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# The Relevance of Financialization for African Economies: Lessons from South Africa

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**Abstract:** While research has highlighted that financialization critically affects African economies and societies through its effect upon commodity prices, international value chain participation, and land, there are few accounts of the systemic and macroeconomic importance of financialization for African societies; the big exception being work on South Africa. The South African case, despite its historical peculiarities, has a broader relevance for African economies since the country combines many characteristics typical especially for the sub-Saharan region – including resource richness, a persistent trade deficit, and a volatile exchange rate – while its financialization trajectory is ahead of other African economies because financial liberalization was pioneered as early as the late 1970s. This article summarizes the effects of financialization on South Africa, holding a warning for other African countries which have increasingly engaged in financial liberalization since the 1990s. Furthermore, we detail how financialization has facilitated and furthered corruption in South Africa, in turn undermining democratic processes. Thus, we contribute to research on financialization on democracy, a field hardly considered in the context of developing countries.

**Keywords:** financialization; neoliberalism; South Africa; State Capture.

**JEL classification:** G00, H11, O1, P10.

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## 1. Introduction

The financialization research agenda has flourished over the past three decades, emerging as an analytical concept in the context of rich societies, especially the USA. More recently, there has been an acknowledgment that the phenomenon results in profound challenges for developing countries (Bortz and Kaltenbrunner 2017, Kaltenbrunner and Painceira 2017, Lavinas 2018, Storm 2018). While research has highlighted that financialization critically affects African economies and societies through its effect upon commodity prices, international value chain participation, and land, there are few accounts of the systemic and macroeconomic importance of financialization for African societies; the big exception being work on South Africa. The South African case, despite its historical peculiarities, has a broader relevance for African economies since the country combines many characteristics typical especially for the sub-Saharan region – including resource richness, a persistent trade deficit, and a volatile exchange rate – while its financialization trajectory is ahead of other African economies because financial liberalization was pioneered as early as the late 1970s. This article summarizes the effects of financialization on South Africa, holding a warning for other African countries which have increasingly engaged in financial liberalization since the 1990s. Furthermore, we detail how financialization has facilitated and furthered corruption in South Africa, in turn undermining democratic processes. Thus, we contribute to research on financialization on democracy, a field hardly considered in the context of developing countries.

While there is some historical continuity to the recently revealed corruption in South Africa, financialization has facilitated and fueled corrupt processes, undermining democratic policymaking in three ways. First, macroeconomic policies supporting financialization tend to marginalize large parts of society (such as labour and the poor), while concentrating the policy decisions among few institutions. Second, reforms that fostered financialization have not only failed to produce growth but brought about crisis, stagnation and deindustrialization. Such conditions encourage the formation of ‘shadow states’ and corruption in the face of slow accumulation. Third, financial liberalization and the emergence of an international network of large banks and mega-law firms have facilitated both legal and illicit cross-border capital flows, exacerbating the decline in domestic accumulation. Hence, public corruption cannot be understood separately from the role of private actors, including corporations and banks, and a global financial order which enhances secrecy and a lack of accountability.

We develop our argument through the following sections. Firstly, we ground our understanding of financialization theoretically, examining its impact on Africa, and drawing causal connections with contemporary forms of corruption. Secondly, we illustrate how financialization has unfolded in South Africa. Thirdly, we examine the interconnections between corruption and the dominant accumulation regime in South Africa since 1994, illustrating how financialization undermines democratic processes. Finally, we draw some conclusions.

## 2. Theorizing financialization, democracy, and development

In this section we set out our theoretical perspective on financialization which is mainly informed by Marxist political economy. We summarise the emergent financialization research addressing the phenomenon's impact on the African continent. Focusing on value chains, commodity and land/nature, this empirical literature aptly demonstrates the detrimental effect of financialization on various microeconomic aspects of African economies. Bringing in a systemic perspective through the concept of the 'four low economy'[1], we complement existing debates around financialization in Africa drawing on research about financialization for South Africa. Crucially, it is from this systemic macroeconomic perspective that we can understand the link between financialization and corruption. Financialization does not only undermine the ability of societies to increase economic wellbeing for the masses, it also undermines democracy and democratic processes.

