, 2006, Internet Source).

In contrast to Robinson’s arguments Yemek (2005: 6) argues that the current assignment of expenditure functions in South Africa would appear to conform with public finance decentralisation theory. According to this theory each service should be provided by the level of government with the control over the minimum geographic area that would internalise the benefits and cost of such provision. According to Yemek (2005: 6) the design of framework of allocation of funds to sub-national state units in South Africa is designed to achieve three objectives: the efficient allocation of resources by means of responsive and accountable government; an equitable provision of services to citizens; and (most importantly for the purposes of the study) macroeconomic stability and economic growth, which coupled with GEAR means an emphasis on attracting FDI as a means of achieving economic growth.

Based on the aforegoing that it would appear that the Constitution creates the possibility for South Africa to develop into a federal state. It would appear that there are factors which could either lead to the federalisation of the South African state, as well as factors which could lead to the greater centralisation of power in central government away from the sub-national state units.

One factor which could lead to greater federalisation is the broad definitions of the powers allotted to each sphere of government. Whilst this factor may lead to greater federalisation at the same time this factor could lead to the greater centralisation of power in the central government. Which way the pendulum swings could depend on:

i. the manner in which the provinces exercise their powers; and

ii. the effectiveness of the NCOP in acting on behalf of the provinces and their autonomy.
However as Robinson (2006, Internet Source) and Roberts (2003, Internet Source) argue, the federalisation of the South African state does not appear to be one of the primary policy targets of South African politics. Rather there appears to be an increasing drift towards centralisation with decentralisation allowed in instances where the central state can retain control over its sub-national state units such as using LED to attract FDI. One such indicator of this is the apparent lack of enthusiasm of seven of the nine provinces to adopt a provincial constitution. Indeed, the only two provinces that have adopted provincial constitutions are the two provinces that were for some time not controlled by the ANC, being Kwazulu-Natal and the Western Cape provinces.

Further indications of a lack of the federalisation of the South African state include:

i. the provincial legislatures are dominated by the same political parties which dominate the National Assembly. These parties appear to be more focused on attaining national policy targets than provincial policy targets; and

ii. the constitutional regulation of the financial relationship between the national and provincial spheres of government does not, at present, favour the greater federalisation of the South African state. This is since the Constitution favours central government by guaranteeing it the revenues of the main tax sources with the provinces getting only a broad guarantee that central government will share its income with them.

Heller (2001: 133) notes that although the negotiated transition was one of the most inclusive of its kind and also committed the government to a form of democratic and developmental local government. However this commitment appears to have waned as there has been a shift from democratic to market modes of accountability as local government has become the frontline in the marketisation of public authority. Such an example is the focus of GEAR on FDI as a means of achieving economic growth (Terreblanche, 2002: 114). The failure of the South African governments to deepen the decentralisation process could be attributed to globalisation as a result of the government’s adoption of GEAR and its managerial vision of local government. In this regard Heller (2001: 134) argues that there are also other considerations that have influenced the process, including:

i. the ANC has developed an instrumentalist understanding of state power and as a result, ANC governments have succumbed to isolationist tendencies; and

ii. a lack of recognition that civil society plays an important role in sustainable democratic decentralisation as the ANC has either incorporated the previously strong
anti-apartheid social movements into the ANC or these movements have become sidelined as a result of the bureaucratic and command logic type of local government reform adopted by the ANC.

As Beall (2005: 261) notes, due to the strong centralist nature of the South African state and the manner in which power is exerted by the central state, democratic decentralisation requires that government not only be responsive but that civil society organisations also needs to be committed to the processes and outcomes of decentralisation. In terms of the ANC’s commitment to decentralisation it is perhaps worth noting that virtually every provincial premier in ANC controlled provinces has been replaced through central intervention since 1994 (Wittenberg, 2003: 44). To be sure it is well understood within the ANC that provincial premiers and mayors fall within the central discipline of the ANC’s central bodies. However as Wittenberg (2003: 45) notes, the ANC itself is a quasi-federal body since regional and local congresses have the power to elect their own political leaders. This can lead to tensions within provinces when the provincial leader of the ANC and the province premier are different people. The result is that attempts by the central bodies of the ANC to control the make-up of provincial and local executives will always be subject to a measure of negotiation between the central structures of the ANC and its local political structures.

But at the same time two factors count in South Africa’s favour in terms of successful democratic decentralisation (Beall, 2005: 262):

i. South Africa has a strong central state and robust inter-government co-ordination; and

ii. South Africa enjoys a well organised civil society that can identify and engage with policy-makers.

Indeed the adoption of GEAR and the adoption of an orthodox neo-liberal strategy of growth-led development (and its focus on FDI) has not only reduced the state to the role of the night watchman but also increased the trend of marketisation and managerial insulation nationwide (Heller, 2001: 145). Thus despite the initial efforts during the negotiated transition to develop a process of democratic decentralisation in South Africa, the process appears to have been subverted by the abandonment of the RDP in favour of GEAR and its emphasis on FDI and the marketisation of the South African economy. In line with the principles of GEAR government appears to be devoted to streamlining management systems, cutting costs and emphasising administrative performance more than engaging in sustained consultation and deliberation with ordinary citizens (Heller, 2001: 146).
Within the context of fiscal decentralisation in South Africa, Heller (2001: 147) argues that the policies of fiscal restraint and fiscal determinism adopted by the national Department of Finance have impaired the efforts of local government to develop autonomous developmental policies as the majority of local expenditures are for mandated services. Sub-national state units are thus afforded little financial discretion. This situation is further compounded by directives and regulations issued by the Department of Finance which has, in some cases, bypassed negotiated and community-driven local development efforts. Hence the focus, predominantly on detailed LED programmes by the larger municipalities in South Africa who have the economic resources to formulate such plans with little assistance from central government.

Several other factors can also account for a lack of deepening of democracy in South African sub-national state units:

i. The political project of decentralisation in South Africa has largely been a process that has been driven from the top down, coupled with the disengagement of the ANC from civil society. This is a result of the dominant party status that the ANC enjoys in South African politics, which has also led to autocratic and insulating tendencies within the ANC. These tendencies are also a result of the ANC’s historical understanding of state power, namely the capturing of state power as a means of transforming society as a means of opposing apartheid. The top-down approach to decentralisation and emphasis on centralisation of power in the central state can also be explained as a means of breaking down the spatial boundaries that exist between black and white communities in an effort to ensure equal distribution of state resources (Heller, 2001: 148).

ii. The party-social movement dynamics in the ANC. As a banned political organisation the ANC operated primarily from outside South Africa which meant that the formal structures and institutions of the ANC were separated from domestic struggle organisations. Furthermore, the limited political space within which the ANC operated meant that formal accountability of the leadership was limited and claims to speak on behalf of South Africans were limited to spontaneous rather than formal mechanisms of representation. For their part, in order to present a united front in opposition to apartheid, civil society organisations subordinated their autonomy on strategic issues to the authority of the ANC. This subordination was further exacerbated during the protracted negotiation process (Heller, 2001: 156); and

iii. The tendency by the ANC to view political control as a zero-sum game in terms of which if power is shifted to lower levels of government then there is less power at the centre. This tendency has been increased as a result of the centralisation of power by
the ANC within central government and increasingly vociferous social movements in the wake of the democratic transition which have regrouped and now challenge the ANC (Beall, 2005: 262).

The dominance of the ANC in South African politics, coupled with a lack of viable opposition parties or autonomous social movements has resulted in centralising and autocratic tendencies in the ANC. These tendencies have been reinforced by the adoption of GEAR (as a neo-liberal economic policy with a few redistributive elements) as well as a technocratic vision that informs the neo-liberal model of economic transformation (Heller, 2001: 157).

Based on the aforegoing the picture of sub-national state administration appears to be rather bleak. It would also appear that the ability of South African sub-national state units to effectively implement national policy would not be good at all. In this regard, Beall (2005: 255) notes that in many instances traditional authorities are providing local government on behalf of the central government at considerably less cost to the central state than formal local government structures, in what is tantamount to indirect rule. The notion that provincial and local government in South Africa is ineffective is further enhanced by the manner in which central government has sought to maintain a measure of control over the workings of provincial and local government by retaining concurrent authority over functions delegated to provincial and local government in the Constitution. If this is the case, then to what degree has provincial and local government been able to effectively implement national policy regarding FDI as well as their own policies to attract FDI? Pertinent considerations in this regard are whether:

i. the implementation of central government’s policies to attract FDI could be contradicted by the sub-national state units; and
ii. the policies of sub-national state units could hinder the implementation of central government policy.

These two considerations will not be dealt with in this chapter but rather in the subsequent chapter of the study dealing with the sub-national state units.

* This chapter has applied the characteristics of the state developed in chapters 4 and 5 and demonstrated how the South African state developed as a result of the top-down process as was experienced by the majority of African states colonised by the European colonial powers. However, as was noted in this chapter, the South African state experienced a
curious form of development in that the political and financial structures within the state were hijacked in the interests of white citizens to the exclusion of black citizens. This situation was only changed as a result of the collapse of the apartheid state and the emergence of the post-apartheid South African state in 1994.

In terms of the characterisation of the post-apartheid South African state against the characteristics of the state identified in chapter 4 of the study, it was argued that whilst the territorial integrity of the South African state has remained largely unchallenged since the Act of Union in 1910, there has been a substantial reconfiguration of the sub-national state units that comprise the post-apartheid South African state. It was further argued that the Constitution of the Republic of South Africa (1996) firmly entrenches the characteristics of the classical trias politicas. However, with regards to South Africa’s sovereignty it was argued that there is a “catch 22” situation for successive ANC governments, in that in order to retain South Africa’s economic sovereignty, the ANC has had to commit to economic policies approved by the IFIs. No where is this more apparent than in the adoption of the GEAR. As will be argued later in chapter 7, GEAR can be viewed as a self-imposed SAP by the South African government. This in turn has led to the greater internationalisation of the South African state as South Africa’s economic sovereignty has been relatively circumscribed by the principles of the Washington Consensus, as embodied in GEAR.

Of importance for the study is the relationship between the South African state and its sub-national state units, being the provinces and municipalities. As was noted in the chapter, the final Constitution sets out the concurrent and exclusive powers of the provinces in Schedules 4 and 5 respectively and these Schedules can only be amended in the same way as the Constitution. However, it was further noted that the power of the provinces is further entrenched by the fact that delegates to the National Council of Provinces are comprised of the political parties active in a province, and the number of seats allocated to each party is determined in the Constitution. The result is that the members of the National Council of Provinces are not elected by the public, but are rather appointed by the political parties that they represent at the provincial level (Roberts, 2003, Internet Source). This means that provinces can also shape national legislation and policy relating to FDI and therefore the provinces can further advance and protect their interests at the national level.

In terms of the relationship between the provinces and municipalities the chapter argued that provincial governments are empowered to intervene in the affairs of local government where, for example, a municipality cannot or is unable to fulfil its statutory obligations. However, any such intervention is subject to the approval of the minister of Provincial and Local Government, who must provide his/her approval within fourteen days after receiving such a
request from a provincial government. Having established the nature of the post-apartheid South African state and the relationship between the state and its sub-national state units, the study now turns to deal with the economic policies adopted by the central South African state in an attempt to attract FDI.
CHAPTER SEVEN
ECONOMIC POLICY IN THE NEW SOUTH AFRICAN STATE

“If all economists were laid end to end, they would not reach a conclusion.”
- George Bernard Shaw

“There are \(10^{11}\) stars in the galaxy. That used to be a huge number. But it's only a hundred billion. It's less than the national deficit! We used to call them astronomical numbers. Now we should call them economical numbers.”
- Richard Feynman

1. INTRODUCTION

This chapter assesses the economic policies adopted by the post-apartheid South African state by focusing on the three iterations of economic policy in post-apartheid South Africa: Macro-economic Research Group (or “MERG”), the RDP, and GEAR. When assessing these iterations of economic policy, particular attention will be paid to how these economic policies have sought to attract FDI as a means of ensuring economic growth and development in post-apartheid South Africa. Such an analysis is necessary to determine how the policies adopted by the central South African state can impact on the ability of the sub-national state units within South Africa to attract FDI since, as was noted in chapter 6 of the study, the Constitution of the Republic of South Africa (1996) proscribes the relationship between the central state and its sub-national state units, and the central problem of the study is the impact which FDI has on the South African state and its sub-national state units.

In addition to focusing on the economic policies adopted by the central South African state, the chapter assesses both the positive and negative impacts of the policies on the South African state as well as the relationship between South African MNCs and the rest of the African continent as South Africa appears to be an increasingly important source of FDI to other African states.

2. SOUTH AFRICAN ECONOMIC POLICY POST- 1994

So far the study has placed a lot of emphasis on GEAR and its focus on FDI with little discussion of the policy of GEAR itself. The study now turns to the policy prescripts of GEAR and other economic policies adopted by the South African state.

When the ANC government came to power, it inherited one of the most complex tariff systems in the world, which if not removed would have an impact on the flow of FDI to post-apartheid South Africa. For potential foreign investors such as MNCs, one of the key concerns would thus be the steps that the ANC government would take to dismantle this
complex tariff system. However, what concerned investors even more, perhaps, were the socialist ideals that the ANC leadership had been advocating whilst in exile, and especially immediately following the unbanning of the ANC in 1990. In this regard, Mandela stated shortly after his release in 1991 that the nationalisation of the mines was an incontrovertible principle of ANC policy (Terreblanche, 2002: 86).

Broadly speaking the ANC government has approached economic policy in three phases: a pre-government economic policy based on the work of MERG; the adoption of the RDP as a means of ensuring equitable development in South Africa; and the adoption of GEAR as a form of “home-grown” SAP.

2.1 Recognising the Need to Attract FDI

Even before the transition to the post-apartheid state in 1994, a variety of actors in the South African economy recognised the importance and imperative to attract FDI as a means of ensuring future economic growth. This was largely due to the low levels of FDI as a result of sanctions imposed on the apartheid state during the 1980s. Not only was the low levels of FDI a catalyst to attract increased levels of FDI, but also as highlighted in chapter 3, FDI is a stable form of investment and the flow of FDI to developing states has also been increasing since the 1980s.

However, South Africa faced several challenges to attracting FDI. These challenges included (Hirsch, 1992: 42–44):

i. the low levels of investment in South Africa during the 1980s coupled with the lack of confidence of potential investors in the South African economy;

ii. the need for South Africa to maintain a surplus in the trade account of the balance of payments to finance the large net outflow on the capital account of the balance of payments. FDI would thus be needed as a great deal of foreign exchange would be required to finance the purchase of capital goods and one way of raising such foreign exchange is through FDI inflows;

iii. the technological deficit that existed in the South African economy as a result of a lack of investment in technology and education meant that one way of reducing this technological deficit was by attracting FDI from firms that specialise in high-end technologies;

iv. the need to gain access to markets through intra-firm trade; and

v. the challenge that FDI would pose to the South African oligopolies.
Not only were these factors a challenge to attracting FDI, but South Africa’s traditional means of earning foreign capital through its gold mining industry was becoming limited as a result of the low grades of gold ore being extracted. All of these factors combined meant that the ANC government would need to increase its industrial base and productive investment (Sparks, 1994: 235).

