

The effect of a mainstream approach to economic and corporate governance on development in South Africa

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For ACDC 2007

1 Introduction

A central tenet of this paper is that important aspects of corporate governance and economic governance have become confused and conflated in the minds of many government policymakers. The first part of the paper provides a broad background to the development of the currently dominant governance and corporate governance systems and how the ideological shift towards neo-liberalism has influenced these systems.

The notion of good governance has become extremely influential in prescriptions for economic development in developing countries. The OECD, IMF and World Bank generally recommend that developing countries emulate governance systems of developed countries for development and to attract FDI and other capital flows. During the past two decades, many developed countries have followed the dominant US model of corporate governance, which has become centred on the rights and privileges of shareholders and the ability of financial markets to discipline corporations. As a result, many developing countries' systems of economic governance became increasingly influenced by Anglo-Saxon notions of good corporate governance. The requirement that economic and other policies appear credible to foreign investors and other financial market actors has played an important role in the conflation of aspects of the Anglo-Saxon model of corporate governance with governments' efforts to promote good economic governance. This approach to economic governance increases the sensitivity of

policymakers to financial markets. This paper further argues that the mainstream approach to governance, with a focus on corporate governance, is antithetical to development.

The second part of the paper considers how acceptance of the mainstream approach to economic governance in South Africa has negatively affected its economic development in 2 ways. First, it has caused government to adopt neoliberal economic policies that have entrenched the industrial structural problems of the economy. Second, it has allowed some of the largest South African corporations to list abroad and to reduce their investments in and commitments to South Africa and to escape contributing to economic development there. The paper also shows how the South African government through their approach to governance has lost influence over these large corporations and is unable influence the allocation of their resources towards developmental goals. Instead, these corporations are now under the influence of the shareholder value movement.

2 Background

2.1 Neoliberalism and governance

There has been a huge shift in the hegemony of economic thinking and actual economic policy between the period after World War II until the late-1970s and the period since the late-1970s until the present. The shift has been commonly identified as a move by countries of the West from Keynesian-type economic policies to free-market economic policies. It is important to realise that this shift is ideological. The shift in ideology is fundamentally related to contending views of the role of the state and state regulation.

These broader shifts in ideology are important for understanding the dominant approach to governance today and the conflation of governance with corporate governance.

The ideology of free market capitalism is the motive force behind the globalization that occurred since the late-1970s. The laissez faire ideology of the later period is distinct from the ideological views that shaped the capitalist systems of the welfare states and social democracies of the US and Europe after the Great Depression and during the post-WWII period. During the post-WII period, most national economies were placed under the control of the state, even economies where markets played a strong role. The economic systems after WWII were very influenced by views such as those expressed by Karl Polanyi (1944) in *The Great Transformation* that social structures of solidarity were necessary to offset the social tensions caused by the negative effects of competitive market pressures, such as acquisitiveness and inequality. The role of the state and extensive regulation was also central to the widely accepted solutions advocated by Keynes to deal with the domestic and international macroeconomic instability inherent in free market capitalism (see for example Keynes, 1936).

I will refer to the period after WWII until the 1970s as the ‘Golden Age’ and the period since the late 1970s to the current period as the ‘neoliberal era’ (see for example Marglin and Schor, 1992). The shift in economic thinking and macroeconomic policy has had a huge impact on society and individual actors. The change also led to a renewed process of economic globalization of trade and financial markets. The changes to mainstream economics and macroeconomic thinking developed within the Golden Age out of a

process of internationalization of businesses and financial markets. However, once mainstream macroeconomic hegemony shifted from Keynesianism to neoliberalism, a rapid process of goods and financial market liberalization ensued. This liberalization drove a process of global integration of goods and financial markets, which in turn reinvigorated the laissez faire ideology in mainstream academic and economic policy thinking.

The end of the Bretton-Woods financial arrangements and the rise of Thatcherism in the United Kingdom and Reaganism in the United States have become important iconic events associated with the shift in economic policy thinking from the Golden Age to the neoliberal era. Later, the decline and subsequent disintegration of the USSR, the changes in political and economic changes in Eastern Europe and the collapse of the Berlin Wall served to reinforce the free market rhetoric of the free marketers. Within the field of economics renewed interest and mainstream acceptance of the work of people like Friedrich August von Hayek (see for example Hayek, 1994) and Milton Friedman (see for example Friedman, 1982) led to widespread acceptance by policymakers that the role of the state in the economy should be curtailed. The ideas of anti-state ideology inherent in the economics of Friedman and Hayek replaced the ideology of Polanyi and Keynes where the smooth functioning of capitalist nations required the balm of state oversight and regulation to cure the potential excesses inherent in free markets. Within the ideology of the free marketers these vices and excesses were spun into virtues that promoted a form of economic freedom without which democracy could not be sustained. Within a short space of time, mainstream economic theory appropriated the ideas of neoclassical

economics and created a hybrid that supported laissez faire ideology and disapproved of state involvement in the economy.