### *2.1 Financialization in theory*

Financialization emerged as an analytical concept during the 1990s and was, initially, mostly applied to research on Anglo-Saxon economies and societies, especially the USA (Arrighi 1994, Phillips 1994, Krippner 2005). Epstein's definition of financialization as 'the increasing role of financial motives, markets, actors and institutions in the operation of the domestic and international economies' remains most widely used (Epstein 2005: 3). This extremely broad definition serves as an invitation to tag the term to any instance involving the presence of money, monetary

[1] A fifth low, of social provisioning, could be added, on which see Fine and van Niekerk (2019).

forms or even simply an ethos of monetary calculation, and has been criticized for its vagueness (Christophers 2015). However, to understand how contemporary changes in finance impact socio-economic development and democratic processes an explicit political economy approach is necessary.[2] To employ an approach that analyses political dynamics, production and accumulation we propose to adopt a Marxist political economy perspective on financialization. In this way, we emphasize evolving class formations, interests and strategies over time, and how these are important for understanding change – critically in South Africa's case being the emergence of a new class of black capital thoroughly integrated with neoliberalism, globalization and financialization (Ashman and Fine 2013, Fine 2019, Karwowski, Fine and Ashman 2018). In this theoretical context, financialization is understood as influential over the restructuring of the sphere of production with a qualitative and quantitative expansion of the role played by interest-bearing capital in overall accumulation. Drawing on Marx's writing in Volume III of Capital, a distinction between capital in production and capital in exchange is important. The first creates (surplus) value, while the latter circulates it. Within exchange itself, Marx draws the logical distinction between capital that merely circulates commodities, and money capital, itself a commodity, which is bought and sold for interest. This money capital, which he calls interest bearing capital (IBC), has the use value of being able to create and/or appropriate surplus value. IBC for the lender creates a claim on surplus value that can be independently traded. Thus, IBC is at the core of financialization since financialization results in the extensive and the intensive development of financial interests and trading of financial assets.

Financialization underpins neoliberalism and the neoliberal project, which aims at actively promoting the interests and internationalization of production and finance. Despite preaching laissez-faire, neoliberalism is not about the withdrawal of state intervention. It has always been associated with a strong and authoritarian state as opposed to one that upholds personal liberties (see Quinn 2018 for a detailed discussion of the history of neoliberalism). Particularly in Anglo-Saxon economies

[2] A major strength of much of the financialization research is its interdisciplinarity or at least its ability to speak and be incorporated across different social disciplines. This is particularly well demonstrated in Mader, Mertens and van der Zwan (2020). Political economy analysis can be utilised across many disciplines in the social sciences.

state institutions and policies have often supported finance capital even at the expense of industrial capital (Davis and Walsh 2015).

Economic policy making, globally – although domestic materialisations vary – has come to reflect these neoliberal imperatives. The dominance of finance creates a tendency to short-termism and speculation over long-term productive investment and job creation, with growth often being led by speculative bubbles. As such, neoliberalism and the connected financialization of the world economy have failed to sustain growth, and this failure is now increasingly accompanied by either political polarization, crises for democracy, and/or shifts to more authoritarian forms of rule in a number of states and strengthening of the coercive apparatus of the state to prop up turbulent and unequal societies which we discuss further below.

### *2.2 Financialization and Africa*

But financialization, of course, is not a single process which occurs across all countries, regions or macroeconomic sectors simultaneously. Ward et al. argue that a key problem for the international study of financialization is 'how to conceptualize the highly heterogenous manner in which different political-economic institutional configurations have incorporated common pressures associated with the rise of global finance' (Ward, van Loon and Wijburg 2018: 123).

In the context of the African continent, much financialization research has focused on three important channels through which economies tend to be affected: the financialization of commodity prices; the financialization of international value chains (Clapp and Iskason 2018); and the financialization of land or, more broadly, nature including climate (Keucheyan 2018). We look briefly at each in turn.

Firstly, since the early 2000s, commodity prices including coffee, cotton, wheat and oil have been more closely correlated with the movement of global financial markets (Ederer, Heumesser and Staritz 2013). This means that swings in global equity markets are transmitted to commodity prices and price volatility in these markets has substantially increased. This is particularly challenging for poor commodity exporters since a large share of domestic foreign exchange earnings and tax revenue tend to be generated by a few, sometimes a single, commodity.