As for South Africa’s ability to attract FDI in the light of these challenges, Hirsch (1992: 44) notes that whilst sanctions played a crucial role in limiting South Africa’s ability to attract FDI in the 1980s, the trend did not need continue in light of processes such as regionalisation, the diffusion of innovative activity, the standardisation of technologies and the development of regional operations and activities by MNCs. Indeed, as argued in chapter 3, factors such as large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework can play an important role in attracting FDI (Asiedu, 2006: 74). When taking such into account it would appear that South Africa was able to meet a number of these requirements, including a relatively large local market, natural resource endowments, and good infrastructure.

In 1991 the ANC established the MERG. MERG had three aims (Terreblanche, 2002: 88):

i. to train black economists;
ii. support the Congress of South African Trade Unions (or “COSATU”) on economic issues; and
iii. develop a macro-economic model for a post-apartheid South Africa.

The final report published by MERG in 1993 advocated the restructuring of the South African economy by implementing reforms in the labour market (including, for example, skills building and higher wages) and by intervening in the economy to improve the structure and operation of business. An important component of the recommendations in the MERG report was a strong public sector. MERG aimed to spur economic growth in South Africa through a two-phase approach. The first phase would involve economic growth led through public investment, and the second phase would emphasise sustained growth. Key to the economic growth model proposed by MERG would be expanded and efficiently deployed savings and investment (Marais, 2001: 136).

MERG published its report entitled “Making Democracy Work” in 1993 which was based on neo-Keynesian principles. However, in May 1992 the ANC published a document entitled “Ready to Govern” in which the ANC committed itself to macroeconomic balance. There was also no mention of the principle of “growth through redistribution” which had previously been
an important tenet of ANC economic policy. This document according to Terreblanche (2002: 88) marks an important shift in ANC economic policy towards the neo-liberal principles of the Washington Consensus as embodied in GEAR. This notion that the ANC “sold out” to capital is also emphasised by Marais (2001: 136) who argues that the principles contained in MERG’s final report were not adopted since the ANC had become averse to adopting economic policies that might be inimical to the global consensus advocated by the IFIs, for example. The result was that MERG died a quick death.

In contrast to the arguments of Terreblanche and Marais, Hirsch (2005: 56) argues that MERG’s final report contained numerous contradictions in terms of the various policies it proposed, and as a result of these contradictions, MERG’s final report was received rather unenthusiastically. Rather than the ANC “selling out” to capital, as advocated by Terreblanche, Hirsch (2005: 56) argues that it was the contradictions within the MERG report and the fact that the MERG report advocated greater government intervention in the economy, when the ANC lacked such a capacity to make the interventions called for in the MERG report.

As the democratic dispensation approached, the ANC embarked on an extensive consultative process that resulted in the RDP. The key areas of focus in the RDP were the need to consolidate democratisation and promote sustainable human and economic development. The need for sustainable human development in South Africa, as well as the need to attract FDI would prove to be a delicate balancing act that the future ANC government would need to perform. The study now turns to this tension between sustainable human development and the need to attract FDI.

2.2 The Quest for Economic Growth and Sustainable Development in South Africa

2.2.1 The RDP v International Finance

The end of apartheid and the successful transition to democracy presented the government with a unique opportunity for South Africa to reinsert itself into the global economy. At the same time the government was facing new pressures from the IFIs to liberalise the South African economy. The liberalisation required by the IFIs included the reduction of tariffs, the removal of non-tariff protective barriers for domestic industries, the removal of financial controls, and guaranteeing the free flow of capital in the form of FDI (Marais, 2001: 110). Such policies are clearly in line with the principles of the Washington Consensus which were (and continue to be) used by the IFIs as a means of ensuring the continued insertion of developing states in the increasingly globalised international economy, as noted.
Indeed, the impact of the policies that the IFIs had imposed on South Africa’s neighbours had an impact on the policy choices that the ANC government proposed. The experiences of South Africa’s neighbours convinced the ANC that it needed to formulate a growth and development strategy as an alternative (Mhone, 2003: 22) which was to become GEAR with its focus on FDI (Terreblanche, 2002: 114). However, the pressure being exerted by the IFIs had to be counter-balanced by the commitments made by the ANC in the RDP. Johnson (2005: 212) argues that the RDP would ultimately prove to be unworkable when the ANC assumed the reigns of government as the drafters of the RDP had failed to take into account the actual state of government’s finances, or consider how the RDP would impact on existing government programmes. Furthermore, the ANC had failed to evaluate, cost, or budget the RDP.

South Africa’s ability to attract FDI would also very much depend on the government’s ability to ensure the protection of property rights. The protection of property rights is enshrined in the Bill of Rights, in particular in Section 25 of the Constitution, which states that no one may be deprived of their property except in terms of a law of general application, and no law may permit the arbitrary deprivation of property. Section 25 goes on to state that property may only be expropriated on the principle of “willing buyer willing seller”.

The RDP and decentralisation would form an important part in the formation of economic policy during this period.

2.2.2 The Nature and Flow of FDI during the RDP Phase of Economic Policy

Largely three types of investment flowed to South Africa after the 1994 elections:

i. firms that had divested from South Africa that now opted to reinvest and expand or upgrade their operations;

ii. merger and acquisition activity; and

iii. investment in the Johannesburg Stock Exchange, and government bonds.

The third form of investment does not constitute FDI as defined in chapter 3, but was one form of investment in the South African economy during this phase of economic policy. What is apparent from the above is the absence of greenfield investments and more of an emphasis on brownfield investments by international investors.
Whilst the inflow of FDI into the South African economy in 1994/5 amounted to nearly US$2.5 billion, there was little investment by foreigners which resulted in foreigners taking a 50 per cent (or more) ownership in South African companies (above the threshold to constitute FDI as defined in the study). Furthermore, the investments that were made typically targeted the traditional middle-class and business markets with an almost total lack of investment in outward-orientated manufacturing. The nature of the flow of FDI into the South African economy during this period thus amounted to foreign companies buying market share and going into partnership with South African companies, or buying control of South African resources for export (Marais, 2001: 112).

However, some of the primary inhibitors of growth in South Africa, in relation to investment, were (and in many respect remain) low rates of savings and investment in physical capital, human capital formation, and technological change. In the 1990s, for example, labour’s contribution to economic growth was negative, which was largely the result of low investment and employment (Cassim, 2006: 75).

As discussed in chapter 3, one of the main drivers in attracting FDI is domestic capital investment. However, the post-apartheid government focused on gearing South Africa’s manufacturing sector towards a growth path based on export-orientated manufacturing with the guiding doctrine being “enhanced competitiveness” whilst also attempting to meet the RDP’s objectives. According to Marais (2001: 113), “enhanced competitiveness” meant trying to get prices right by using trade liberalisation as the best pricing mechanism. Decentralisation can also be interpreted as a means of ensuring economic competitiveness.

Trade liberalisation was often coupled with the argument that South Africa needed to increase its productivity. Marais (2001: 113) argues that “increased productivity” could be translated as meaning increased labour productivity, social productivity and managerial productivity, but downplaying capital productivity.

2.3 Gearing for Growth

At the same time that government was implementing the RDP, it also voluntarily embarked on a low-key process of formulating a growth and development strategy. Both national and provincial governments were involved in the development of this strategy. This strategy, once published, became known as GEAR. The IFIs (in particular the IMF and World Bank) were periodically consulted during the GEAR drafting process and the policy is often labelled as a self-imposed SAP by critics of the GEAR policy (Mhone, 2003: 22).
According to the government, the purpose of GEAR was to insulate the South African economy from international financial crises, such as the Asian economic meltdown that occurred in the late 1990s. GEAR was thus a means to allaying the fears of both local and international investors, and thus avoiding the “Asian Contagion” as well as attempting to attract further FDI whilst at the same time trying to adhere to the principles of the RDP (Mhone, 2003: 23).

The core elements of GEAR were stated by government as follows (Mhone, 2003: 23):

i. a renewed focus on budget reform to strengthen redistributive expenditure;
ii. the faster deficit reduction to minimise debt service obligations, counter inflation, and free resources for investment;
iii. the maintenance of the real effective exchange rate at a stable and competitive rate;
iv. the maintenance of a consistent monetary policy to prevent the resurgence of inflation;
v. the gradual relaxation of exchange controls;
vi. the reduction of trade tariffs to contain input prices whilst also facilitating industrial restructuring;

vii. the introduction of tax incentives to stimulate new investment in competitive and labour-absorbing projects;
viii. the speeding up of the restructuring of state assets to optimise investment resources;
ix. allowing for structured flexibility within the national collective bargaining system;
x. the expansion of investment and trade flows in South Africa; and
xi. the implementation of stable and coordinated policies.

These principles are very much in line with the principles of the Washington Consensus and thus reinforce the view that GEAR is a “home-grown” SAP. However, the government could not abandon the RDP completely, and accordingly various aspects of the RDP were also included in GEAR, for example, the delivery of social services, human resource development, LED, and infrastructural development. In countering critics’ arguments that the government had abandoned the RDP in favour of the Washington Consensus, the government argued that GEAR was the macroeconomic framework that was absent from the RDP (Mhone, 2003: 24). However, critics of GEAR such as Terreblanche (2002: 114) argue that GEAR amounted to a desperate attempt to attract FDI and the abandonment of the principle of “growth through redistribution”. At the same time, LED and decentralisation have also been used as a means of achieving economic growth to attract MNCs and FDI.
What is clear from GEAR is that the market, and not the state, would become the vehicle through which resources would be allocated. Furthermore, it is clear from GEAR that macroeconomic fundamentals would be pursued and not tampered with in attempting to achieve the goals set out in GEAR (Mhone, 2003: 24). In terms of the relationship between GEAR and FDI, it is important to note that GEAR rests on two principles: the rapid expansion of non-traditional exports; and an increase in the levels of private sector investment (Vickers, 2002: 4).

With the implementation of GEAR government appeared to be focusing on a growth strategy which was based on increased levels of both foreign and domestic investment in the South African economy. However, the low levels of internal demand that exist in the South African economy implies that there are inadequate incomes and internal savings that can act as a stimulant for internal investment. The South African economy is thus dependent on external demand (in the form of exports) and external investment such as FDI for resource mobilisation.

2.3.1 The Nature and Flow of FDI During the GEAR Phase of Economic Policy

In chapter 3, FDI as a feature of economic globalisation was discussed at length. As part of the discussion of FDI as a feature of economic globalisation, several factors were identified which could lead to greater flows of FDI to states. To recap briefly, several of the factors that could influence the flow of FDI included both economic factors (such as resource endowments, low inflation, and a sound economic infrastructure) and political factors (such as a sound framework to promote FDI and an efficient legal system rooted in the rule of law).

Within the context of FDI in South Africa it could be argued that South Africa has the right economic factors to attract FDI. South Africa is rich in resources\(^\text{18}\) and has one of the most sophisticated infrastructures on the African continent. If these economic factors do not pose any serious hindrance to the flow of FDI to South Africa, then it would be necessary to assess whether the political factors identified could in some way hamper the flow of FDI to the country. In this regard one critical political factor is framework for the promotion of FDI. This framework is provided for, in the South African context, in the form of GEAR.

If GEAR is a means of liberalising South Africa’s economy (in line with the principles of economic globalisation espoused by the IFIs) and making South Africa an attractive destination for FDI, the questions is then what impact if any GEAR has had in attracting FDI to South Africa? However, the question should not simply stop at the role of GEAR in

\(^{18}\) South Africa is the largest producer of gold and platinum in the world
attracting FDI to South Africa. The study also considers several other factors that play a role in attracting and deterring investment to and away from South Africa.

2.3.2 The Good

Generally speaking, FDI has been on the increase into South Africa since 1994, with nearly US$6 billion flowing into South Africa in 2000 alone and approximately R17.4 billion in FDI in 2006 (South African Reserve Bank, 2006(a), 2006(b), 2006(c), and 2006(d)). It is worth noting that few of the investments made in South Africa since the end of apartheid have been as a result of the privatisation of state assets. The exceptions to this were in 1997 and 1999 when Telkom and South African Airways were partially privatised. This implies that these investments have generally added to the stock of FDI in South Africa (OECD, 2001, Internet Source).

The following policies have affected the environment for FDI in South Africa:

2.3.2.1 Macroeconomic Reforms

During this phase of economic policy, several macroeconomic reforms have been introduced by the South African government. These reforms have included:

i. the implementation of GEAR and the need to increase levels of FDI relative to portfolio investments;

ii. the introduction of the MTEF which for the periods 2003/04 to 2005/06 prioritises strengthening investment, increasing capital spending on economic infrastructure and social services, and promoting tax relief to create an environment conducive to economic growth and job creation (OECD, 2004: 282);

iii. the introduction of inflation targeting in February 2000 with the aim of keeping inflation levels within a narrow band of 3 and 6 per cent. However, according to proponents of inflation-led growth, the policy of inflation targeting could compound the problems of poor economic growth which would lead to less job creation (Vickers, 2002: 4);

iv. government's fiscal policy which has led to a decrease in interest rates (Vickers, 2002: 4).
2.3.2.2 South Africa’s Industrial Strategy

As noted in chapter 2, Strange (1994: 64) defines the production structure as “the sum of all the arrangements determining what is produced, by whom and for whom, by what method and on what terms”. Strange goes on to state that the production structure relates to the manner in which workers are organised and what they are producing. Within the context of the South African production structure, South Africa’s industrial strategy has largely been focused on adding value within the economy. This has largely been done by lowering costs and moving the economy to knowledge-intensive activities (OECD, 2001, Internet Source).

In terms of adding value, programmes such as the Motor Industry Development Programme are indicative of how government is seeking to shift the economy to high-value added activities and thus attract major MNCs to areas, such as the motor vehicle manufacturing sector of the South African economy. However, the need also exists for South Africa to remain an important player in the international economy, particularly in knowledge-intensive activities. To this end, government has been promoting greater use of information technologies in the South African economy as well as encouraging skills development with strategies such as the Skills Development Fund (OECD, 2001, Internet Source).

2.3.2.3 South Africa’s Trade Strategy

South Africa acceded to the Marrakesh Agreement on 1 January 1995 and did so as a developed country. In terms of South Africa’s offer to the WTO in 1993, a formal programme of phased tariff reductions would commence in 1995. As mentioned above, the ANC government inherited one of the most complex tariff systems in the world, which if not removed would have an impact on the flow of FDI to post-apartheid South Africa. It was thus in South Africa’s interest to accede to a reduction in tariffs as a means of attracting FDI.

In addition to meeting its multilateral obligations, the South African government has also increasingly focused on bilateral trade agreements with strategic trade partners both in the SADC region, as well as with the EU. In this regard, the South African government has systematically concluded regional and bilateral agreements with important trading partners as a means of facilitating and diversifying trade and investment flows into and out of South Africa (Vickers, 2002: 16).