New-classical macroeconomic theory is an important source for the development of the free-market perspective that influenced the development of the Washington Consensus and neoliberal thought. New classical economic theory developed out of neoclassical economic theory during the 1970s and 1980s. Central to the new classical theoretical perspective is instantaneous market adjustment and the ‘rational expectations’ hypothesis. Some seminal works in the new classical tradition are Frydman and Phelps (1983), and Lucas (1973). The ideological position of the new classical macroeconomists for unrestrained functioning of businesses in an economy was rationalized using the theoretical argument of rational expectations, which could be used as a theoretical ‘whip’ to ensure that policymakers implement policies that are perceived to be ‘credible’ by people who dominate especially the financial markets.

The notion that policies should be credible has become pervasive during the neoliberal era. Credibility is judged by an elite few, usually the relatively few people who operate in the financial markets and credit ratings agencies in the financial centres of a few developed countries, such as the US, Germany, Japan and Britain. Credible policies are the neoliberal policies set out in the Washington Consensus: low fiscal deficits, low inflation, liberalization of international trade and financial markets, a smaller role for the state in the economy through deregulation and privatization. This notion of ‘credibility’ is antidemocratic in that a few people operating in international financial markets are able

to impose policy criteria on the voting citizens of a country. This notion of credibility is anti-intellectual in that certain neoliberal policy perspectives are imposed on countries through political and economic pressure rather than through rigorous research and debate (Gabel, 2000). This notion of credibility, shaped by neoliberal ideology has become a central component of the mainstream approach to economic governance and corporate governance.

Within the neoliberal era large industrial firms became more and more 'financialised', i.e., a larger proportion of their turnover and profits derived from financial activities rather than their real sector traditional businesses (Krippner, 2002; Crotty, 2003; and Dumenil and Levy, 2001). Another characteristic of financialization during the neoliberal era is the huge role the financial sector plays in the global economy. The deregulation of the financial sector has reshaped business and alliances between different national interest groups.

Financialization was important in the shift from 'patient capital' to 'impatient capital'. The increasing role of institutional investors during the neoliberal era led to much quicker turnover of shares in equity markets. At the same time, management of large corporations changed. Management increasingly treated firms as if they were part of a portfolio of assets that could be bought and sold. This change in corporate management style was evident in the hostile takeover movement during the 1980s. During the 1990s there was increasing influence of institutional shareholders and the shareholder value movement. Both the hostile takeover movement and the shareholder value movement had significant

influence on the behaviour of management of large corporations and also played important roles in reshaping firms and domestic and global business structure. The idea of market discipline of corporations through financial markets became a key component of the Anglo-Saxon approach to corporate governance. The ability for operators in financial markets to use hostile takeovers is entrenched in the US financial system and is seen as an important tool of corporate governance there. This role of the financial system to discipline corporate executives and management and to replace them with better management is seen as a key way to solve the principle-agent problems identified by finance theorists (Fama and Jensen, 1983). Unfortunately, this notion of financial discipline has become important in the way governments think about credibility. In fact, the notion has become widespread in society and it is not uncommon to read reports in the media about how government actions affected stock prices. Often, it is expected that government will not undertake certain action or even reverse certain actions if it has a detrimental impact on market indicators such as the exchange rate and stock price indices.

During 1980s the hostile takeover movement and during the 1990s the shareholder value movement reshaped corporations:

- Financial markets became “markets of corporate control”
- The view that financial markets should discipline corporate executives who were empire building not working in interest of shareholders became conventional wisdom
- Executive remuneration was tied to share prices through stock options

- The collapse of USSR provided proof to people in financial markets and many politicians of the US and elsewhere that markets better at allocating resources than bureaucracies
- The ITC, biotech and pharmaceutical growth in US during 1990s convinced people in financial markets and many politicians of the US and elsewhere that the financial markets could support long-term investment

In short, liberalization of financial markets and growing power of finance allowed them to put huge pressure on non-financial corporations to restructure and also on the behaviour of governments. The Bretton-Woods institutions played a role in promoting this agenda throughout the developing world.

2.2 Dominant approaches to governance today

The Governance Group of the World Bank Institute website says :

We define governance as the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them.¹

While the definition of governance used by the World Bank includes references to democracy and the rule of law, a large part of their focus is on economic institutions and policies, including the promotion of private sector development.² There seems to be a general acceptance amongst Western powers and the Bretton-Woods institutions that

¹ This quote is taken from the webpage <http://go.worldbank.org/MKOG258V0> .

² A World Bank policy research working paper lists 6 dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Government effectiveness considers independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Regulatory quality assesses the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (Kaufmann et al, 2006).

economic institutions and economics is central to good governance. They further argue that good governance is a prerequisite for development. There is a conscious effort to promote market-led development. Organisations such as the World Bank, the IMF and the OECD often see the adoption and implementation of credible economic policies as part of good governance. For example, the World Bank has been promoting legal and judicial reform in developing countries that would increase the role of the market in development since the 1990s. Harris (2007) argues that the World Bank's Country Policy and Institutional Assessment (CPIA) and *Doing Business* indicators as well as the Business Environment and Enterprise Performance Survey (BEEPS)³ indicate that for countries to get funding from the World Bank and to appear interesting to foreign investors they should implement certain market oriented legal and judicial reforms. The OECD's 2005 publication *Modernising Government*, which aims to promote good governance, has a chapter on the use of market-type mechanisms to provide government services. The IMF's approach to governance is to promote good governance through helping countries develop economic policies and institutions and promoting transparency in these institutions. They say, "The IMF has assisted its member countries in creating systems that limit the scope for ad hoc decision making, for rent seeking, and for undesirable preferential treatment of individuals or organizations. To this end, the IMF has encouraged, among other things, liberalization of the exchange, trade, and price systems, and the elimination of direct credit allocation (IMF, 1997)." Thus, a larger role for the market, including more outsourcing of government services, trade and exchange rate liberalization and market allocation of credit are seen as important aspects of good