Secondly, African economies are most intensely integrated into value chains for food and minerals, benefitting more or less from the commodity boom and in how it fed into broader outcomes in part because of the influence played by financialization. The proliferation of new financial products such as food derivatives as well as new actors involved, including money managers who trade these products, exacerbates commodity price swings (Cheng and Xiong 2014). Local producers are typically smaller and towards the 'lower end' of the value chain, and tend to miss out on higher prices and opportunities for risk hedging or financial accumulation (Newman 2009, Staritz et al. 2018). Even large companies are under pressure. South African platinum miners have sought to meet international shareholders' expectations for dividends, eating into retained earnings and translating into a wage squeeze which helped provoke the conflict between capital and labour of which the Marikana massacre was a part (Ashman and Fine 2013, Bowman 2018). Clapp (2014, 2018) argues that declining transparency along commodity value chains mean that consumers become more distant from producers which makes it difficult for civil society to contest rising food prices. Such distances in global capitalism are far from new, but the short-term, speculative imperatives of financialization render them particularly dysfunctional and volatile, whilst tending to reward those engaged in financing rather than developing.

Thirdly, land and nature are increasingly the basis for financial assets which can then be traded in financial markets (Bracking 2012). While real estate and infrastructure projects are the most common targets for these financial products, land has been targeted as well. Forests in Nigeria's Cross River, for example, have been used to back tradable certificates that claim to offset the carbon footprint for companies headquartered in rich countries under the United Nations' Reducing Emissions from Deforestation and Forest Degradation plus carbon stock enhancement and sustainable forest management (REDD+) initiative (Jacobs 2013, Asiyanbi 2018).

Thus, research on financialization in the context of Africa tends to focus on sectoral accounts and the microeconomic (and especially firm-level) dimensions. There is far less debate about the more systemic and macroeconomic implications of financialization for African economies.[3] However, it is crucial to understand corresponding structural implications because they can result in a 'four low economy'. Furthermore, they provide the context for micro studies, not least as financialized bursts of investment – in infrastructure, land/nature, or urban

[3] An exception is Löscher's account (2019) of financialization in Ethiopia.

development – can be the opposite side of the coin of the four lows, exacerbating unevenness and instability in development further.

A key dimension of financialization is subdued investment expenditure by corporations, our first ‘low’ (Davis 2017). This has been documented for Argentina, Mexico and Turkey (Demir 2007, 2009). In these countries, large listed corporations have shifted their expenditure from long-term investment to more speculative short-term and financial investments to generate shareholder value. There is evidence of similar processes underway in Brazil, India and South Africa (Hecht 2014, Jibril, Kaltenbrunner and Kesidou 2018). This is linked to financial liberalization also as local corporations may be under pressure to generate quick profits as they compete with large foreign companies and/or are more exposed to rising financial risk and price volatility as a consequence of integration into global value chains (Staritz et al. 2018, Bowman 2018, Rossie Júnior 2011). In the specific context of South Africa, corporate financialization has been often analyzed through the prism of the Mineral-Energy-Complex (MEC). Whilst controversial when initially put forward, it has now gained much popular and scholarly purchase to characterise the South African economy as the MEC. According to this approach, the economy’s performance has been dominated by a core set of sectors and a corresponding set of both private and public corporations. How they have accumulated and restructured has been a decisive, if shifting, influence, since the extraction of diamonds and gold began in the last quarter of the nineteenth century. As a result, the fate of the post-apartheid economy is intimately bound to its corresponding (financialised) restructuring of the MEC.

A shift towards more financial and/or short-term investment negatively impacts on employment creation, introducing the second ‘low’. Low employment can result in low wages, our third ‘low’, and deteriorating working conditions as cutting short-term costs takes precedence over longer-term gains (Assa 2012). Lack of priority to investment and ‘upskilling’ also results in low productivity, our fourth ‘low’. Financialization, therefore, undermines the ability of societies to ensure economic wellbeing for the majority of their population.