Part of South Africa’s trade strategy has also included the conclusion of taxation treaties with several states (including, for example, the USA and the UK) as a means of attracting FDI by removing instances of double taxation or reducing withholding tax on dividends and royalties,
for example. Taxation treaties encourage FDI since they allow potential investors to plan for the consequences of their investment choices before actually investing in an economy (Clark and Bogran, 1999: 346).

2.3.2.4 Microeconomic Reforms

Not only has the government focused on macroeconomic reforms; it has also focused on microeconomic reforms including (OECD, 2001, Internet Source):

i. the restructuring and privatisation of state assets to ensure greater economic efficiencies;

ii. addressing unemployment through wage and employment support;

iii. improving skills levels amongst the South African workforce to increase employment, as well as address the skills needs of industry; and

iv. decentralisation as a response to globalisation and FDI as a means of creating economies of scale (Kelly and Prokhovnik, 2004: 114).

These reforms have been undertaken with the intention of lowering business costs in South Africa as well as attempting to lower unemployment by providing industry with skilled workers.

Not only do policy considerations play a role in attracting FDI to South Africa, but also the infrastructural advantages, particularly in South Africa’s telecommunications and transport infrastructure. Indeed, South Africa produces more electricity than the rest of the African continent (Clark and Bogran, 1999: 338).

As the world is currently experiencing a boom in commodity prices, so South Africa with its vast resources is able to benefit substantially from this boom. One such example is the purchase of Illovo Sugar by Associated British Foods plc in March 2006. South Africa’s advantages lie not only in commodities such as sugar, but also in its vast mineral wealth.

2.3.3 The Bad and the Ugly

Despite the economic reforms undertaken by the ANC government, the flows of FDI have still not been what the government (and the general population for that matter) have expected them to be. In this regard, Sparks (2003: 212) argues that the growth path followed by the so-called Asian Tigers was a result of economic growth spurred by local investment; FDI only followed once their economies started growing. In some cases, these Asian Tigers had
inflation rates of between 20 and 30 per cent but this did not detract investors who were keen to share in the economic growth being generated in these economies. A further possible inhibitor of FDI in South Africa, according to Hirsch (2005: 157) has been the defensive behaviour of South Africa’s monopolistic conglomerates.

South Africa’s ability to attract FDI had also been limited by its membership of the WTO and the government’s implementation of WTO rules as discussed in chapter 3 and above. In this regard it should be noted that the Asian Tigers depended to a large degree on protectionist policies to spur their initial economic growth. By the time that South Africa joined the WTO the rules of the WTO had been amended such that the adoption of protectionist policies modelled on those adopted by the Asian Tigers was no longer allowed. As a latecomer to the field of international investment, South Africa has had to struggle hard to attract investment since the early joiners were already attracting the attention and the money (Sparks, 2003: 213–214).

In terms of the impact that GEAR has made on the South African economy, Hirsch (2005: 105) notes that the investment performance generated by GEAR was disappointing as evidenced by the fact that private investment in 1999 and 2000 dropped, instead of increasing.

Indeed, Bond (2004: 205) goes further and argues that GEAR has resulted in negative per capita GDP, a decline in jobs, and the degeneration in the world’s worst wealth distribution system. Where GEAR was able to generate FDI, this FDI related to the purchase of existing assets through partial privatisation and merger and acquisition deals, such as the sale of 30 per cent of government’s stake in Telkom. Indeed, the inflow of FDI in 1997 (US$1.7 billion) was less than the FDI that left South Africa (US$2.3 billion) as a result of South African MNCs investing abroad (Bond, 2000: 193). In 2006 outflows of FDI from South African companies investing overseas amounted to approximately R45 billion (Reserve Bank, 2006(a), 2006(b), 2006(c), and 2006(d)). In this regard, Terreblanche (2002: 118) notes that GEAR was unrealistically dependent on FDI as a means of promoting economic growth whilst simultaneously underestimating the importance of private investment by domestic companies and individuals and the poor ability of African states to attract FDI. As Terreblanche (2002: 118) states: “International experience shows that FDI does not precede economic growth, but follows it”.

Furthermore, the costs associated with worker absenteeism, loss and replacement can result in labour becoming more expensive, and even deter FDI in industries that depend on low-cost or unskilled labour. In turn, diminishment of FDI or capacity for companies to compete is
likely to affect the country’s general economic growth and development (Quinlan and Willan, 2004: 243).

However, domestic policy-makers appear to have focused too narrowly on the macroeconomic argument for FDI, as an apparently less volatile form of capital inflow to address a putative savings constraint on growth, ignoring possible dynamic efficiency impacts of foreign firms’ presence. In light of this emphasis on policy reforms, new FDI since 1994 has disappointed, with gross inflows averaging $1.86 billion per annum between 1994 and 2002 and only R17.4 billion (Reserve Bank, 2006(a), 2006(b), 2006(c), and 2006(d)), while net inflows were 1.5 per cent of the developing country total. The lack of investment demand has not been filled by the public sector. From 1994 to 1997, public investment rose in real terms by 9 per cent per annum, and from 3.7 per cent to 4.7 per cent of GDP (Gelb, 2004: 287). Indeed, there appears to be an over-reliance on attracting FDI for development purposes in GEAR and that local capital has been “let off the hook” as FDI is viewed as a convenient alternative to the low levels of domestic investment in the South African economy (Vickers, 2002: 42). This argument can also be carried into the discussion on LED programmes, which follows in chapter 8, as it is arguable that there is an over-reliance on central government on LED and decentralisation to also act as catalysts to promote FDI.

However, whilst the liberalisation of South Africa’s investment regime may encourage FDI, the listing of several large South African conglomerates on foreign bourses and the subsequent outflow of capital in the form of dividend payments has negatively impacted on the balance of payments. In this regard, Terreblanche (2002: 122) notes that permission for the listing of these conglomerates on foreign bourses was initially granted on the basis of arguments presented by the conglomerates that offshore listings would promote and accelerate FDI flows to South Africa. Terreblanche (2002: 123) argues further that economic globalisation has thus provided these conglomerates with a means of “escaping” from the South African market, thus reinforcing the notion (as described above) that domestic capital has been let off the hook in terms of promoting domestic investment. This point is also emphasised by Bond (2006: 71) who argues that as a result of South African companies being allowed to list on foreign bourses, FDI data for Africa has become distorted resulting from the outflow of dividends, profits, and royalty payments to their headquarters now based overseas.

2.3.4 Unique Considerations?

Whilst the above discussion is instructive it is also necessary to consider any unique factors that could play a role in driving FDI to (or away from) South Africa. In this regard, research by
the World Bank and Department of Trade and Industry (2006: 14) suggests that despite a generally favourable investment climate in South Africa, there are several possible explanations for the modest economic growth experienced in the South African economy. These included:

i. the unstable and unpredictable exchange rate which can be problematic for both exporters and the South African current account;
ii. the high cost of labour, especially for skilled workers;
iii. the burdensome labour regulations;
iv. the high cost of crime; and
v. the impact of the political crisis in Zimbabwe, or the “bad neighbourhood” syndrome.

These factors, particular to the South African investment climate have had the impact of discouraging FDI in the South African economy, despite the generally favourable investment climate. Not included with these factors is the role of AIDS in deterring investment in South Africa. In this regard Fourie (2006: 37) argues that AIDS will have a significant impact on the South African economy as the disease impacts on the ability of South Africans to save and thus provide the necessary impetus to drive internal investment in the South African economy, which in turn can drive external investment in the form of FDI. The effect of AIDS on South Africa’s economy is already being felt. For example, Johannesburg is experiencing demographic uncertainty as the city experiences lower fertility and higher mortality. This demographic uncertainty is also being felt in other ways, such as the number of people leaving Johannesburg to move to less expensive places such as rural areas to live and where AIDS sufferers can get assistance from their families resulting in decreasing levels of available labour for industry (City of Johannesburg, 2006(a): 19).

With regards to the “bad neighbourhood” syndrome identified above, Lorentzen (2006: 4) argues that this has not always deterred investors. She cites the example of DaimlerChrysler who has invested heavily in the Eastern Cape, despite the political crisis in Zimbabwe.

Several factors that have improved the investment climate in South Africa in recent years include:

i. low inflation and interest rates;
ii. a reduction in corporate tax rates; and
iii. generally increasing profits.
2.3.5 The Future?

Dorrian (2005: 57) argues that if South Africa is going to attract further FDI then government will need to address corruption, crime and violence, the competence of the civil service, and future labour relations. Dorrian bases this conclusion on surveys conducted on companies that have already invested in South Africa. Dorrian (2005: 73) goes on to argue that whilst the majority of South Africans believe in “brand South Africa”, if South Africa is going to become a more attractive destination for FDI, then there is a need to get the “basics” right. For Dorrian, this means ensuring that there is sufficient development of human capital since this is the fundamental principle of national development.

Whilst South Africa has taken steps to improve its attractiveness as a destination for FDI, Habib, Daniel, and Southall (2003: 19) argue that in order for the country to be able to attract significant levels of FDI, there needs to be greater peace, stability, and development on the African continent. Indeed, the political volatility of the Southern African region could result in investors not investing in South Africa out of fear that political instability could spill over into South Africa. Political risks that have plagued the Southern African region include the political instability in Zimbabwe; the civil war in the Democratic Republic of the Congo; and the possible commencement of land seizures in Namibia.

2.4 South Africa as a Source of FDI?

The SADC region is an important source of export for South African companies. Indeed, the region accounts for approximately 13 per cent of South African exports, placing the region third behind the EU and the North American Free Trade Agreement (NAFTA) free trade zone (Hirsch, 2005: 137). As a result gaining access to the markets of the SADC members has been an important goal of the ANC government. This has largely been achieved through two methods (Hirsch, 2005: 137):

i. the ongoing reform of the Southern African Customs Union (SACU) to ensure a more democratic form (and thus enhance South Africa’s image in the region by ensuring a more equitable distribution of taxes); and

ii. moving SADC towards being a free trade area by proposing a 12–year period during which South Africa and then the other members of SADC would reduce their tariffs, resulting in a free trade area.

FDI from South Africa into the SADC region has been increasing since 1994. Evidence of this is that South Africa is the largest investor in Mozambique and among the leading
investors in many of the other African countries. Furthermore, the number of South African companies doing business in Africa has more than doubled in the decade since 1994, and by the beginning of 2005 34 of the top 100 JSE-listed companies had 232 investment projects in 27 African countries, employing 71,874 people (UNCTAD, 2005: 5).

Some of the most prominent South African MNCs include:

i. the South African based satellite television channel DStv which broadcasts throughout the Common Market for Eastern and Southern Africa (COMESA) region (Shaw and Nyang’oro, 2000: 277);

ii. the Anglo American Corporation with its extensive mining interests around the African continent;

iii. South African Breweries Miller, which is one of the largest breweries in the world (Shaw and Nyang’oro, 2000: 279); and

iv. the petrochemical giant Sasol. Which developed a commercially viable form of coal-to-liquid technology for the production of petroleum in the 1970s.

More than 22 per cent of FDI flows into SADC between 1994–2004 originated from South Africa, with the share in some years, in particular 2002, exceeding 40 per cent. Despite earlier exchange controls implemented by the government, FDI from South Africa to the neighbouring countries of the Common Monetary Area (Botswana, Lesotho, Namibia and Swaziland) was not restricted, and South Africa’s major banks, for instance, had established subsidiaries long before the wave of investment in SADC (UNCTAD, 2005: 5).

Increasing competition and market saturation at home have also encouraged South African companies to invest abroad to improve their competitiveness and profitability. This investment has also been driven by two factors (UNCTAD, 2005: 8):

i. historical ties played a role in the internationalisation; for example, a long familiarity with the business environment in the United Kingdom and strong personal and historical ties with the host country, as a result of South Africa’s colonial past, were a key reason for South African investment in the UK; and

ii. investment opportunities that emerged in neighbouring countries through privatisation. Indeed, the government’s policy of strengthening regional co-operation in the SADC region has led to a number of South African state owned enterprises investing in the SADC region, in particular in the development of infrastructural facilities and to support the regeneration of Africa under the banner of “African
Renaissance”. South African FDI in the SADC region has also been influenced by the selective relaxation of exchange controls by the government.

Other factors motivating South African investment in the SADC region include (UNCTAD, 2005: 10):

i. resource-seeking motives, such as Illovo Sugar’s investment in a number of SADC states (such as Malawi and Zambia) as a result of the lower production costs of sugar in these states compared to in South Africa; and

ii. market-seeking motives, such as Mondi which followed its main competitor (Sappi) by investing abroad to expand its markets and access to resources.

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If so much is happening at the central government level, the next question is, what about the provinces and cities in South Africa? The study now turns to the sub-national state units that make up the South African state and assess their attempts to attract FDI.

It was argued in this chapter that the end of apartheid and the successful transition to democracy offered the government a unique opportunity for South Africa to reinsert itself into the global economy. At the same time, the government was facing new pressures from the IFIs to liberalise the South African economy. The liberalisation required by the IFIs included the reduction of tariffs, the removal of non-tariff protective barriers for domestic industries, the removal of financial controls, and guaranteeing the free flow of capital in the form of FDI. However, it was noted that despite the attempts by the South African state to reinsert itself into the global economy, there appeared to be an absence of greenfield investments and more of an emphasis on brownfield investments by international investors.

It was also noted that the RDP lacked a macroeconomic framework and thus the purpose of GEAR was to insulate the South African economy from international financial crises, such as the Asian economic meltdown that occurred in the late 1990s, as well as to provide the macroeconomic framework absent from the RDP. GEAR was thus a means to allaying the fears of both local and international investors, and thus avoiding the “Asian Contagion”, as well as attempting to attract further FDI whilst at the same time trying to adhere to the principles of the RDP. The chapter also argued that GEAR amounted to an attempt to attract FDI and the abandonment of the principle of “growth through redistribution”. At the same time, LED and decentralisation have also been used as a means of achieving economic growth to attract MNCs and FDI. It was argued that the adoption of such a policy amounted to a significant change in economic policy on the part of the South African state and
concomitantly had an impact on the relationship between the South African state and its sub-national state units.

Having established the nature of the attempts by the central South African state to attract FDI and the impact which these economic policies have had on the South African state, the study turns to the attempts by the sub-national state units in the South African state to attract FDI.
CHAPTER EIGHT
SUB-NATIONAL STATE UNITS IN SOUTH AFRICA

"I am making this trip to Africa because Washington is an international city, just like Tokyo, Nigeria or Israel. As mayor, I am an international symbol. Can you deny that to Africa?"
- M Barry, Mayor of Washington, DC

"Government proposes, bureaucracy disposes. And the bureaucracy must dispose of government proposals by dumping them on us."
- P.J. O’Rourke

1. INTRODUCTION

In chapter 1 the research question of the study was set out. Briefly, the question which the study is seeking to answer is whether FDI, as a feature of globalisation, will lead to greater autonomy of the sub-national state units in South Africa and thus impact on the structure of the South African state. The preceding chapter applied the theory advanced in chapters 2, 3, 4 and 5 of the study to the South African state. Having established the characteristics of the South African state in chapter 6, as well as the relationship between the central South African state and its sub-national state units, and furthermore the relationship between the South African state and economic globalisation (as manifested by FDI) the study now turns to assess sub-national state units in South Africa, in particular the province of Gauteng and the city of Johannesburg, and these sub-national state units’ attempts to attract FDI.