³ BEEPS is jointly prepared by the World Bank and the European Bank for Reconstruction and Development.

governance. The use of terms such as “sound policies” and “effective allocation” by these organizations actually mean market-friendly policies and market allocation of society’s resources. These organizations use their resources and influence to support this notion of good governance in developing countries. It is not hard to see why actions to promote good economic governance for governments are conflated with the ideas of the Anglo-Saxon model of corporate governance. The ideological underpinnings of these approaches are similar.

There have been disagreements within developed countries over effective corporate governance systems. Cornelius and Kogut (2003) argue that many authors confuse corporate governance practices with corporate governance systems. They explain that a corporate governance system consists of formal and informal institutions, laws, values and rules that shape the different types of legal and organizational structures existing in a country. These structures and the rules governing them influence the distribution of power in terms of how ownership is allocated, the power of management, the way in which information has to be circulated and audited (Cornelius and Kogut, 2003, p.2). It also determines how profits are allocated and distributed. They say that a country’s history, culture and political conditions shape the form of corporate governance. It is hard to know what is best practice in terms of corporate governance because of the complexities in society make it hard to directly match economic outcomes with corporate governance systems. However, the Anglo-Saxon model of corporate governance has become dominant in developed economies and is being thrust onto developing countries. Singh et al (2005) call some of the arguments in favour of the US corporate model an

‘end of history’ type assessment. Within this ‘end of history’ type assessment the US system is deemed to represent the ultimate legal and financial system. Singh et al add that authors such as Hansman and Kraakman (2001) believe that all systems will have to converge to the ‘ultimate’ US system. This thinking seems to be influential and widespread and can be inferred from the papers by the World Bank and IMF cited above.

The debate about corporate governance in the US during the 1980s and 1990s was won by those favouring financial discipline in the form of hostile takeovers and leveraged buyouts. This approach was opposed by those arguing that the hostile takeover and other actions associated with financial discipline forced corporate executives to manage in a way that raised stock prices in the short-term and hindered strategising for long-term growth (see Blair, 2003 for a quick review of the literature). Porter (1992) argued that the short-term approach of executives due to the pressures from finance would lead to declining competitiveness of the US industrial sector. He argued for “patient capital” where large financial institutions take long-term stakes in companies.

The mainstream association of corporate governance with shareholder value is based on a number of false assumptions. Two of these assumptions are – firstly, that maximising shareholder value maximises the wealth created by corporations and secondly, that the share price is the best measure of value created by corporations because financial markets assess the true value of securities. In many developing countries, even where there are undeveloped equities markets, the notion of shareholder value and the ability of markets to correctly value assets and efficiently allocate capital have taken root. To some extent,

the “state versus market” debate has been replaced by an ‘augmented Washington Consensus’ perspective where there is a role for the state. This approach concedes that there can be market failure and that there is a role for the state but confines this role to enhancing social welfare through programmes to address poverty, improve healthcare and education, and to increase access to basic services with the aim of ensuring a politically stable environment.

The role of the state from this perspective remains that of the old Washington Consensus – to ensure a sound macroeconomic environment, a functioning legal system, prudential regulation of the financial sector and protection of property rights. Within this type of thinking it is not only corporations that are valued and assessed in financial markets but also states. The ability of the state to raise finance abroad, the credit ratings assigned by countries and the sentiment of investors (both portfolio and direct) have become important variables by which states assess their performance. Therefore, the approach to good governance in many developing countries is associated with credibility in domestic and international financial markets.

The acceptance of a mainstream approach to governance in South Africa has to be considered within a context where rhetoric about good political and economic governance has become central to African countries’ economic policies for development. African leaders have put good governance at the top of their agenda for African development.⁴ The New Partnership for Africa’s Development (NEPAD) *Framework Document* (NEPAD, 2001) has two concerns in a chapter called “Conditions for dealing

⁴ The South African government has played a leading role in pushing for improved governance in Africa.

sustainable development. Their first concern is covered in a section called “Peace, Security, Democracy and Political Governance” and their second concern is economic and corporate governance. The aim of economic governance in the framework document is “To promote throughout the participating countries a set of concrete and time bound programmes aimed at enhancing the quality of economic and public financial management, as well as corporate governance”. The African Peer Review Mechanism (APRM) is a process where countries of the African Union voluntarily submit to “... periodic reviews of the policies and practices of participating countries to ascertain progress being made towards achieving the mutually agreed goals and compliance in the four focus areas, namely Democracy and Political Governance, Economic Governance and Management, Corporate Governance, and Socio-Economic Development (<http://www.nepad.org/aprm/>).” The website of the APRM says, “The APRM aims to put in motion a strategic re-orientation towards the validation of universal as well as African values and accelerate the process of intra-African cooperation and integration.”