### *2.3 Financialization and democracy*

Even more fundamentally, financialization also undermines democratic processes and democracy (Karwowski 2019). Much literature on finance and democracy has stressed the political lobbying power of the financial sector, particularly in the US and Britain, before, during, and after the Global Financial Crisis (Pagliari and Young 2020). The City of London, for example, has blocked attempts to limit its power, leaving some to argue that financial interests are best understood as a new, or newly re-emerged, elite (Froud, Moran, Nilsson and Williams 2011, Davis and Williams 2017). Nölke argues that financialization has proven a challenge to democracy due to a number of factors which arise from the importance of financial markets and their inherent instability: short-term decision making (such as emergency rescue packages for banks) reduce the policy space, shift decision making from elected to non-elected actors, and leave many voters dissatisfied. He argues that the interconnected factors of the size, the network character, and the complexity of the financial sector, all have a negative impact upon democracy (Nölke 2020). Others have stressed how financialization has created the conditions for its own reproduction and expansion by shaping its own regulation, drawing the state, public authorities, and non-financial corporations into its logic, and altering political subjectivity by making households and individuals dependent upon finance for reproduction (Pagliari and Young 2020).

The structural dependence of the state on finance for controlling access to credit and for purchasing government debt allows finance to inhibit policy makers even without lobbying (Bell and Hindmoor 2014). But states have been key actors promoting finance (not simply unwilling regulators) which goes beyond the lobbying power of finance (Krippner 2011).  States have facilitated the expansion of finance, and public authorities have become financial actors in a variety of ways, for example through managing sovereign debt or the creation of state asset management bodies, dubbed the 'financialization of the state', and the state's reliance upon financial practices and instruments reproduces financialization and creates new dependencies on financial markets (Wang 2015). But its impact goes further. The liberalization of international flows combined with weak regulation has seen the proliferation of tax havens and illicit flows seeking to benefit from cultures of secrecy and non-accountability. These are not new practices in the global economy but under financialization their expansion has become especially important for Africa in general and for South Africa in particular.

South Africa’s ‘State Capture’, referring to the patronage network that Zuma and the Indian business family, the Guptas, were able to establish, needs to be situated in a bigger socio-economic and political picture: the economic and political contradictions of neoliberalism and financialization. Neoliberalism can be seen in terms of three paradoxes: the economic paradox of neoliberalism being the inability to capitalize on the favourable conditions for accumulation; the political paradox of neoliberalism being the crises of a number of liberal democracies as legitimacy is eroded and a backlash emerges with ‘spectacular leaders’ pushing politics further to the right; and the paradox of ‘authoritarian neoliberalism’ being that these ‘spectacular leaders’ further pursue neoliberal and financialization with adverse consequences for their supporters (Boffo, Saad-Filho and Fine 2018). Of direct relevance to South Africa is the way that ‘the economic paradox of neoliberalism’ is reflected in the formation of ‘shadow states’ and corruption in the face of slow accumulation, and also new forms of revolving doors between public and private sectors (Boffo et al. 2018). Our argument then is that financialization has an important overall effect on accumulation and the processes of class formation, conditioning the strategies of established firms and rendering new entrants highly dependent upon access to the state. Before looking further at ‘State Capture’, we discuss the financialization of the South African economy, exemplifying the first paradox of neoliberalism. Despite the country’s large resource wealth and relatively advanced industrialization at the beginning of the post-apartheid period, the advent of financialization brought the ‘four low economy’ into play at the expense of more general economic prosperity.

## 3. The financialization of the South African economy

South Africa’s financialization trajectory, whilst unanticipated in the 1990s, builds on the prominence of finance in the country’s historical development and the neoliberal reforms introduced under the apartheid government since the late 1970s and subsequently continued by the ANC government post 1994. As South Africa entered the post-apartheid period, it was extraordinarily well-placed to engage in financialization within the domestic economy and globally. The results have been the parasitic incorporation of a black elite, and the disproportionate growth in financial services that have far exceeded the threshold for continuing to contribute to growth and development.[4] These trends, alongside a monetary policy that redistributes towards private-sector financial investors (Ansari 2017), exacerbate domestic inequality, restrict long-term productive investment and impede job creation.

South Africa has long had strong international contacts with finance, not least because of European (particularly English) financing of the huge investments required to fund diamond and gold mining (Kubicek 1979). A few large mining companies emerged in the late 19th century, concentrating the majority of mining claims in their hands, while diversifying across the economy and especially into financial services after the Second World War. The traditional dominance of the economy by English capital was challenged as the state promoted Afrikaner capital,[5] leading ultimately to closer collaboration, and integration between English and Afrikaner large-scale capital and the state-led expansion of the MEC core sectors in the 1970s (Fine and Rustomjee 1996).