As noted in chapter 3 of the study one of the drivers of FDI is a sound investment framework. The investment frameworks developed by Gauteng and Johannesburg and how they can be integrated with the national investment framework created by central government in the form of GEAR will be the primary focus of this chapter. In particular, the chapter focuses on the LED policies adopted by the province of Gauteng, namely the Gauteng Trade and Industry Strategy of 2003; and the city of Johannesburg with its LED policy documents entitled “Joburg 2030” and “Vision for Johannesburg”. As noted in chapter 4, one of the important determinants in the process of decentralisation is the need to avoid conflicts in policy between the central state and its sub-national state units. At the same time, the study now turns to analyse how South Africa’s sub-national state units are using the space afforded to them by the decentralisation policies adopted by the central state.

Given the relatively low levels of FDI that South Africa has attracted, despite the generally positive macroeconomic framework provided by the central state, as discussed in chapter 6 one of the foci of this study is an assessment of the investment and LED frameworks of Gauteng and Johannesburg and the relationship between these frameworks and that of the central state. However, before discussing these frameworks and the impact of these frameworks on the relationship between the central South African state and its sub-national
2. LED

2.1 Why the Need to Focus on LED?

The need to focus on LED is the result of the impact that economic globalisation has had on sub-national state units (in particular FDI as a feature of economic globalisation). One manner in which sub-national state units are attempting to deal with globalisation is to use the powers given to them in terms of processes such as decentralisation as a means of attracting FDI.

One means of attracting FDI for sub-national state units is for sub-national state units to adopt LED programmes and policies as has been emphasised and noted in previous chapters. Within the context of the South African state, those sub-national state units are provinces, cities and other local government entities, all of which are compelled by legislation passed by the central government to implement LED programmes and policies. LED, as a means of attracting FDI, is thus a critical concern when considering the relationship between globalisation and sub-national state units in the South Africa context, particularly since FDI is a feature of economic globalisation.

The need for states to adopt pro-growth initiatives such as LED is not only a response to FDI and economic globalisation, but is also driven as a result of the uneven impact of economic globalisation and economic restructuring on states with the aim of meeting the challenges presented by economic globalisation as globalisation creates new opportunities in some localities and precipitates economic crisis in other (Rogerson, 2000: 401). This is most marked in South Africa where certain sub-national state units (such as the larger cities) have greater growth options than smaller localities and are thus able (and can afford) to adopt more comprehensive LED programmes than smaller localities.

2.2 Defining LED

What is “LED”? According to Nel (2001, Internet Source), LED is a process by which business activity and/or employment is stimulated as a result of the engagement between local government and community-based organisations. This engagement has the principal goal of stimulating local employment opportunities in sectors that improve the community
using existing human, natural, and institutional resources. Within the context of the study, the focus of business and economic development is stimulated as a result of FDI.

For Helmsing (2001, Internet Source) LED can be defined as a process in which existing resources are managed as a result of partnerships between local governments, community-based groups, and the private sector. These resources are managed in such a way that job creation is stimulated in a defined territory. Rogerson (2000: 399) argues that whilst the term “LED” may be highly contested, two important emphases of LED are the enhancement of economic growth and the meeting of challenges of unemployment and poverty alleviation.

Of cardinal importance to the study is the focus of LED policies and programmes on economic growth, particularly through the adoption of policies and programmes that seek to attract FDI as a source of economic investment and growth.

2.3 A Brief Overview of the Development of LED

Whilst LED is relatively new to South Africa, the concept of LED, according to Nel (2001, Internet Source), has grown significantly in the global North in the last 20 to 30 years as a result of governments seeking to spur economic growth at local levels within their states, as well as as a result of communities seeking to improve the economic and social conditions within their neighbourhoods, for example. Within the context of community-based LED efforts, the policies adopted by Thatcher and Reagan in the 1980s, which led to widespread deindustrialisation, also played a significant part in the adoption of LED programmes.

Economic crises not only spurred the adoption of LED programmes in the global North, but also in the global South. More particularly, economic globalisation as applied in the form of the Washington Consensus, currency devaluations, the developing world debt crisis, and the lack of appropriate and operational state structures at the local level have all contributed to the adoption of LED programmes in the global South. However, in contrast to the developed LED programmes in existence in the global North, LED programmes in the global South are still in their infancy with few local governments or other agencies actively engaged in their development and implementation (Nel, 2001, Internet Source).

According to Mulindwa (2003, Internet Source) it is possible to distinguish amongst three phases of LED programmes:
i. during the first phase of LED programmes (between the 1960s and late 1970s) cities invested in expensive industrial recruitment campaigns with the purpose of attracting FDI;

ii. during the second phase of LED programmes (between the 1980s and mid–1990s) the focus shifted to the retention and growth of existing local businesses as well as the targeting of specific economic sectors of geographical areas; and

iii. during the third phase of LED programmes (from the mid–1990s onwards) the focus has again shifted to ensuring that the business environment is conducive to move business away from an emphasis on direct company financial transfers.

These last two phases have not meant the abandonment of the primary aim of LED, namely to develop policies and programmes to attract FDI, but rather a new articulation of the primary aim of LED.

The third phase of LED programmes has largely been informed by the “new institutionalism” movement, the emphasis of which is on the mediating role of the institutional contexts in which events occur, thus rejecting the input-weighted political analysis of behaviouralism and rational choice theory. New institutionalism thus draws attention to the significance of history, timing, and sequence in explaining political dynamics. New institutionalism points to the path-dependent qualities of institutional, and hence political, development, as large and frequently irreversible consequences that may follow from minor or contingent events (Hay, 2002: 11-12).

Within the context of LED, new institutionalism seeks to break down the distinction between economy and society and thus demonstrates that the process of economic policy formulation and decision-making is informed by the values, norms, beliefs, meanings, rules and procedures of the informal and formal institutions found within a society. The normative agenda of new institutionalism is the development of shared meaning and values and the strengthening of social interaction. Within new institutionalism local actors have a role within a number of complex networks that extend all the way up to the global level (DPLG, 2006: 4). This point has also been noted earlier in the study where it was argued that there is a shift from a statist form of governance to a polycentric form of governance at the sub-national state unit level with the creation of supra-local organisations and connections, for example (Scholte, 2004).

Whilst the primary focus of LED programmes may have shifted away from explicitly attracting FDI, as would have been noted from Mulindwa’s analysis above, the attraction of FDI
remains at the heart of LED programmes as a way of ensuring economic growth within a geographical area. This shift in primary focus is also a result of the new institutionalism movement and its concomitant emphasis on not only the economic aspects of LED but also on other foci within the development process (for example institutions and knowledge transfer). But due to the lack of parity in economic resources between the sub-national state units it may not be possible for all sub-national state units in South Africa, which is a consequence of globalisation that also results in inequality between geographical areas (Stiglitz; 2006, Internet Source; Wittenberg, 2003: 7).

Within the context of political economy, LED is concerned primarily with the knowledge, production, and financial structures. As was noted in chapter 2, the production structure can be viewed as the sum of all the arrangements determining what is produced, by whom and for whom, by what method and on what terms. The financial structure in turn was presented as the basis on which it is determined who (be it persons or states) has access to credit, how they have access to capital, and the terms on which they are granted access to it, whilst the knowledge structure denoted the knowledge that is discovered, the method of storage and the means by which the knowledge is communicated to third parties, as well as the terms on which the knowledge is transferred. As was further noted in chapter 3, these three structures are important drivers of globalisation, and FDI as a feature of economic globalisation.

The importance of the knowledge, production, and financial structures for LED rests on local and other governments, and other actors involved in the LED process. Attracting MNCs by developing an environment conducive for an effective and productive production structure is a means of attracting the investment which MNCs are able to offer. This investment in turn is generated by means of the finance structure with a view to transferring the knowledge which MNCs bring with them when they invest in a given local economy.

Whilst a detailed assessment of the transfer of knowledge and the knowledge structure are not the primary foci of the study, a brief assessment of knowledge transfer is required when assessing the importance of linkages for local firms as a means of benefiting from the LED process and economic globalisation, more specifically FDI. As noted in chapter 2, Strange (1994: 121) defines the knowledge structure as the knowledge that is discovered; the method of storage and the means by which the knowledge is communicated to third parties; and the terms on which the knowledge is transferred.

Furthermore, not only is the investment that MNCs bring important to the host states. The technology which these companies bring with them is also important. Based on the investment-related characteristics of MNCs, it would appear that there is a potential for
technological transfer to the host state which can lead to technological advances and potentially greater economic growth for the host state (Görg and Strobl, 2005: 137). For the sub-national state units that MNCs invest in the productivity and technological spillovers can considerably increase economic development and growth, but it can lead to stratification within a state since some sub-national state units may benefit more than others from FDI and the productivity and technological spillovers resulting from such investment.

2.4 Types of LED Programmes

Broadly speaking three types of LED programmes can be identified. Each of these types of LED programmes has a specific focus. These three types of LED programmes are:

i. community-based economic development programmes that emphasise the creation of safety nets, housing improvements, basic service delivery, and stimulating the community economy (Helmsing, 2001, Internet Source);

ii. enterprise and business development programmes that emphasise the expansion, restructuring, or creation of an economic base in a geographical area, which economic base may consist of a single or multiple concentration of clusters of local producers in particular industries (Helmsing, 2001, Internet Source); and

iii. locality development programmes that emphasise the development of infrastructure geared to serve a certain export base as well as the development of the non-basic sector of the local economy to ensure the balanced development of physical infrastructure and social capital (Helmsing, 2001, Internet Source).

These three types of LED programmes can be viewed as market-led approaches to LED. These LED programmes have the aim to assist local economies adapt and adjust to the macroeconomic policies adopted by the central state (Rogerson, 2000: 399). As was noted in chapter 7, the implicit goal of GEAR was the reincorporation of the South African economy into the increasingly globalised global economy. As will be noted below the adoption of LED programmes by sub-national state units in South Africa has become an important policy objective for South African provinces and cities as a means of facilitating and enhancing economic growth through (but not limited to) the attraction of foreign investment in the form of FDI.

An important idea within current LED discourse is that of “economic clustering”. According to the discourse, dense clusters of horizontally linked firms provide linkages for the transfer of information which is required to ensure competitiveness in the so-called “New Economy” (DPLG, 2006: 5). The importance of economic clustering is also highlighted by Görg and
Strobl (2005: 139) who argue that MNCs can have little impact on a local economy if the MNCs operate in enclaves with no contacts with the local economy. Linkages (both forward and backward) with MNCs are thus vital if domestic suppliers or customers are to benefit from the presence of MNCs. This argument was first developed in chapter 2 and above with regards to Strange’s knowledge structure.

2.5 Globalisation, Decentralisation, and LED

As noted, LED programmes appear to have gone through three identifiable phases in development, with each phase emphasising a different area of economic development. The underlying element of each of these phases of LED programmes is the spurring of economic growth through increased investment, including FDI. However, what is the relationship between globalisation, decentralisation and LED?

Mulindwa (2006, Internet Source) argues that the increased pace of economic globalisation and the increase in FDI in developing states, particularly via SAPS in the 1980s and PRSPs in the 1990s and onwards, pose a serious challenge to the strengthening of human and institutional capacities needed for LED. This is of particular importance for local governments since globalisation, particularly economic and political globalisation, has resulted in heightened emphasis on decentralisation and a considerable increase in the responsibilities that local governments need to shoulder. This increase in responsibility has often occurred without a simultaneous reassignment of revenue to enable local governments to be able to execute their new responsibilities.

This is particularly pertinent to South Africa as a result of the creation of “wall-to-wall” municipalities that often lack the economic infrastructure to maintain themselves, as was noted in chapter 5 and is also noted by Stiglitz (2006, Internet Source) who argues that inequality is one of the consequences of globalisation that has been less advertised to citizens of states.

As was argued in chapter 4, the contrast of the role of the state between the second and third waves of globalisation is that whereas the mode of state policy formation in the second wave of globalisation could be characterised as unilateral and discretionary, in the current and third wave of globalisation, the mode of state formation can be characterised as being multilateral and international (Wolf, 2001: 184). However, state power can also be decentralised as power is shifted to sub-national state units, as noted in chapter 4. In terms of African states, the institution of the modern state has been imposed on the developing world by external forces (the European colonial powers) and developing states have little
heritage of a formal state structure to draw on (Lindberg, 2001: 177). However, as Leftwich (2005: 145–148) notes, colonial rule left a lasting impact on the characteristics of the states that the various colonial powers left behind at the end of the process of decolonisation.

Not only are local governments and other sub-national state units facing challenges to their capacity to implement LED programmes as a result of economic globalisation and FDI; recently there has also been an emphasis on the redesigning of the rules of globalisation to ensure a fair and just distribution of the opportunities and challenges presented by globalisation. This has resulted in a governance gap in states as market forces have led to MNCs being perceived as more powerful than states and an increase in insecurity for weaker stakeholders who were previously protected by the state (Mulindwa, 2006, Internet Source).

In this regard Stiglitz (2006, Internet Source) argues that there is a clear “race to the bottom” since it may be easier to equalise down rather than up.

The conditions for LED have changed dramatically as a result of (Mulindwa, 2006, Internet Source):

i. the loss of the central economic coordinating role of central governments due to globalisation with the shifting of power “up” to regional and supra-national units, as well as “down” to sub-national state units, as argued earlier;

ii. a new “geo-economy” which results in some localities benefiting from economic globalisation through their ability to attract external firms; capital; and experience and other localities being unable to benefit from this new geo-economy, which can include so-called “supra-local” forms of organisation and interaction (Sorensen, 2006: 195; Scholte, 2004: 22); and

iii. an increased emphasis on local governments to create “place prosperity” as citizens become able to “vote with their feet” and thus greatly enhance the economic growth and development in specific sub-national units within a state to which FDI is attracted (Wittenberg, 2003: 7).

Whilst Mulindwa’s first point belongs to that of the hyperglobalist school and can be moderated by the arguments of the state complexity school, the second point by Mulindwa would appear to be valid when taking into account the arguments proposed in chapter 3 that there are approximately 7,932 parent corporations based in developing states (of which 30 were in Africa) and 129,771 foreign affiliates located in developing states (of which 134 were in Africa) (Held et al., 1999: 245) with approximately US$3.2 trillion in FDI stock 1996 and approximately US$7 trillion in sales by these firms (Hirst and Thompson, 2005: 68). As an example of Mulindwa’s second point above, whilst South Africa was only able to attract
approximately R17.4 billion in FDI in 2006, outflows of FDI from South African companies investing overseas amounted to approximately R45 billion (Reserve Bank, 2006(a), 2006(b), 2006(c), and 2006(d)).