While the aims of NEPAD and the APRM do mention development as their aim, one is concerned that the focus on governance and the desire to implement policies recognized to be universally accepted and credible will steer the policies of African countries towards mainstream definitions of good governance where credibility is viewed as having good credit ratings and being acceptable to people working financial markets in developed countries. Two of the five key objectives that will be pursued through the APRM process to ensure good corporate governance are to “Promote macroeconomic policies that support sustainable development” and to “Accelerate regional integration by participating in the harmonization of monetary, trade and investment policies amongst the

participating states”. It is important to recognize that the approach to economic policy in many African countries has closely followed the Washington Consensus. Therefore, when the APRM website talks about “macroeconomic policies that support sustainable development” they mean macroeconomic policies that keep inflation under control and ensure low government budget deficits (or surpluses). When they talk about harmonization of economic policies they seem to mean that African countries that have not yet introduced inflation targeting and liberalized trade and financial markets should adopt these policies.

3 Governance and South African economic development

In October 2003 President Thabo Mbeki argued "If we were to follow the prescriptions of neo-liberal market ideology, we would abandon the masses of our people to permanent poverty and underdevelopment. This would be a betrayal of everything for which the masses of our people have engaged in struggle for nine decades, under the leadership of the ANC." Notwithstanding this strong rejection of neoliberal ideology, his government has remained strongly committed to its neoliberal economic policies.⁵ In spite of broad rhetorical rejection of neo-liberalism, the African National Congress government has adopted neo-liberal economic policies because of their wish to maintain good credit ratings and to attract foreign investment. As a result, they have made an effort to show people operating in international financial markets that they are sensible and credible. They have implemented governance regimes acceptable to the leaders of developed

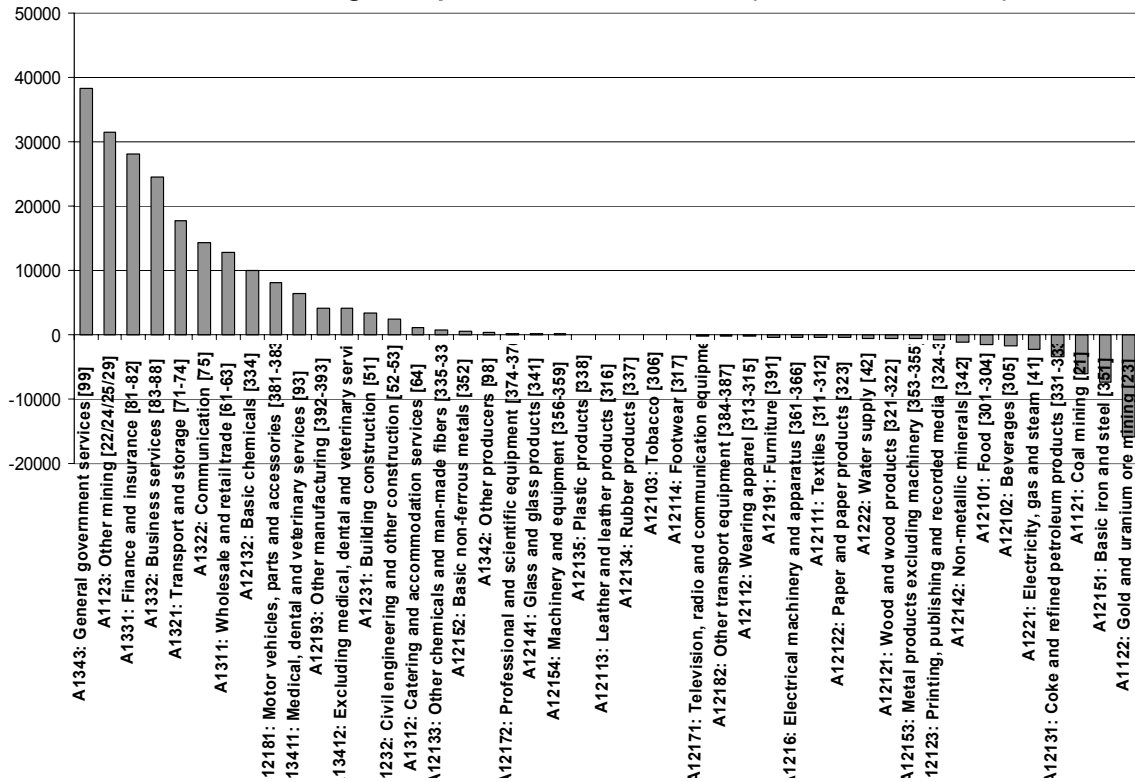
⁵ See for example the 1996 Growth Employment and Redistribution Programme published by the Department of Finance, SA Government in 1996 (www.gov.za).

countries and the Bretton-Woods institutions. They have accepted that the market should play the dominant role in price setting and allocation of finance. They have allowed capital to flow freely across their borders and allowed the exchange rate of the rand to be set in global currency markets. They have allowed financial markets to discipline business. They have allowed some of the largest South African corporations to move their primary listings abroad, have not opposed a huge increase in mergers and acquisition activities in the economy, and they have recently allowed takeovers of listed firms by foreign private equity companies. In short, they have sent strong signals to the world that they will allow domestic and foreign corporations free reign and that they have created a business-friendly environment with market-friendly policies. The conflation of “good” economic governance and maintaining policy credibility and an approach to corporate governance that is centred on shareholder value is clearly evident in the approach to economic policy adopted in South Africa.