The period of sanctions against apartheid led to the containment of capital within the domestic economy, giving rise to the increasing development of financial markets and concentration of ownership of productive capital and finance within the conglomerate mining-finance houses. Famously, Anglo American owned 60% of all companies listed on the Johannesburg Stock Exchange (JSE) by the end of the 1980s (Roussow, van der Watt and Malan 2002). This is the origin of monopoly power among incumbent (meaning white) capital in South Africa. This history also reveals the close links between domestic capital and the apartheid government. At least some of these ties remained in place post-apartheid as the ANC leadership was happy to reappoint the former Finance Minister, Derek Keys, and Governor of the SARB, Chris Stals, as well as de Klerk as Vice-President and Pik Botha as Minister of Minerals and Energy (Padayachee and Fine 2018).

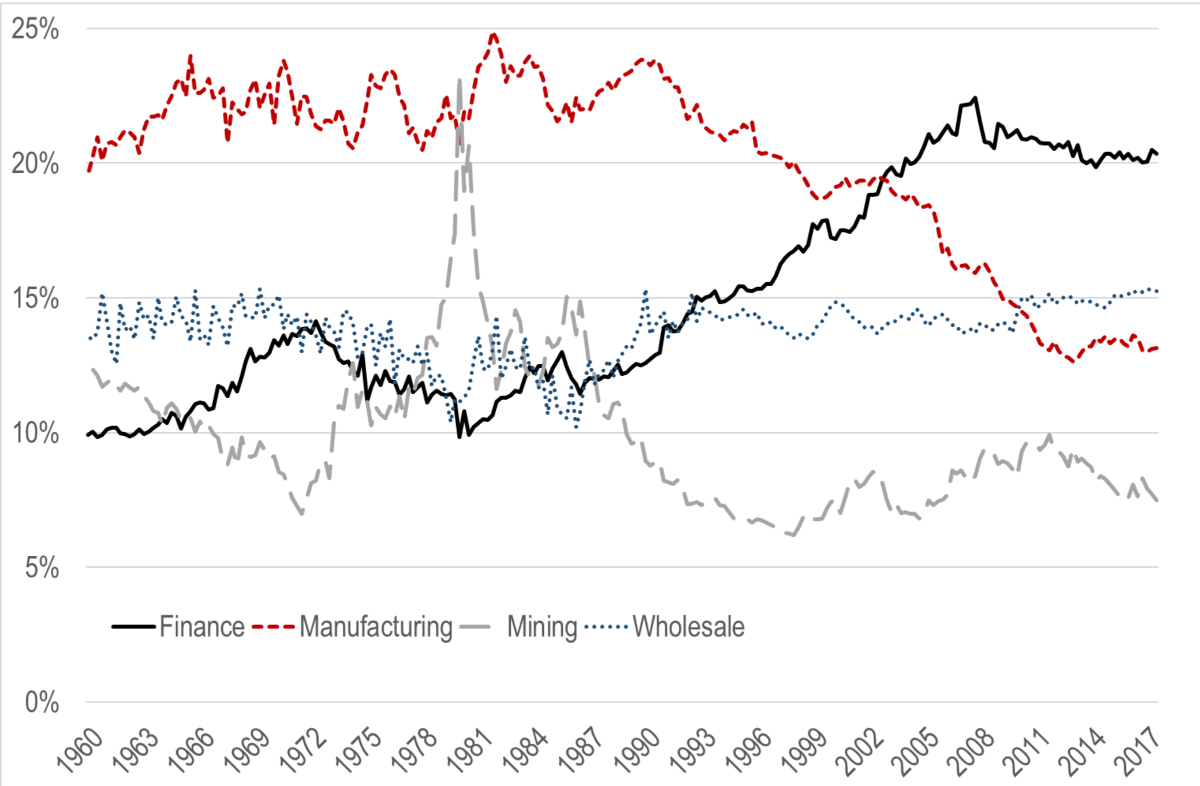
Neoliberal reforms started as early as the late 1970s. Since the aim of neoliberalism is to create more space for the market and its forces, more through than at the expense of state capacity, it is an important vehicle for financialization. In 1978, the

[4] In South Africa class formation within the black majority population is currently in flux. Van Holdt (2013), for instance, distinguishes between a black rentier class, petty state bourgeoisie, and capitalists. We refer to the former when discussing the formation of a (politically connected) black elite.