Based on this one could argue that LED and decentralisation are a response to economic globalisation with the goal (either explicit or tacit) of attracting FDI and economic growth to a specific geographical area. The relationship between globalisation, decentralisation, and LED is more explicitly stated by the DPLG (2006: 4): despite the various incarnations of LED, the common theme has remained the defining of autonomy by local actors (such as MNCs and sub-national state units) and the roles that local actors should play in LED. This has been necessary in some cases as local actors respond to the threats posed by global restructuring and perhaps the cajoling of the IFIs who have advocated policies of decentralisation (such as SAPs and PRSPs) based on the principles of the Washington Consensus.

Having defined and analysed the development of LED programmes in the global North and global South, as well as identifying the various types of LED programmes that can be adopted, the chapter now turns to apply this theoretical analysis to South Africa, and more specifically the sub-national state units found within the South African state, namely provinces and cities. In particular, the discussion focuses on the LED programmes adopted by Gauteng and Johannesburg.

3. THE POLITICAL FRAMEWORK FOR DECENTRALISATION AND FDI IN SOUTH AFRICA’S SUB-NATIONAL STATE UNITS

An overview and brief analysis of the theory of decentralisation as well as the application of the theory of decentralisation as applied in South Africa was provided in chapter 6. In this section a more detailed analysis of the process of decentralisation is provided with a particular focus on the legislative framework enabling decentralisation in South Africa.

In addition to providing an overview of decentralisation, in this section a detailed framework for LED in South Africa is provided. If LED is to be understood as a response to economic globalisation and is also an attempt by states to attract FDI to their sub-national state units, then it is necessary to assess firstly how the adoption of LED programmes has been undertaken in South Africa, as well as the legislative framework that exists to promote LED. It is important to note at the outset that from a policy perspective LED ties in with the government’s pursuit of neo-liberal economic policies and its commitment to decentralise certain powers of government to provincial and local government (Nel, 2001, Internet
Source) within the prescripts of GEAR. However, as Nel (2001, Internet Source) notes, the implementation of LED programmes in South Africa has had few tangible results.

3.1 The Framework for Decentralisation

The framework for decentralisation in the post-apartheid South African state was discussed in detail in chapter 6.

3.1.1 The National Framework for Decentralisation

As noted in chapter 6, since the Constitution is the highest law in South Africa it provides the overall national framework for the decentralisation of powers to the sub-national state units in the South African state. It was also noted that one of the primary criteria for the decentralisation of power in terms of the CODESA principles, which continue to influence the interpretation of the final constitution, was that in instances where the maintenance of economic unity is involved, then national legislation will prevail and the interests of South Africa’s sub-national state units will be subordinated (Roberts, 2003, Internet Source).

This implies that sub-national state units are afforded a measure of autonomy to attract FDI through policies and programmes such as LED. However, in the event of any crisis threatening the common market of South Africa, then national interests will prevail. It will be noted below that particularly with regards to the LED policies and programmes for Gauteng that this principle is clearly borne in mind by the drafters of the LED policies and programmes.

3.1.2 The Power of National Government over the Provinces

Section 44 of the Constitution provides that Parliament may legislate on any matter, including those matters allocated to the provinces in terms of Schedule 4, but excluding those under Schedule 5. It was further noted in chapter 6 that by virtue of their representation in the NCOP, provinces can also shape national legislation and policy relating to FDI and therefore the provinces can further advance and protect their interests at the national level.

3.1.3 The Power of Provincial Government over Local Government

With regards to the relationship between provincial government and local government, chapter 6 cited the recent spat between the Western Cape provincial government (headed by the ANC) and the Cape Town municipality (headed by the DA). It was noted that in certain
circumstances provincial government can intervene in the affairs of local governments, subject to the approval of the minister of Provincial and Local Government (Roberts, 2003, Internet Source). This example was highlighted since one of the ANC’s concerns during the CODESA process was that by creating sub-national state units in South Africa that could be controlled by parties other than the ANC, not all of South Africa’s society would be transformed as envisioned by the ANC (Heller, 2001: 148). However, it was also recognised that sub-national state units could form an integral part in service delivery (Heller, 2001: 144) as well as a means of later increasing the trend towards the marketisation of the South African state (Heller, 2001: 145).

Having briefly reassessed the framework for decentralisation in South Africa, the analysis now turns to the framework for LED provided by the central South African state. This argument reinforces the notion that LED can be interpreted as a response to economic globalisation and is thus a manner of attracting FDI to sub-national state units. The sub-national state units that are focused on are the province of Gauteng and the city of Johannesburg.

### 3.2 The Framework for LED

It should be noted that at present no single piece of legislation prescribes how South African provincial and local governments must implement LED within their areas of competency. However, the process of implementing LED is a relatively new concept to South Africa. Despite the relative novelty of LED in South Africa the issue of LED has been debated in the public arena since at least 1994. As noted in chapter 6 and the above discussion concerning decentralisation in South Africa, the South African state has gone through a radical transformation with the democratisation of areas of South African society that had previously been closed to the forces of democracy and globalisation (such as FDI). This has also led to a transformation of the structure of the South African state as various new sub-national state units have been created to bring government and service delivery closer to the populace through the adoption of policies of decentralisation and LED, which can be interpreted as a response to economic globalisation and FDI. This radical transformation is in contrast to LED initiatives undertaken by the apartheid state in terms of which what few LED programmes existed were largely confined to small initiatives focused on location marketing designed to attract inward investment (Rogerson, 2006: 228).

Not only has the political framework of the South African state been radically transformed as a result of the political transition from the apartheid to post-apartheid state, but as noted in chapter 3, the economic policies of the South African state, particularly in relation to FDI,
have also be radically transformed. As a result the metropolitan areas in South Africa have sought to market themselves worldwide as locations for international investment\textsuperscript{19} (Nel, 2001, Internet Source; Rogerson, 2000: 402). This is a response to the increasing marketisation of the South African state as a result of the adoption of GEAR.

The changes in South Africa's political and economic structures have come at a time when political and economic globalisation are increasingly exerting pressure on the political and economic structures of the South African state. As was noted in chapter 7 South Africa has sought to maintain its economic and political sovereignty whilst at the same time acquiescing in part to the policy prescriptions of the IFIs with GEAR (Mhone, 2003: 22). These changes also have an impact on the ability of sub-national state units to deliver on government policy. For example, Atkinson (2002: 16) argues that as local governments take on more functions, little management support is being provided by central and provincial governments. Furthermore, whilst the DPLG has made large grants available to local governments to promote LED, very few municipal staff have the necessary experience to provide support for these projects (Atkinson, 2002: 17).

In the absence of any formal legislation regulating the manner in which LED is implemented it is necessary to look at relevant legislation and government policy documents that deal with the rights and obligations of provincial and local government in relation to economic development.

3.2.1 Early LED Discourse (1990–1998)

As was noted in chapter 6, most local government structures focused primarily on the provision and maintenance of infrastructural services and social facilities. Whilst some local governments did sometimes adopt innovative economic strategies, these were the exception, not the rule (Atkinson, 2002: 5). However, all this would change in the post-apartheid South African state.

The one document that laid the basis for the adoption of LED in South Africa was the Constitution (both in its interim and final forms). For example, Section 151 of the Constitution states that one of the objects of local government is the promotion of social and economic development. However, the Constitution does not mention LED explicitly as one of the functions of local government. Rather, the manner in which the Constitution has been interpreted has included LED as an unfunded mandate of local government. The basis for such an interpretation rests on the provisions of the Constitution itself coupled with the

\textsuperscript{19} For example, Johannesburg's current marketing slogan is “A World Class African City”.

schedules to the Constitution outlining the responsibilities of local government, more particularly the role which local government has in creating an environment for investment through the provision of infrastructure and quality services, rather than in the development and implementation of programmes to create jobs directly (DPLG, 2006: 10). One such form of investment within the context of GEAR would be FDI (Terreblanche, 2002: 114).

The Constitution and other government documents have also played an important part in the formation of the principles for the adoption of LED in South Africa. Early developments around LED were largely driven by the RDP Ministry which published a document entitled “LED: A Discussion Document” in 1995. In this document the objectives of LED were described as encouraging private investment; job creation; the enhancement of incomes of South African citizens; and the promotion of development in low-income neighbourhoods (Nel and John, 2006: 210).

Two further government documents, namely the draft Urban Development Strategy and Rural Development Strategy (both published in 1995) called for assertive LED programmes to ensure small business development, public works, and support for housing and infrastructural projects. Whilst these documents were not formally adopted by government, they did form the basis for LED thinking in South Africa for the next 10 years with a particular emphasis on partnerships, small businesses, and poverty-focused interventions (Nel and John, 2006: 210; Atkinson, 2002: 5).

The forces of economic globalisation have also played a part in pushing the emphasis on LED to the fore. As noted above, the adoption of GEAR by the South African government to make South Africa attractive for FDI has meant that LED has become a guiding rationale behind the responsibilities allocated to provincial and local government in the Constitution (Rogerson, 2006: 228).

Thus economic globalisation has played and continues to play an important role in the restructuring of the South African state to accommodate globalisation which, as noted above, has seen a shift in the burden of responsibility for economic development from the central state to the sub-national state units in South Africa. LED is thus not only a guiding rationale behind the allocation of powers to provincial and local government, but it has also led to an enhanced role for local government in the economic activity within their territorial domains, the tempo of which is meant to be increased through the adoption of LED policies (Rogerson, 2000: 398) in line with international economic globalisation and decentralisation theory. The recognition of the impact of political globalisation on the state and LED is also acknowledged.
by the DPLG (2001: 9) when it states that globalisation is forcing states to “think globally and act locally” by decentralising government competencies to sub-national state units.

3.2.2 LED Policy Development

An important landmark in LED policy development in South Africa was the publishing of the White Paper on Local Government in 1998

the concept of “developmental local government” is introduced in the White Paper. The primary aim of developmental local government, as defined in the White Paper, was to find sustainable ways for communities to be able to meet their social, economic, and material needs and thus improve the quality of their lives (Rogerson, 2006: 229). At the same time, the White Paper shifted the role of local government structures in relation to LED. Whereas previously the central and provincial spheres of government drove the LED process, the White Paper now obliged local government to take the lead with central and provincial government departments being required to tailor their programmes to the LED programmes and policies of local governments (Atkinson, 2002: 5).

To a large degree, the White Paper was heavily influenced by the neo-liberal precepts of GEAR (and thus the precepts of economic globalism) in that GEAR emphasised the need for improved economic growth as a means of sustaining the government’s social and development programmes, thus increasing the competitiveness of the South African economy and accordingly making South Africa an attractive destination for FDI (Terreblanche, 2002: 114). The adoption of GEAR was also a means of reassuring international investors of South Africa’s commitment to re-integrate itself into the global economy after the collapse of apartheid with LED playing a part in equipping South Africa’s sub-national state units with the necessary tools and policies to meet the challenges of a South African economy integrated in the global economy (Rogerson, 20000: 400). So within the White Paper on Local Government in 1998, which was largely based on the neo-liberal precepts of GEAR, an obligation was placed on local government to create the necessary environment for job creation, which can only be spurred by investment (either local or foreign) and with the primary focus on FDI (Nel and John, 2006: 213).

The principle of developmental local government was carried into the Municipal Systems Act 32 of 2000 which required local government bodies to engage in integrated development planning – of which LED is a key component. This act also formally embodied the principle that local government is responsible for taking the lead in LED programmes and policies with central and provincial government being required to tailor their policies around those of local government (Atkinson, 2002: 5). This Act renders it compulsory for sub-national state units to
implement LED policies and programmes regardless of whether the sub-national units had the capability and infrastructure to do so (bearing in mind that most had only been created in 2000).

The Municipal Systems Act 32 of 2000 also decreased the number of local government structures from 843 to 284, spanning the entire territory of South Africa. As some local government structures have been merged with other existing local government structures, Atkinson (2002: 8) argues that the local governments that have experienced the easiest adjustment were those that combined with rural and peri-urban areas, such as Kimberly. Atkinson (2002: 9) argues further that where local governments have merged from being previously autonomous local government structures, such mergers have taken the longest time and resulted in a delay in the planning and implementation of LED programmes and policies. As a result of this act, it is also now possible to distinguish between district municipalities, where it may be easier to address development functions and policies at a district level; local municipalities, where communities can be held answerable to their communities; and metropolitan councils, such as Johannesburg (Atkinson, 2002: 12).

Within the context of LED one can argue that for those local governments that fall within the district/local municipality structure, LED should be used as a means of attracting FDI by making use of the district municipality structures to market the district as a whole as an investment destination (Atkinson, 2002: 14).

3.2.3 The Emerging Legislative Context for LED

In August 2006 the DPLG published a draft framework for LED in South Africa entitled “National Stimulating and Developing Sustainable Local Economies”. Given the focus of the study, namely globalisation, FDI, and the state and its sub-national state units, the assessment that follows will pay particular attention to the aspects of the draft framework that relate to FDI. One of the principles that have guided the development of the framework is the following statement (DPLG, 2006: 8):

“South Africa competes in a global and increasingly integrated world economy whose threats must be minimised and whose opportunities must be exploited”.

This guiding principle appears to acknowledge the importance of globalisation to the South African economy. Implicit in such a statement would be the attraction of FDI as a means of growing the South African economy in line with the precepts of GEAR. It was noted in chapter 7 that critics of GEAR (such as Terreblanche (2002)) note that GEAR represented
the abandonment of the principle of “growth through redistribution” and rather constitutes a
desperate attempt to attract FDI. The response by the state to economic globalisation has
also meant adopting policies such as decentralisation.

At the same time though within the draft framework the DPLG (2006: 19) states that South
Africa is becoming a “developmental state”, one possible interpretation of which is that this
signals the government’s frustration with the neo-liberal presumption that the markets are
always perfect, that government must become a “night watchman”, and that privately led
growth will trickle down and result in development for all South Africa’s citizens. This
interpretation of the developmental state expressed by government needs to be balanced
against the realities of South Africa’s economic policies which do not appear to have
changed much since the adoption of the neo-liberal precepts of GEAR, whilst also taking into
account the criticism of GEAR mentioned above. Such points of criticism also influenced the
drafting of the White Paper on Local Government in 1998. Indeed, as discussed in chapter 7,
the National Treasury is allocating more money to sub-national state units in the 2007 budget
(National Treasury, 2007, Internet Source).

Explicitly stated in the draft framework is the notion that it was not the intention of the drafters
of the framework to challenge the unitary structure of the South African state (DPLG, 2006:
12). Rather, the process of LED advocated by the DPLG seeks to reinforce the
decentralisation of power within the South African state, which can be achieved by ensuring
that the capacity of national and provincial governments can be used in conjunction with the
capacities of local government to produce the required capabilities to ensure sustainable
local government (DPLG, 2006: 12) and LED.