3.1 Governance and structural weaknesses

Figure 1: Change in capital stock from 2000-05 for all sectors

All sectors: Change in capital stock from 2000-2005 (in real 2000 Rmillions)



Source: Quantec

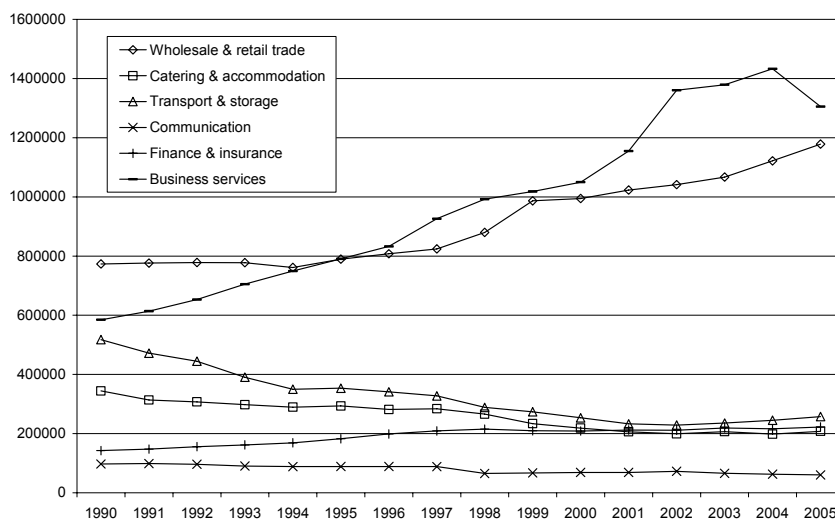
South African policymakers' acceptance of neoliberal policy prescriptions and the mainstream definition of good governance had a double negative impact on economic development of South Africa. The first impact is that they adopted neo-liberal economic policies, which included widespread tariff liberalization, inflation targeting and pursuing low fiscal deficits. The role of the state in the economy has been reduced. Acceptance of this approach to economic policy has meant that inadequate attention has been paid to the structural weaknesses of the economy. Therefore, instead of deepening the industrial base and promoting industrial diversification away from mining and minerals beneficiation and associated industries, economic policies, such as tariff liberalization, procyclical monetary policies, ignoring an overvalued exchange rate and reducing the government's budget deficit have contributed to a decline in the manufacturing sector.

The decline in the manufacturing sector is a serious problem for the economy where the official rate of unemployment is over 25 percent because it entrenches the capital and resource intensive nature of the economy and shows deindustrialization and declining industrial diversity. Sectors that declined are downstream, value added and relatively labour intensive sectors. Figure 1 shows that from 2000 to 2005, 10 manufacturing sectors experienced increases in capital stock but 15 manufacturing sectors experienced declining capital stock. Given the structure of the South African economy, it was the capital intensive, resource-based sectors that grew while the decline was generally in labour intensive, value-added sectors. One important exception where there was large growth in capital stock was the motor vehicles, parts and accessories sector, which was the only manufacturing sector where government has an industrial policy.

There was large growth in services sectors, especially sectors linked to debt creation, residential construction and consumption. Many policymakers argue that the South African economy is in transition towards becoming a services economy. They imply that there should not be concern with the current structure of the economy because the South African economy is modernising away from manufacturing and 'old economy' activities towards services and the 'new economy'. Their great hope is that foreign investors will choose to locate in South Africa and to modernise the economy into a high-tech services economy through transference of skills and technology. They fail to realise that South Africa is a chosen destination for short-term portfolio investment flows and not long-term direct investment flows.

Recent economic growth has been driven by increased household consumption off the back of growing levels of household debt (see figure 2). Growing household consumption has increased demand for imports which has in turn led to a large increase in the trade deficit, which is financed with short-term capital flows.