[5] So much so that Freund (2018) has seen these developments as the closest that South Africa comes to having been a (past, apartheid) developmental state. For contrast with the present pretensions of developmental state status, see Ashman, Fine and Newman (2013).

De Kock Commission, led by, and named after, the Senior Deputy Governor of the SARB, was instrumental in introducing neoliberal reforms into financial markets and the monetary system. The Commission released three reports (in 1979, 1982 and 1985) putting forward recommendations to roll back capital controls and deregulate financial markets (Ashman and Fine 2013). As a consequence, the financial sector has grown markedly since the mid-1980s. While finance accounted for a mere 10% of total GDP in the early 1960s, the sector exceeds one fifth of South Africa's annual output today (graph 1).[6] Market capitalisation of companies listed on the Johannesburg Stock Exchange (JSE) also illustrates this specular growth of financial value in the country. While JSE-listed companies were worth just over half of South African GDP in the late 1970s, their value shot up to 320% by 2016 (World Bank 2018a).

**Graph 1. GDP shares by sector, 1960-2017**




Source: South African Reserve Bank 2018a.

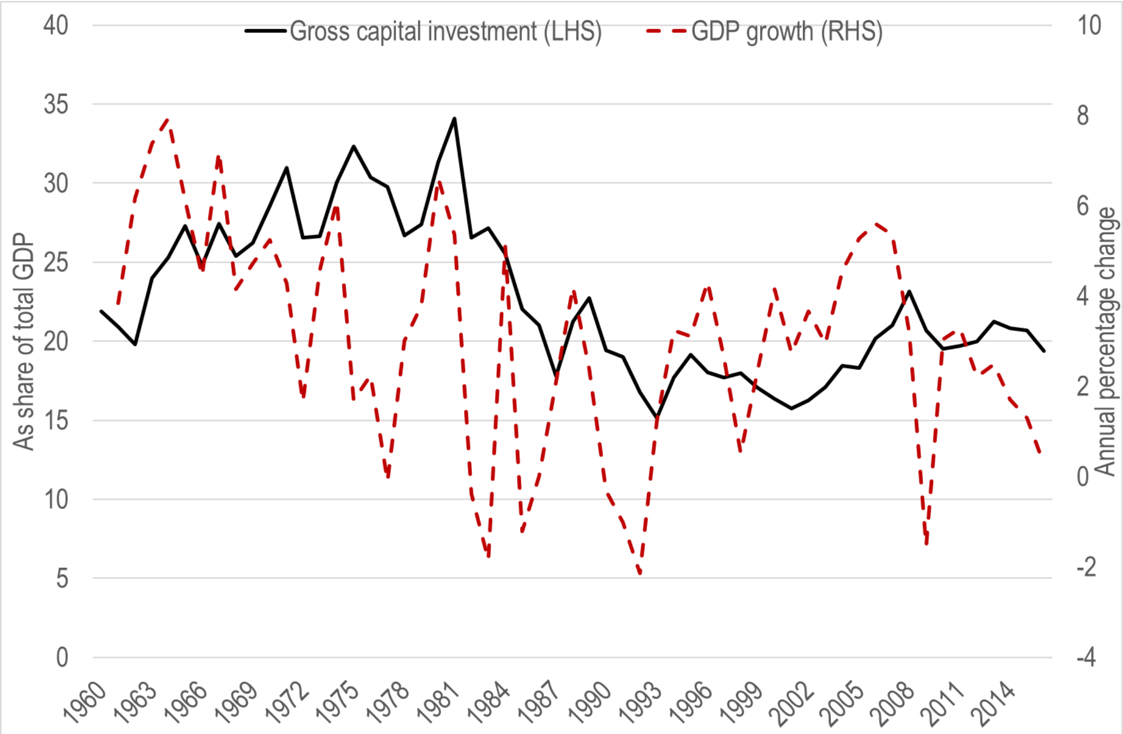
[6] Note that financial services have now been incorporated as part of GDP whereas previously they were viewed as transfers, appropriating rather than distributing. This suggests that far from adding 20% to South Africa's GDP, financial services are rewarded both with 25% of what is produced and considered to have contributed as much to GDP on top of that privilege! See Assa (2017) and Christophers (2013).