As was noted in chapter 4, one of the conditions that need to be present to ensure effective
decentralisation is the presence of a legal framework within which the various state units can
operate to avoid conflicts arising between decisions made at the various levels of
government (Vista-Baylon, 2001: 169). This legal framework appears to be present in South
Africa. This reinforces the notion that the South African state under an ANC government is
seeking to retain considerable control over the developmental policies that local government
can adopt due to the autocratic and insulating tendencies within the ANC. LED and
decentralisation could be closely controlled by government using its two-thirds majority in
Parliament to possibly reform the structure of the provinces as noted in chapter 6. It is
questionable whether the government would be able to succeed since the provinces
themselves are entrenched in Parliament in the form of the NCOP.
The draft framework also anticipates roles for local government within the LED process. These roles are (DPLG, 2006: 17):

i. the provision of leadership and direction in policy making;
ii. the administration of policies, programmes, and projects; and
iii. the initiation of economic development programmes through public spending, regulatory powers, and the promotion of industry, small business development, social enterprises, and cooperatives.

Whilst recognising that local government is not able to influence economic fundamentals, the draft framework does go on to argue that local government is able to direct the responsiveness of services within their jurisdictions as well as the prioritisation of infrastructure and leadership in relation to LED programmes and partnerships. The draft framework anticipates that local government can not only influence economic fundamentals by ensuring adequate and effective services and infrastructure but also through the marketing of the local government. This marketing can not only attract investment from within South Africa, but also from abroad in the form of FDI (DPLG, 2006: 23). At the same time the draft framework states that in order to ensure the viability and sustainability of investment and employment created by means of LED programmes, local government structures will also need to be closely examined (DPLG, 2006: 18). This needs to be weighted against the capacity of local governments to deliver on such obligations considering that some local governments have only been in existence since 2000 (Wittenberg, 2003: 7).

Not only does the draft framework deal with the obligations of local government but also the obligations of national government in relation to the LED process. In this regard the draft framework states that in addition to “signposting” possible investments for domestic and foreign investors, national government should also assist the LED process. National government can do this by inter alia improving market and public confidence in local government by ensuring the alignment of national, provincial, and local government LED programmes (DPLG, 2006: 27). This is also evident in the increased allocations in the 2007 budget to sub-national state units in South Africa due to the lack of capacity of some of these sub-national state units to deliver on government policy (National Treasury, 2007, Internet Source).

The draft framework does go on to note that in order to attract FDI local and national government should ensure that their policies do not amount to a “race to the bottom” and that considerations, other than cost should drive the attraction of investment. These considerations include the provision of reliable services, high quality of life for citizens of the
local government as well as investors, the creation of institutional capacity, and the marketing of areas as sites for the production of niche goods (DPLG, 2006: 31). But as Stiglitz (2006, Internet Source) argues, globalisation can amount to a race to the bottom.

The issue of costs versus other incentives for investment was discussed in chapter 3 of the study. In chapter 3 of the study it was argued that in an African context large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system, and a good investment framework promote FDI (Asiedu, 2006: 74). It was further argued in chapter 3 that low wages and relatively high skill levels are not the primary factors in attracting FDI (Marais, 2001: 113). Of additional concern for sub-national state units is the argument that once certain public goods (such as electricity and water) have been privatised, there are often issues around the affordability of these public goods for low-income residents and the secondary effect of outstanding rates and taxes on residents who are unable to afford their municipal services. For the local governments that are deprived of financial resources due to affordability issues, they often find themselves unable to meet the demands of decentralisation as a result of a lack of human and financial resources (Beall, 2005: 255).

How then does the above discussion regarding central government policies on LED affect South Africa’s sub-national state units? The study now turns to deal with the LED policies and programmes of the province of Gauteng and the city of Johannesburg, which LED policies and programmes have been drafted in the light of the central government’s policies on LED as well as an attempt to attract FDI to these sub-national state units.

4. THE PROVINCE OF GAUTENG

Gauteng covers just over 17,000 square kilometres which is approximately 1.4 per cent of the total land surface of South Africa. It is the smallest of the nine provinces. However, despite the size of Gauteng, it is home to approximately 8 million people. Since 1994 the Gauteng Provincial Government has been re-aligning its focal economic sectors from low value added production to more sophisticated sectors such as information technology, finance and business. The focus of the Gauteng Provincial Government on the above economic sectors perhaps reinforces the arguments in chapter 2 that technology and capitalism are drivers of globalisation. Although Gauteng is the smallest of the nine provinces in South Africa, it contributes approximately 40 per cent to the national GDP (Gauteng Provincial Government, 2007, Internet Source).

According to the Gauteng Provincial Government (2007, Internet Source) the Gauteng Economic Development Agency (“GEDA”) is the one stop office that can assist investors in
all areas of economic production, investment and trade in Gauteng. GEDA is also responsible for the drafting and promoting of the Gauteng Trade and Industry Strategy (“GTIS”) which sets out the provinces goals for attracting FDI as a feature of economic development. As was noted in chapter 2 one of the drivers of globalisation is the construction of enabling regulatory frameworks. This argument was reinforced in chapter 3 where it was further argued that the existence of sound investment frameworks can promote the flow of FDI to African states. The creation of GEDA to assist investors in all areas of economic production, investment and trade in Gauteng would suggest that the Gauteng Provincial Government is alive to the importance of sound frameworks to ensure that FDI flows to Gauteng.

4.1 The Gauteng Trade and Industry Strategy

According to the 2003 GTIS (GEDA, 2003, Internet Source), the growth-orientated strategy first espoused in GEDA’s 1997 GTIS will be maintained, but at the same time expanded on by focusing on issues such as investment and linkages to local government LED plans. Briefly stated, the 1997 GTIS focused on three areas of economic activity being industrial performance, trade performance, and Gauteng’s ability to attract FDI.

As mentioned, whilst the 2003 GTIS retains the core focus of the 1997 GTIS, the 2003 GTIS is also supplemented by a socio-economic pillar for economic development. In terms of this additional pillar adopted by the Gauteng Provincial Government will attempt to ensure that economic growth and progress also address the socio-economic needs of Gauteng’s citizens (GEDA, 2003, Internet Source). The precepts of the 2003 GTIS would suggest that the South African economy has entered a post-GEAR phase with an emphasis on South Africa becoming a developmental state. This transition is possible due to the adoption of GEAR by the South African government which has stabilised the South African economy and currency (Landsberg, 2007: 205).

4.1.1 Strategic Objectives of the GTIS

Whilst 2003 GTIS proposes a number of strategic objectives, some of which relate to the development of Small Medium Enterprises (SMEs), for the purposes of the study the following objectives are highlighted (GEDA, 2003, Internet Source):

i. the integration of the Gauteng economy with continental and regional value chains;
ii. the monitoring of the international environment within which provincial economic activity occurs so the provincial government can take advantage of growth opportunities; and

iii. ensuring that the GTIS should remain grounded in the national economic framework provided by GEAR.

The first point above is perhaps the clearest acknowledgment by the Gauteng Provincial Government of the importance of globalism as an ideological force in the modern economy. The first point also reinforces the arguments made in chapter 3 that regional blocs have emphasised policies such as decentralisation as a means of promoting economic efficiency to attract FDI to the bloc via sub-national state units. The argument of the first point above also confirms the view of transformationism, as discussed in chapter 2, that regional groupings can facilitate international trade and attract investment to the regional grouping.

The third point can be interpreted as a tacit acknowledgement of the need for provincial government to attract FDI as a means of attaining higher levels of economic growth as well as the rapid expansion of non-traditional exports and an increase in the levels of private sector investment (Vickers, 2002: 4). However, as was noted in chapter 7 GEAR was unrealistically dependent on FDI as a means of promoting economic growth whilst simultaneously underestimating the importance of private investment by domestic companies and individuals and the poor ability of African states to attract FDI (Terreblanche, 2002: 118). This also highlights how provincial governments in South Africa can be constrained by the precepts of national policy as they seek to engage in the global economy and attract FDI.

4.1.2 Future Prospects for FDI

With regards to the prospects for attracting inflows and outflows of FDI from the province, the 2003 GTIS argues that NEPAD may provide trade and investment opportunities for Gauteng companies. This statement is predicated on the belief that Gauteng can benefit from NEPAD in two ways (GEDA, 2003, Internet Source):

i. Gauteng’s trade and investment with the rest of Africa will increase; and

ii. a stronger Southern African market and region will attract FDI to Gauteng.

Accordingly, the 2003 GTIS (GEDA, 2003, Internet Source) argues that NEPAD’s objectives can be fulfilled since Gauteng can act as a source of investment and resources such as skilled labour, capital, equipment, and infrastructure. This highlights the importance of South Africa as a source of FDI as discussed in chapter 7.
If anything these strategic objectives highlight the characterisation of globalisation as a process by the stretching of political and economic activities across borders so that events, decisions, and activities in one region of the world can come to have a significance for individuals and communities in other parts of the world (or continent) (Held et al., 1999: 15). It also highlights the polycentric nature of governance in that governance has become multi-layered and cross-cutting as regulation occurs at a number of sites including the municipal, provincial, national, regional and global, not just the national argued by Scholte (2004: 3). These arguments also reinforce Landsberg's (2007: 205) argument that NEPAD can be viewed as the Africanisation of GEAR whilst also reinforcing the argument in chapter 3 that regionalisation can be interpreted as a means of attracting FDI to regional blocs.

However, the GTIS (GEDA, 2003, Internet Source) goes on to argue that economic growth in Gauteng can not be achieved by solely relying on FDI. Rather, GEDA (2003, Internet Source) argues that the province of Gauteng needs to focus on attracting quality investment which will lead to skills transfer, employment creation, and poverty alleviation with a further need to focus on sector specific investments. These positive impacts of FDI were discussed in detail in chapter 3 of the study. To briefly recap, there is a potential for FDI to lead to technological advances and greater economic growth for the host state (Görg and Strobl, 2005: 137) as well as a concomitant increase in direct and indirect employment opportunities as a result of an MNC investing in an economy (Jensen, 2006: 31).

Furthermore, the 2003 GTIS (GEDA, 2003, Internet Source) conforms with the provisions of the Municipal Systems Act 32 of 2000 in that the Gauteng Provincial Government will tailor their LED policies and programmes around those of local government (Atkinson, 2002: 5) and allow local government structures within the province to take the lead in so far as LED is concerned. GEAR will thus continue to provide the overarching framework to attract FDI. As was noted in chapter 2 an enabling regulatory framework can be a driver of globalisation, more specifically FDI within the context of the study.

5. THE CITY OF JOHANNESBURG

Whilst Johannesburg was once dependent on heavy industry and manufacturing for its economic survival, the city has undergone a process of industrial restructuring which has resulted in deindustrialisation and the dispersal of manufacturing sites which has led to decline in the number of jobs available for residents of the city. Decentralisation and deindustrialisation has also led to the fragmentation of the city whereby central-place functions (such as office and shopping complexes) are being dispersed among rival centres.
For example, where the centre of Johannesburg was once dominant, now rival centres such as Sandton and Fourways are pre-eminent sites for central-place functions (Murray, 2004: 11).

It is arguable that the city of Johannesburg can also be characterised by extreme disparities in economic wealth and income as the city planners and local authorities have elected to adopt modes of urban governance based on the principles of neo-liberalism. This has resulted in the emergence of “privatised planning” as the spatial dynamics has produced fragmented and disconnected “micro-worlds” cut off from each other (Murray, 2004: 12). As a result, the extended metropolitan region of Johannesburg can be divided between areas of affluence dominated by the white upper- and middle-classes whilst black urban residents are confined to overcrowded and dysfunctional spaces (Murray, 2004: 17).

How has the above impacted on Johannesburg’s economic planning, such as LED? Like the province of Gauteng, the city of Johannesburg has established a specialised economic development unit which is charged with monitoring international trends and encouraging local economic actors to take advantage of these trends. In this regard, the city’s specialised economic development unit has focused particularly on promoting Johannesburg in the American market (Rogerson, 2000: 404). This highlights how, in contrast to the apartheid South African state, South African sub-national state units are increasingly able to engage directly with the global economy as a result of the reinsertion of the South African economy into the global economy through globalisation.

5.1 Joburg 2030

Within the context of the city of Johannesburg, the framework for LED is provided by the city’s programme entitled “Joburg 2030”.

One premise on which the city’s LED framework is based is that the lower than expected rate of economic growth in other African countries has resulted in persons seeking to migrate to the city in order to enhance their economic prospects. At the same time these persons need to maintain some connection to the countryside that they are migrating from. This lower than expected African economic growth rate has possibly spurred the adoption of NEPAD (as the Africanisation of GEAR) by African states. The result of this is that when cities undergo economic growth, there may be periods in that economic growth during which urban dwellers’ presence in urban areas may be tenuous (City of Johannesburg, 2006: 18). This is the equivalent of Wittenberg’s (2003: 7) argument that people can “vote with their feet” as a
result of the forces of economic globalisation and FDI as a feature of economic globalisation and capitalism as a driver of globalisation as noted in chapter 2.

Within the context of Johannesburg, this indeed appears to be the case as over 350,000 new residents moved into Johannesburg, whilst over 170,000 left. The majority of those people coming to Johannesburg were from the rural areas of South Africa, and the majority of those leaving Johannesburg returned to these rural areas (City of Johannesburg, 2006: 19). The implication of the aforesaid within the context of the study is that infrastructure needs to be able to adapt to these inflows and outflows. The nature of the flows outlined above can impact on the stability of and planning for the infrastructure of Johannesburg. It was noted in chapter 3 (Asiedu, 2006: 74) that an important consideration for the attraction of FDI, in the context of African economies, is good infrastructure. With such considerable inflows and outflows of people, clearly infrastructural planning at the local government level needs to take such considerations into account as well as the impact of AIDS on local government and the South African economy as a whole (Fourie, 2006: 37) as was noted in chapter 6.

It has been argued that, whatever the original economic reasons for the birth of a city, due to economic diversification, it can occur that most of the economic activity in a city occurs for the benefit of other citizens within the city rather than for others not resident within the city. For example, within the context of Johannesburg, whilst the city’s value of exports has been steadily increasing and amounting to nearly R90 billion in 2004, the total share of GDP of the city’s exports have dropped from 48 per cent in 2001 to 39 per cent in 2004 (City of Johannesburg, 2006: 24). These statistics would tend to support the hypothesis that the city’s goods and services are predominantly being produced for the citizens of Johannesburg, rather than for citizens within the broader South African and international community. This further highlights the need for cities such as Johannesburg to attract FDI to spur economic growth, hence the focus on LED to attract FDI in line with the three phases of LED identified by Mulindwa (2006, Internet Source) as well as capitalism being a driver of globalisation as noted in chapter 2.

Despite the decreasing contribution of the economy of Johannesburg to South Africa’s GDP, the economy continues to dominate the South African national economy in a variety of economic fields including finance, air transport, wholesale trade, production of electronic and medical products and services, and other business services (City of Johannesburg, 2006: 24). These economic fields would appear to reinforce the argument in chapter 2 that technology is a driver of globalisation.
In terms of investment in the economy of Johannesburg the city’s LED framework notes that despite lower interest rates, lower economic risks, and the increasing number of economic opportunities as a result of an increasingly integrated South African economy in the global economy, South African business has not invested in the economy of Johannesburg at any large level, rather the city’s economy is still dominated by businesses whose investment profiles remain largely geared to opportunities in the export of commodities (City of Johannesburg, 2006: 24). In the light of the low levels of investment by South African business in the economy of Johannesburg, one of the key questions for the drafters of Johannesburg’s LED framework is whether the city can develop a growth path that is neither directly, nor indirectly dependent on the prices of commodities, which are notoriously unstable, or the global competitiveness of resource industries (City of Johannesburg, 2006: 28). It is perhaps worthwhile restating the argument as a result of local capital being “let off the hook” (Vickers, 2002: 42) and thus Johannesburg is required to seek investment in the form of FDI and other forms of investment due to the unreliable nature of local investment and local capital.