Figure 2: Employment in services

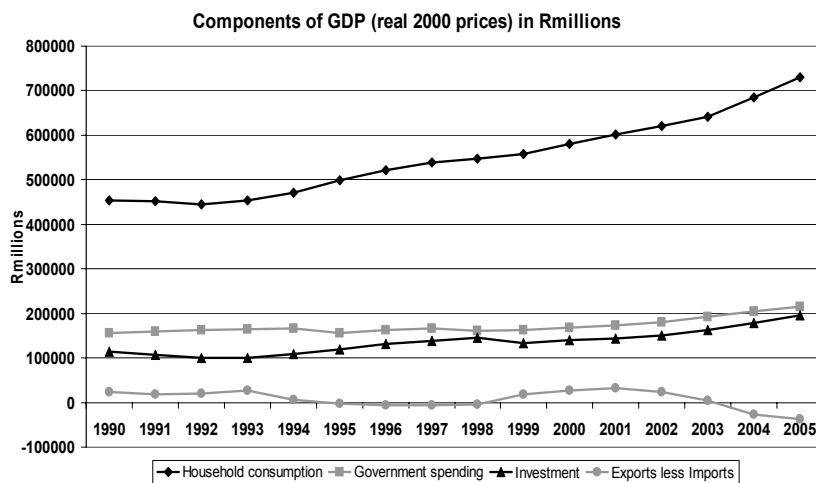


Source: Quantec

Most growth in value added in the services sectors has been in areas stimulated by debt driven consumption as wholesale and retail trade, transport and storage and finance and insurance. Much of this growth, such as growth in finance and insurance, catering and accommodation and communication services has occurred without much employment creation. The two sectors in services that had noticeable increases in employment were the wholesale and retail trade services sector and the business services sector (see figure 2). Growth in business services jobs has been mostly in low skilled jobs in the private security industry and labour broking due to outsourcing of certain services by the mining and manufacturing sector. Contrary to the perspective that the growth in the services

sector will lead to modernising and adding skills to the economy we find that employment is being created in low skill, poorly paying jobs. Further, many of the jobs created in business services are the result of outsourcing where workers that had previously been employed in manufacturing and mining jobs now work in services companies and have less job security, lower wages, fewer benefits and sometimes become part of the informal sector (Webster and Omar, 2003).

Figure 3: Components of GDP

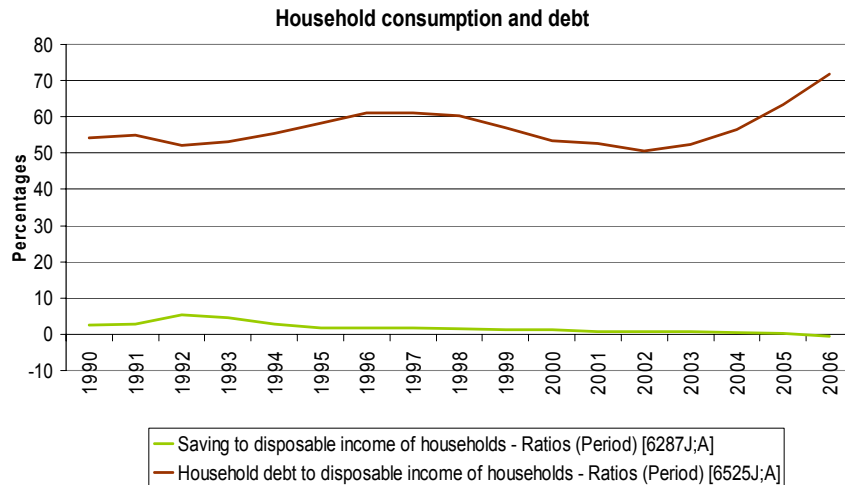


Source: SARB

Policymakers have applauded the economic growth of the past few years. They fail to realize that this economic growth is based on debt-driven consumption which leads to growth in certain services sectors (See figure 3 for the consumption trend and figure 4 for household debt). They also fail to realize that their neoliberal economic policies have entrenched a weak economic structure where there is too much reliance on mining and minerals sectors and an inadequately developed and diversified downstream manufacturing base. The growth in the trade deficit and the services sector reflects this

weak economic structure rather than an economic restructuring towards a modern services economy.

Figure 4: Household debt and savings to disposable income



Source: SARB

3.2 Governance and internationalization of SA corporations

The second negative impact of government's acceptance of the mainstream approach to governance is that it allowed the largely uncontrolled internationalization of large South African corporations that benefited from apartheid without a plan for ensuring that those corporations use part of the wealth they accumulated under apartheid for the economic development of a post-apartheid South Africa. Many large South African corporations have listed abroad causing lost opportunities for domestic economic and industrial development. Further, these offshore listing have been the result of extensive restructuring of these corporations where they transformed into global corporations and often disinvested from the South African economy.

The offshore listing of these companies transformed them into foreign investors in South Africa. The South African government's approach to governance is to avoid interfering in the business of foreign companies for fear of scaring off foreign investors. They have liberalized capital flows and allow relatively free movement of capital by foreigners into and out of the South African economy. As a result, the South African state has reduced its influence over the businesses of large South African corporations that have moved their primary listings abroad while the shareholder value movement in countries such as the US and Britain have become more powerful in influencing these corporations.

Table 1: Summary of control of JSE market capitalization (% of total)

	1985	1990	1991-95	1996-2000	2001-03
Anglo American Corp	53.6	44.2	38.9	22.7	23.3
Sanlam	12.2	13.2	12.7	11.2	6.1
Liberty Life	2	2.6	5.8	9	5.2
Rembrandt/Remgro	3.8	13.6	13.2	10.2	9.2
SA Mutual/Old Mutual	10.6	10.2	11.2	10.4	9.9
Anglovaal2	2.1	2.5	3.1	1.2	0
Black owned groups	-	-	-	7.4	4.2
Top 5 gps collectively	82.3	83.9	85.9	70.6	53.6

Source: Roberts and Machaka (2004)

- Notes: 1. Control is assessed by taking into account the various cross-holdings of shares that exist and may be associated with a relatively small direct shareholding in any given company.
 2. In 1998 the Anglovaal shareholding was split equally between the Hersov and Menell families.

Large South African corporations such as Anglo American, Old Mutual and Liberty Life, which respectively controlled 39%, 11% and 6% of the capitalization of the Johannesburg Securities Exchange (JSE) during 1991-95, convinced government that

they should be allowed to move their primary listings offshore and so become *de facto* foreign investors in South Africa. The arguments in favour of offshore listings were that these companies would be able to raise more money abroad than in South Africa and, therefore, that they would invest more in South Africa. In fact, these companies have taken capital from South Africa but reinvested relatively little back into South Africa (Roberts and Machaka, 2004). Another argument in favour of offshore listing was that these companies would face the discipline of global markets and shareholders, which according to mainstream arguments would improve their governance and increase the value they create for shareholders. These companies were restructured by shareholder pressure and while there may have been benefits for shareholders, the South African economy has lost influence over large, powerful corporations that could have been part of a development project to deepen and diversify the country's industrial base.

The impact of the shareholder value movement on the companies that listed abroad forced them to restructure. Anglo American PLC's annual reports over the past few years (Anglo American PLC, 2000-2006) show their consciousness of the requirements of the shareholder value movement and how they have turned these requirements into a central part of their business strategy. The annual reports say that Anglo American's key objectives are to simplify its structure, enhance returns and shareholder value. They said that their main strategies were expansion through acquisitions, organic growth, and disposal of non-core assets.

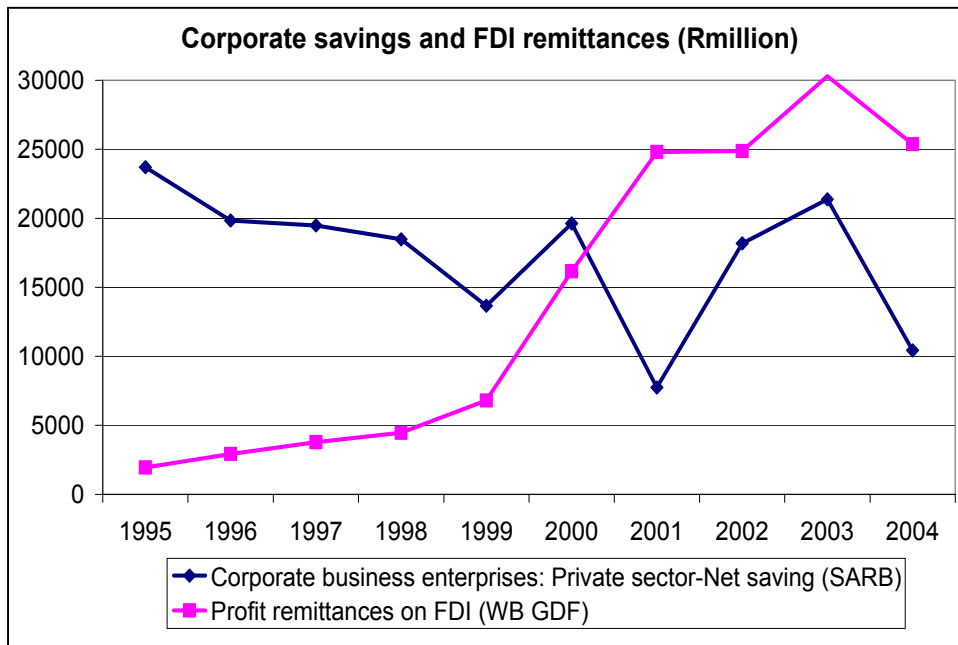
Anglo American and other South African corporations that listed abroad invested in developed country assets to dilute their exposure to developing country risk. These companies were also induced to focus on their core businesses. For example, Anglo American, which was a highly diversified South African conglomerate with over 100 manufacturing subsidiaries in the country; became a global mining corporation with primary listing in the UK. The unbundling of its South African manufacturing companies meant that a company with the huge wealth and resources of Anglo American, a giant of the South African economy, was no longer involved in South African manufacturing and would not be part of a future strategy to deepen and diversify South Africa's industrial base. The share of Anglo's capitalization on the JSE decreased from 39% during 1991-96 to 23% during 2001-3.

Anglo American which was built by exploiting South Africa's mineral wealth and black workers was allowed to disengage from the South African economy and development project but to continue profiting from the country's minerals resources. Anglo American's investment in South African platinum mining has increased through its subsidiary Anglo Platinum, the world's largest primary producer of platinum. Anglo's subsidiaries have retained significant operations in the South African mining industry in coal, gold, base metals and industrial metals. At the same time, furthering its strategy to transform itself into a global mining business focused on core business Anglo has expanded into mining on almost every other continent.

One assumes that the South African government believed these large corporations when they said that the offshore listings would benefit the South African economy. One also assumes that there may have been a fear that if these companies were not allowed to list offshore then South Africa would lose credibility in the eyes of potential foreign investors and could suffer lower credit ratings. The South African government had bought into the mainstream perspective on good governance and mainstream arguments about the importance of foreign direct investment. These beliefs meant that they adopted the incorrect economic policies to promote economic development. These beliefs also meant that their economy lost the ability to influence or develop partnerships with large domestic corporations to promote economic and industrial development.