A further result of the lack of investment in the economy of the city of Johannesburg is the dependence of the city’s economy on imports, which has a knock-on negative effect on South Africa’s balance of payments. This highlights the importance of globalisation and the global economy to the economy of the city of Johannesburg. Whilst some imports may be for the upper end of the market, such imports also reflect the procurement of machinery from abroad also reflects the need of local businesses to increase their production capacities to meet increasing local demand. This constitutes an important form of investment as well as job creation which leads to increased demand and thus further investment in the city’s economy (City of Johannesburg, 2006: 28). This highlights the importance of a location-specific advantage as a driver of FDI as noted in chapter 3.

As was noted in chapter 3 of the study, by emphasising FDI as a means of spurring economic growth means that domestic capital can be let off the hook. In contrast states such as South Korea and China have shown how, by harnessing domestic capital investment, high rates of return on investments can be generated and thus FDI can be attracted to the city, for example. This is since high returns on investments generated by domestic capital attracts foreign investors to invest in the domestic economy. At the same time is can be argued that the current period of economic growth that South Africa is experiencing is based on consumer demand that can attract FDI. In this regard, mergers and acquisitions (as a form of FDI) amounted to R284 billion for 2006 (Business Report, 2007, Internet Source). It must be stressed though that this amount includes all mergers and acquisitions in 2006
regardless of whether the purchaser was a foreign MNC or a local company. However, the figure does highlight the increasing attractiveness of South Africa as an investment location.

One of the challenges to investment in Johannesburg, recognised by the drafters of Johannesburg’s LED framework is the microeconomic constraints on investing in Johannesburg. These constraints include regulation difficulties and the cost of transportation as a result of the congestion on Johannesburg’s roads. However, the drafters of Johannesburg’s LED framework go on to argue that the focus of any investment in the local economy should emphasise future productive capacity, entrepreneurship, the broadening of economic opportunities and the sustaining of domestic demand as a hedge against future global economic slumps (City of Johannesburg, 2006: 58–59). As noted in chapter 3 a good infrastructure can promote the attraction of FDI to African states (Asiedu, 2006: 74). The fact that the drafters of Johannesburg’s LED framework highlight the constraints on Johannesburg’s transport infrastructure would appear to validate the arguments of chapter 3.

5.2 Vision for Johannesburg

Not only is LED dealt with in the city’s “Joburg 2030” document, but also in its “Vision for Johannesburg”. This document represents the City’s economic vision and implementation strategy which aims to be a “home-grown” strategy that takes into account the needs of the citizens of Johannesburg as well as being economically rigorous in the light of proven microeconomic principles.

The importance of Johannesburg to the South African economy is highlighted by the fact that Johannesburg accounts for 20 per cent of South Africa’s exports with approximately 39 per cent of South Africa’s exports passing through the city’s transport infrastructure. In light of the importance of Johannesburg to South Africa’s economy the city’s rail, road, and air infrastructure is considered to be world class and forms an important aspect of the City’s ability to participate in the global economy (City of Johannesburg, 2006: 16).

5.3 Inter-Location Competition?

As noted in chapter 6 of the study, South Africa consists of nine provinces and several large metropolitan areas, as well as a large number of smaller towns. Competition between the large metropolitan areas for inward investment (particularly manufacturing investment) or large sporting events (such as the Olympics or Commonwealth Games) has been particularly fierce in recent years and can be interpreted as a waste of resources (Rogerson, 2000: 404).
 Whilst this competition between localities has been fierce, Rogerson (2000: 404) argues that the provisions of the final constitution play an important role in tempering this competition as a result of the principles of co-operative government enshrined in the constitution which limit the powers of provincial and local government in relation to economic development. Whilst the principles of co-operative government are enshrined in the constitution, the ability of local government structures to constrain the ability of the central government to carry out its (i.e. central government’s) objectives and spending priorities has recently been highlighted by the unwillingness of the Cape Town municipality to proceed with the building of the soccer stadium in Green Point, Cape Town as a result of a shortfall of R180 million which the city government is required to make good before construction of the stadium can proceed. As a result of the city government’s unwillingness to allow construction to proceed without first bridging the R180 million shortfall, central government may be unable to meet its objectives and undertakings for the 2010 FIFA World Cup.

 This chapter has addressed the attempts by the province of Gauteng and the city of Johannesburg to attract FDI and how these sub-national state units have sought to attract FDI within the scope of the policies and frameworks developed by the central government discussed in chapter 7 of the study. In particular the chapter has addressed one of the primary policy frameworks which sub-national state units can adopt to attract LED and how the province of Gauteng and the city of Johannesburg have sought to use LED as a means of attracting LED. It was also noted in the chapter that the LED policies and programmes adopted by the province of Gauteng and city of Johannesburg have not strayed significantly from the policy parameters created by the central South African state with the adoption of GEAR. The study thus now turns to conclude the study by answering the problem statement posed in chapter 1 of the study.
CHAPTER NINE
CONCLUSION

“Some ministers say ‘in conclusion’ and they conclude. Some ministers say ‘lastly’ and they last.”
- Anonymous

“This is an African democracy. You can say what you want, but you do what you are told. You also have freedom of choice, provided it’s my choice.”
- Anonymous

Having characterised on the one hand globalism, globalisation, economic globalisation, and FDI and the state and sub-national state units on the other, the study has applied these concepts to states in both the developed and developing world. Not only has the study applied these concepts at this macro level, it has also applied these concepts to the South African state and its sub-national state units. In this regard, the study has focused on the nature of the South African state as a state within the developing world and the economic responses of the South African state to the pressures posed by economic globalisation and, more specifically, FDI as a feature of economic globalisation.

In concluding, the study will proceed to provide a brief summary of the main findings before turning to the three primary questions that any study of political economy should answer: who benefits? who pays? who decides? Once these aspects have been dealt with, the study will answer the research problem as first posed in chapter 1.

1. THE RESEARCH PROBLEM

The study identified several types of globalisation including political and economic globalisation. The study focused on a particular feature of economic globalisation, namely FDI. Based on the findings of the study, it would appear in the context of the study that if FDI is successfully attracted to sub-national state units, then the economy of that sub-national state unit as well as the national economy will benefit. However, as Stiglitz (2006, Internet Source) notes, economic globalisation can result in the uneven distribution of economic wealth within a state as some sub-national state units benefit, whilst other do not.

It was noted in chapter 4 of the study and above that South Africa has largely been able to retain its economic sovereignty by having to undergo a home grown SAP in the form of GEAR. It would thus appear that the South African state would fall within the above scenario sketched by Stiglitz. Indeed, Bond (2004: 54-55) argues South Africa, rather than being a weak developing state attempting to cope with globalisation, has played an important role in promoting the interests of the developed states on the African continent in trying to reach a
conclusion to the Doha Round of WTO negotiations. However, this should not discount the possibility of South Africa's development goals being hampered by the need to attract FDI given the low levels of FDI in South Africa.

The study has also shown that LED is an unfunded mandate of local government and that whilst the DPLG has made large grants available to local governments to promote LED, very few municipal officials have the necessary experience to provide support for these projects (Atkinson, 2002: 17). This means that citizens within the sub-national state units of South Africa will be responsible for paying to support LED programmes and policies. This would be a suitable arrangement provided that these sub-national state units were the ones who would decide what types of policies to implement. However, chapter 5 argued that the power to decide on what types of policies to adopt is not determined by these sub-national state units. The concurrent powers over policy allocated to central government means that central government has the right to intervene and thus ensure the implementation of national policy (Picard, 2005: 306).

The provinces also face several problems in that functions are often decentralised to the provincial and local governments with little consideration for the skills available to these sub-national state units to effectively implement national policy, including policy to attract FDI with the implementation of GEAR (Terreblanche, 2002: 114). Thus whilst the Constitution certainly creates the possibility for South Africa to develop into a federal state, there are factors that could either lead to the federalisation of the South African state, as well as factors that could lead to the greater centralisation of power in central government away from the sub-national state units that make up the South African state.

However, as Robinson (2006, Internet Source) and Roberts (2003, Internet Source) argue, the federalisation of the South African state does not appear to be one of the primary policy targets of South African politics. Rather there appears to be an increasing drift towards centralisation but allowing decentralisation in instances where the central state can retain control over its sub-national state units such as LED to attract FDI. Furthermore there has been a shift from democratic to market modes of accountability as local government has become the frontline in the marketisation of public authority, such an example is the focus of GEAR on FDI as a means of achieving economic growth (Terreblanche, 2002: 114; Heller, 2001: 133)). The failure of South African governments to deepen the decentralisation process could be attributed to globalisation as a result of the government's adoption of GEAR and its managerial vision of local government Heller (2001: 134).
In summary, and to explicitly answer the research problem, it would appear that the legislative framework exists in South Africa for sub-national state units to be able to attract FDI. This framework will however be subordinated to the policy precepts and requirements set by central government, such as GEAR and NEPAD. Thus whilst there is a lack of political will at the central government level to decentralise powers and functions to sub-national state units that would allow sub-national state units to adopt policies to attract FDI outside the precepts set by central government, globalisation may have a limited direct influence on South Africa’s sub-national state units and their ability to attract FDI. Rather the effects of globalisation on South Africa’s sub-national state units will be moderated by central government acting as the gatekeeper between the external (such as the forces of globalisation) and the internal.

2. SUMMARY OF MAIN FINDINGS

The study has sought to establish whether FDI could have an impact on sub-national state units in South Africa. The study has sought to do this by firstly defining and discussing globalism and globalisation before defining and discussing the state.

2.1 Globalisation

Chapter 2 of the study defined the process of globalisation and the state of globalism. Briefly put, it was argued that whereas globalism can be defined as a social condition whereby there is a greater emphasis on the global interconnectedness between various state and non-state actions and actors at both the supra-national as well as sub-national levels. In particular, it was noted that globalisation has become an ideological force that has its own rules with normative descriptions and prescriptions. Not only was globalism found to be an ideology of its own, the general characteristics of globalisation were also analysed. It was argued that globalisation can be characterised by increasing levels of interconnectedness.

Not only can these levels of interconnectedness be experienced at the supra-national state level (Held et al, 1999: 15), but (more important for the purposes of this study) also the sub-national state level. In terms of interconnectedness at the sub-national state level both Scholte (2004: 22) and Sorenson (2006: 195) comment on the existence of supra-local organisations and networks. The study also highlighted the notion of “glocalisation” or the globalisation from within national societies which leads to the stretching of relationships and networks at the sub-national state level (Roudometof, 2005: 116). Thus as a result of globalisation sub-national state units have been able to secure and promote territorial and transnational linkages with other sub-national state units (MacLeod and Goodwin, 1999: 505).
It was further noted in chapter 2 that globalisation can also assume economic characteristics with MNCs playing an increasingly important role in the global economy through increased international trade and investment (in the form of FDI) (Khor, 2000: 3). Chapter 2 also highlighted the varying interpretations of globalisation such as the “hyperglobalist” interpretation, the “transformationist” interpretation, and the “internationalist” interpretation. It was noted that these three interpretations each have a different discourse on the impact of economic globalisation on the state.

As noted in Chapter 2 globalists argue that drivers of globalisation will lead to the increased integration between states and the emergence of a single global economy (Woods, 2001: 291). The globalist interpretation of economic globalisation can also be interpreted in either a positive or a negative light. Positive globalists argue that consumers are the ultimate beneficiaries of globalisation as they are now able to access a greater variety of goods, as a result of greater competition between manufacturers. Consumers are also able to have those goods shipped to them faster as a result of better technology which can draw sub-national state units into the global economy (Kelly and Prokhovnik, 2004: 95). Negative globalists disagree with such a discourse of globalism. Negative globalists argue that open borders and deregulated investment and trading arrangements pose problems not only to developing, but also developed states as a result of the large disparities between the rich and the poor, not only in developing but also developed states.

In contrast to the globalist discourse on economic globalisation, transformationalists are of the opinion that economic globalisation can be controlled. In particular, transformationalists argue that the direction of any changes that occur in societies cannot be predicted since the future direction of globalisation remains uncertain (Held et al, 1999: 7).

Chapter 2 also outlined the discourse regarding MNCs. It was argued that an MNC in its broadest sense is a company that produces goods or markets its services in more than one state. In its narrowest sense, an MNC is a company which, through FDI, controls and manages subsidiaries in a number of states outside its parent state (Held et al, 1999: 237). FDI was also defined as the flow of an MNC’s private capital from its host nation to another nation, which private capital flow takes the form of an investment. This investment gives the MNC a measure of control over the management of the company invested in by the MNC. The measure of control is usually in excess of 10 per cent the ownership of the company invested in.

Various types of FDI and motivations for MNCs investing in states were identified. In terms of
the flow of FDI to states, while Hirst and Thompson (2005: 71) argue that between 1991 and 1996, 60 per cent of FDI flows were between North America, Europe, and Japan with North America, Europe, and Japan also accounting for 75 per cent of the total stock of accumulated FDI in 1995. Held et al (1999: 250) argue that although there is evidence of a regional clustering of FDI stock, there also appears to be a significant flow of FDI between the various worldwide regional groupings. In terms of Africa’s ability to attract FDI, the flow of FDI to Africa declined by 41 per cent from US$19 billion in 2001 to just US$11 billion in 2003 (Jensen, 2006: 27) but reached US$31 billion in 2005, which according to UNCTAD (2006: 3) was the highest amount of FDI to flow to Africa on record.

In addition to the flows of FDI to states, chapter 2 also highlighted the various positive effects of FDI including productivity and technology spillovers; increased exports; increased employment; and increased economic growth. In addition to the positive effects of FDI, the study also highlighted the possible negative effects of FDI including the arguments of dependency theorists such as Raul Prebisch and Theotonio Dos Santos, who argue that developing states have several distinct disadvantages in their relationships with MNCs, particularly bargaining power (Ferraro, 1996, Internet Source) as well as the increased competition between states and sub-national state units to attract FDI.

2.2 The State and Sub-National State Units

Three primary characteristics of the state were identified in chapter 4. These characteristics include institutions, sovereignty, and territoriality (Opello and Rosow, 1999: 2). It was argued that perhaps the least contentious characteristic of the state is that of territory. According to Heywood (2002: 87) the state is a territorial association. The state’s jurisdiction is thus geographically defined and extends to all those who live within the state’s defined boundaries - whether they are citizens or not (Roskin et al., 1994: 28). Furthermore, it was found that the state consists of a series of public institutions (Heywood, 2002: 87; Roskin et al. 1994: 30). These public institutions are responsible for the making and enforcement of collective decisions. These public institutions were contrasted against private institutions and associations (for example, corporations and families) which make and enforce decisions for these private institutions. It was argued that sovereignty can be viewed as the ability to exercise absolute, unrestricted power above all other associations and groups within a given society (Heywood, 2002: 87).