The adoption of the mainstream approach to governance and the conflation of economic governance with the Anglo-Saxon model of corporate governance have led to many lost opportunities for South Africa's economic development. They failed to impose conditions on companies that moved their primary listings offshore and also on their continued operations in South Africa. They did not force these companies to admit their role and complicity in the apartheid system at the Truth and Reconciliation Commission and allowed them to get away without compensating South African society and the 'victims' of apartheid business practices. Instead, the odious history of South African big business is ignored and they are allowed to portray themselves having played an active role in ending apartheid and as champions of democracy.

Figure 5: Corporate saving and FDI remittances



Source: SARB for corporate business saving and World Bank GDF for profit remittances on FDI

At the same time, the government lowered corporate tax rates, liberalized financial markets and reduced capital controls, and created a more market friendly environment for foreign investors. From 2000 when the offshore listing of some of the largest South African corporations began to take off, one sees that profit remittances on FDI grew enormously while domestic corporate savings was volatile with an overall negative trend.

Further, the South African state has ceded control of its mining and some of its financial corporations to the “impatient capital” in the form of the shareholder value movement.

The orientation of these companies is towards the short-term interests of institutional investors in the US and Europe. It would take a huge change in policy orientation for the South African government to impose regulations and laws that attempt to draw some of the benefits and revenues of mining in towards economic development and

industrialization of South Africa. Further, the economic policies of the South African government have allowed the trade deficit to grow to more than 7% of GDP. A policy shift that signals a move away from support for the Anglo-Saxon model of corporate governance could lead to capital flight by institutional investors and balance of payments problems.

By way of illustration of the increased power of institutional investors and the shareholder value movement over South African resources we look at ownership of two of the three gold mining companies that dominate gold mining in the South African economy.⁶ The shareholding of AngloGold Ashanti LTD (an Anglo subsidiary) as of September 2006 was:

- Anglo American PLC owned 41.8%
- Government of Ghana owned 3.4%.
- The balance of the shares are owned by institutional investors
 - North America 51%,
 - South Africa 24%,
 - UK 14%,
 - Rest of Europe 8% and
 - Middle East/Asia Pacific 3%.

Institutional investors own more than half of AngloGold Ashanti's shares. About three-quarter of these institutional investors are not South African. A similar picture may be seen with the Harmony Gold Mining Company. The geographic spread of share ownership for Harmony Gold Mining Company LTD in 2006 was:

⁶ 3 companies produced 86% of the gold mined in South Africa.

- South Africa's owned 42.42%
 - (BEE: African Rainbow Minerals 16.16%).
- North America owned 32.90%,
- Europe:
 - UK 11.64%,
 - Switzerland 4.65%,
 - France 2.25%,
 - Belgium 1.99%,
 - Luxemborg 1.04%, and
 - Germany 0.73%,
 - rest of Europe 1.32%,
- Asia Pacific/Middle East 1.06%,

Across the globe, institutional investors owned 73.06% of the shares of Harmony. US institutional and retail ownership gave US shareholders a 32.9% stake in Harmony.

On the whole, the internationalization of South African companies has been widespread and the influence of the shareholder value movement is evident in the restructuring of these corporations. Many of the large South African corporations play down their South African roots and the important contribution of South African income and profits to their global businesses. Part of the reason for playing down their South African interests is to appear less vulnerable to emerging market risk and South Africa's exchange rate volatility. They also want to convince institutional shareholders that they have become global companies focused on a core business.

Conclusion

The dominant perspectives on economic and corporate governance are hugely influenced by the shift towards the hegemony of neoliberal ideology. The importance of the role of the market and the belief that financial markets efficiently allocate capital is central to the beliefs shaping the dominant governance systems. However, the conflation of corporate governance and economic governance means that the disciplining role attributed to financial markets in the Anglo-Saxon model of corporate governance is seen as an important component of economic governance. Without any necessary theoretical justification the conflation of corporate and economic governance has created a mainstream perception that governments should be careful to upset 'the markets'. The weak assumptions and the inefficiencies associated with adopting the Anglo-Saxon model of corporate governance are not examined by governments willing to believe that they should be careful of the views of 'the markets'.

The post-apartheid South African government, while supposedly critical of 'market neoliberalism' has been one government that has accepted that they have to abide by the views of the market. After a long battle for democracy in South Africa they have chosen to follow the antidemocratic (and anti-intellectual) path where the private sector and foreign investors decide whether policies are credible. The citizens of South Africa are once again disenfranchised and have lost their ability to decide on their economic policy.

The impact of the acceptance of neoliberal economic policies to maintain credibility and to project an image of a government with good governance practices has had a negative impact on the South African economy. The structural weaknesses of the economy have been entrenched. At the same time, economic growth is unsustainable and based on debt-driven consumption that increased the trade deficit and dependence on short-term capital inflows. The government's approach to governance has allowed the unconditional internationalization of some of the largest South African corporations that built up their wealth through building the apartheid economy and exploiting South Africa's people and natural resources. The result of this approach is lost opportunities for economic development and lost wealth and resources for the country.

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