However, the study also drew a distinction between political and economic sovereignty. Political sovereignty was defined as a state’s permanent and exclusive privileges over its political activities, and economic sovereignty was defined as a state’s permanent and
exclusive privileges over its economic activities, wealth, and natural resources (Zhongying, 2005, Internet Source). Chapter 4 also identified various interpretations of the state including those of Weber, Smith, Marx, and Fukuyama.

These characteristics were also applied to African states, where it was argued in chapter 5 that with regards to institutions in the African state, Lindberg (2001: 175) argues that established institutions increase the cost of setting up new institutions. This in turn impacts on a new African government's ability to fulfil election promises such as fighting corruption when the institutions that it inherits both formally and informally promotes a system of patronage and corruption, for example. It was also argued that African states have generally been threatened by units drawing on different resources in both the domestic and the international spheres. In this respect “warlordism” can be viewed as not the implosion of the African state but rather a new means of building political authority which benefits both rulers and private foreign firms as a result of the creation of disorder (Lindberg, 2001: 176). With regards to sovereignty of African states, it was argued that African states are the product of the colonial experience and thus were formed in a top-down approach to state development, not completely dissimilar to that experienced by Europe. However, one difference between the European state formation project and that of Africa was that African states were not afforded an opportunity to develop institutions before allowing universal suffrage. Rather, African rulers had to build their states whilst at the same time having to compete with their opposition in elections (Bratton and Chang, 2006: 1062).

Of importance to the study was the discussion in chapter 4 regarding sub-national state units. It was found that it is an accepted norm in state theory that some areas of responsibility and functioning of the central state need to be transferred to lower levels of government for the execution thereof. It was also found that sub-national state units have the greatest potential to engage more effectively with women and their interests. At the same time decentralisation has become one of the core components of political conditionality in international development discourse (Beall, 2005: 253). However, Heller's (2001: 132) argument that there is no specific reason why localised forms of government are more democratic than forms of government located at the central state level was echoed by the UNDP (2002: 67), which notes that whilst decentralisation can lead to the reinforcement of the power and influence of local elites, decentralisation can help poor people most when local politics are democratic coupled with the presence of strong structures and participatory practices.

Four modes and four degrees of decentralisation were identified in chapter 4. The modes of decentralisation include geographic, functional, administrative and fiscal decentralisation,
whilst the four degrees of decentralisation identified include deconcentration, delegation, devolution, and divestment with deconcentration representing the least advanced form of decentralisation and devolution representing the most advanced form of decentralisation. In terms of the sub-national state units acting as a site for globalisation, it was argued that whilst stronger states can influence global activities and exploit the new geography created by globalisation, weaker states have tended to lose relative power in the face of globalisation and globalism. This is not to diminish the importance of globalisation and FDI in encouraging the trend of decentralisation. Globalisation and FDI can create the space to enable sub-national state units to take a greater initiative in playing an increased role in supra-territorial interconnections as well as interconnections with other sub-national state units. These “supra-local” connections have often occurred and unfolded without the central state as the intermediary (Scholte, 2004: 22).

It was further argued that local choices may lead to a greater variety in lifestyle options for the citizens of a state and citizens are able to “vote with their feet” and thus greatly enhance the economic growth and development in specific sub-national units within a state to which FDI is attracted. In this regard, Murray (2004: 4) argues that in aspiring to become “world-class cities”, local governments may adopt policies that seek favour with MNCs by creating nested sites of luxury-living and leisure whilst poorer citizens are left to fend for themselves.

An example highlighted by Sassen (2001) also highlighted how the prime policy objective of the state appears to have shifted from the well-balanced domestic performance of the national economy to its overall international competitiveness leading to the rise of concepts such as the “entrepreneurial city” (MacLeod and Goodwin, 1999: 506) as sub-national state units seek to integrate themselves into the global economy through the attraction of FDI.

2.3 The South African State

Turning to the South African state, where the development of the South African state from Union in 1910 to the development of the post-apartheid South African state was highlighted in chapter 6. In terms of the application of the primary characteristics of the state to the South African state, it was noted that (with the exception of two instances) the territorial integrity of the South African state has largely remained in tact. It was further argued that the provinces and municipalities which make up the South African state should not be disregarded as constituting part of the territorial characteristic of the South African state. In this regard, the territorial structure of the South African state has undergone a marked transformation from the four provinces and limited number of municipalities of the apartheid state to nine provinces and “wall-to-wall” municipalities under the post-apartheid regime. In terms of the
institutions of the state, or the classic *trias politicas*, it was noted that the Constitution of South Africa provided for the existence of an independent executive, legislature, and judiciary.

It is perhaps in the area of South Africa’s sovereignty where the most interesting findings were made. It was noted in chapter 4 of the study that the post-apartheid governments have largely been able to retain South Africa’s limited economic sovereignty by avoiding a financial crisis which would require the intervention and the assistances of the IFIs in order to overcome any such economic crisis. However, it was argued that this set of circumstances has resulted in a “catch 22” situation for successive ANC governments, in that in order to retain South Africa’s economic sovereignty, the ANC has had to commit to economic policies approved by the IFIs. It was argued that GEAR can be viewed as a self-imposed SAP by the South African government. This in turn has led to the greater internationalisation of the South African state as South Africa’s economic sovereignty has been relatively circumscribed by the principles of the Washington Consensus, as embodied in GEAR.

The importance of the decentralisation process was highlighted by Heller (2001: 131), who argues that lower class collective action in the developing world has been blunted by uneven capitalist development, resilient social cleavages, and a variety of forms of bureaucratic authoritarianism, except in few instances such as the cases of South Africa and Brazil where the lower classes have been able to drive the process of political transformation. It was also noted in chapter 4 that decentralisation can be interpreted as a response to globalisation by granting sub-national state units varying degrees and capacity to attract FDI.

Whilst the South African constitution does not clearly define the relationship between the central state and its sub-national state units within the three defined types of deconcentration highlighted above, the Constitution does refer to various “spheres” of government. The result is a form of decentralisation within the South African state in which certain competencies may be delegated to the sub-national state units within the South African state and some competencies appear to be devolved to the sub-national state units.

An important consideration noted in chapter 4 is that even in those instances where certain competencies may be devolved to South Africa’s sub-national state units, the Constitution provides that the central state will always exercise a measure of influence over the manner in which these devolved competencies are exercised since the central state retains concurrent powers over the devolved competencies. The maintenance of control by the central state over the competencies delegated and devolved to the sub-national state units within the South African state appears to be consistent with the theory of decentralisation discussed in
chapter 3 in that the central state may want to retain a measure of control over the sub-national units to avoid possible contradictions in policies between the various levels of the state.

Whilst the above highlights the policies of the South African state regarding decentralisation, the economic policy to attract FDI is best embodied in the form of GEAR. It was argued in chapter 4 that the principles which GEAR was based on were very much in line with the principles of the Washington Consensus and thus reinforces the view that GEAR is a “home-grown” SAP. However, it was noted that the government could not abandon the RDP completely, and accordingly various aspects of the RDP were also included in GEAR; for example, the delivery of social services, human resource development, LED, and infrastructural development. In countering critics’ arguments that the government had abandoned the RDP in favour of the Washington Consensus, the government argued that GEAR was the macroeconomic framework that was absent from the RDP (Mhone, 2003: 24). However, critics of GEAR such as Terreblanche (2002: 114) argue that GEAR amounted to a desperate attempt to attract FDI and the abandonment of the principle of “growth through redistribution”. At the same time, LED and decentralisation have also been used as a means of achieving economic growth to attract MNCs and FDI.

It was further noted in chapter 4 that South Africa would appear to be an important source of FDI. The SADC region accounts for approximately 13 per cent of South African exports, placing the region third behind the EU and the North American Free Trade Agreement (NAFTA) free trade zone (Hirsch, 2005; 137). Thus gaining access to the markets of the SADC members has been an important goal of the ANC government. The fact that South Africa is an important source of FDI can also be surmised from National Treasury (2007, Internet Source) statistics indicating that outward flows of FDI in 2006 amounted to approximately R45 billion (South African Reserve Bank, 2006(a), 2006(b), 2006(c), and 2006(d)).

2.4 **Sub-National State Units in South Africa**

It was argued in chapter 5 that the need to focus on LED is a result of the impact which economic globalisation has had on sub-national state units (in particular FDI as a feature of economic globalisation), as noted in chapters 2 and 3 of the study. One manner in which sub-national state units are attempting to deal with globalisation is to use the powers given to them in terms of processes such as decentralisation as a means of attracting FDI, which, as noted in chapter 2, is a feature of economic globalisation.
Within the context of the South African state, those sub-national state units are the provinces, provinces, cities and other local government entities, all of which are compelled by legislation passed by the central government to implement LED programmes and policies. LED, as a means of attracting FDI, is thus a critical concern when considering the relationship between globalisation and sub-national state units in the South Africa context, particularly since FDI is a feature of economic globalisation.

In terms of the national framework for LED, chapter 5 highlighted how this framework is provided by Section 151 of the Constitution. Section 151 states that one of the objects of local government is the promotion of social and economic development. This objective is further developed in the White Paper on Local Government in 1998. Introduced in the White Paper is the concept of “developmental local government”. The primary aim of developmental local government, as defined in the White Paper, was to find sustainable ways for communities to be able to meet their social, economic, and material needs and thus improve the quality of their lives (Rogerson, 2006: 229). The recognition of the impact of political globalisation on the state and LED is also acknowledged by the DPLG (2001: 9) when it states that globalisation is forcing states to “think globally and act locally” by decentralising government competencies to sub-national state units.

It was further argued in chapter 5 that the White Paper was heavily influenced by the neo-liberal precepts of GEAR (and thus the precepts of economic globalisation) in that GEAR emphasised the need for improved economic growth as a means of sustaining the government’s social and development programmes, thus increasing the competitiveness of the South African economy and accordingly making South Africa an attractive destination for FDI (Terreblanche, 2002: 114). The adoption of GEAR was also a means of reassuring international investors of South Africa’s commitment to reintegrate itself into the global economy after the collapse of apartheid with LED playing a part in equipping South Africa’s sub-national state units with the necessary tools and policies to meet the challenges of a South African economy integrated in the global economy (Rogerson, 20000: 400). Thus within the White Paper on Local Government in 1998, which was largely based on the neo-liberal precepts of GEAR, an obligation is placed on local government to create the necessary environment for job creation, which can only be spurred by investment, either local or foreign with the primary focus of the study on FDI (Nel and John, 2006: 213).

Within the context of the 2003 GTIS it was noted that strategic objectives of the GTIS included the integration of the Gauteng economy with continental and regional value chains; the monitoring of the international environment within which provincial economic activity occurs so the provincial government can take advantage of growth opportunities; and
ensuring that the GTIS should remain grounded in the national economic framework provided by GEAR. This is the clearest indication that Gauteng's policy would remain defined by national economic policy, thus limiting the number of possible instances of policy conflict.

With regards to the prospects for attracting inflows and outflows of FDI from the province, the 2003 GTIS argues that NEPAD may provide trade and investment opportunities for Gauteng companies. This statement is predicated on the belief that Gauteng can benefit from NEPAD in two ways (GEDA, 2003, Internet Source): Gauteng's trade and investment with the rest of Africa will increase; and a stronger Southern African market and region will attract FDI to Gauteng.

The need for Johannesburg to attract FDI by means of its Joburg 2030 programme is highlighted by the statistic that whilst the city's value of exports has been steadily increasing and amounting to nearly R90 billion in 2004, the total share of GDP of the city's exports have dropped from 48 per cent in 2001 to 39 per cent in 2004 (City of Johannesburg, 2006: 24). These statistics would also tend to support the hypothesis that the city's goods and services are predominantly being produced for the citizens of Johannesburg, rather than for citizens within the broader South African and international community. This further highlights the need for cities such as Johannesburg to attract FDI to spur economic growth, hence the focus on LED to attract FDI in line with the three phases of LED identified by Mulindwa (2006, Internet Source).

The programme document also cites the need to attract FDI due to South African businesses not investing in the economy of Johannesburg at any large level, rather city's economy is still dominated by businesses whose investment profiles remain largely geared to opportunities in the export of commodities (City of Johannesburg, 2006: 24). Again, it is perhaps worth restating the argument that local capital has been "let off the hook" (Vickers, 2002: 42) and thus Johannesburg is required to seek investment in the form of FDI and other forms of investment due to the unreliable nature of local investment and local capital.

3. AREAS FOR FUTURE RESEARCH

This inquiry into the impact of FDI on the South African state and its sub-national state units has raised matters that require further study. There are four broad areas that present themselves for further enquiry:

i. It can be argued that the South African government is moving into a "post-GEAR" phase of economic policy with an increased emphasis on South Africa being seen as
a "developmental state". If the South African government is indeed moving into a post-GEAR economic environment then the policies that it adopts in this regard will need to be further analysed against the findings of the study. This would be necessary due to the shift in emphasis away from the Washington Consensus-based precepts of GEAR towards a possible investment regime that emphasises the developmental aspects of the South African economy that may have been underemphasised by GEAR.

ii. South Africa’s role as a significant source of FDI was highlighted in the study. The study also underlined the desire by Gauteng to benefit from NEPAD by inserting itself into regional value chains. This highlights the need to analyse the relationship between South Africa's sub-national state units and their role on a regional and continental level in seeking to attract FDI to their economies as well as promote greater FDI originating from South Africa into the SADC region. How these roles will continue to operate or be modified in light of the possible move towards a post-GEAR economic environment in South Africa should also be explored further.

iii. In addition to the above, one should also explore what is occurring at a regional level to attract FDI to the SADC region. This FDI can not only be sourced from other states or regional groupings on the African continent, but also from abroad. Such an analysis would be necessary in light of the argument that if Southern Africa is to advance economically, then policies need to be adopted by the SADC member states that will promote the flow of FDI to the SADC region. Any such analysis should also assess whether the process of regionalisation can be seen as a countervailing force to globalisation.

iv. It was noted earlier in the study that South Africa, whilst struggling to attract FDI, is an important source of FDI for the African continent. The relationship between South African MNCs and the states that they invest in is an area for further consideration and research. The importance of such research lies in the argument that when South African MNCs invest in other African states, they demand of the host state that the host drop any protectionist legislation or other measures designed to protect the host state's infant industries. At the same time, though, these South African MNCs demand of the South African state that it retain legislation that would protect them from non-South African MNCs. This contradiction in policy requirements of South African MNCs warrants further analysis.
1.1 Books and Journal Articles


1.2 Working Papers and Discussion Documents


Wittenberg, M, 2003. Decentralisation in South Africa. The School of Economic and Business Sciences and ERSA, the University of the Witwatersrand, Johannesburg.
1.3  Official Documents

Constitution of the Republic of South Africa Act No. 108 of 1996

1.4  Internet Sources

http://news.bbc.co.uk/2/hi/africa/4257307.stm

http://news.bbc.co.uk/2/hi/business/5331690.stm

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