After 1994 and free of the shackles of sanctions against the apartheid regime, South African conglomerates, that owned and controlled the MEC, internationalized and financialized their operations. This has been accompanied by an unbundling of these conglomerates, meaning a selling-off of non-core business operations, whilst concentration of domestic production within sectors of the economy has remained high, leaving little room for new entrants in a low-growth environment. The processes of such global and domestic restructuring have enabled a new elite of enriched, politically-connected, black capitalists to emerge.

The form taken by the restructuring of the MEC has involved low levels of overall investment (well below the 25% of GDP seen as necessary threshold for dynamic growth, graph 2), concentrated in and around its highly capital-intensive core sectors and especially mining. Since the end of apartheid, access to international capital markets for large South African conglomerates and their subsequent internationalization were advocated as ways to achieve higher investment, boosting growth and employment (McGregor and Zalk 2017). Instead, corporations have opted to internationalize (Chabane, Goldstein and Roberts 2016), curtailing domestic operations, to generate returns for shareholders (Zalk 2016), and to shore up liquid assets (Karwowski 2018), saving their profits rather than investing. The rise of finance in South Africa has coincided with a strong decline of the manufacturing sector whose contribution to GDP has halved from its 25% peak in the early 1980s (graph 1).[7]

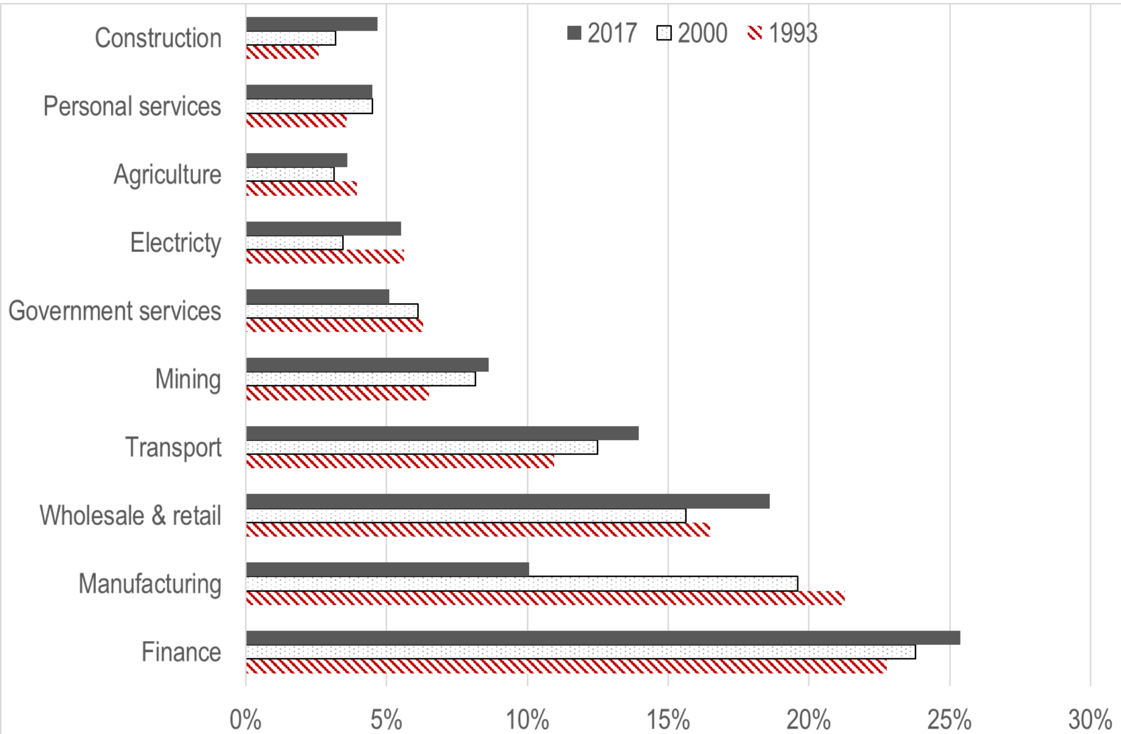
[7] For the de-industrialization of Gauteng, the most important province for manufacturing, see Ashman and Newman 2018.

**Graph 2. Gross capital formation and GDP growth, 1960-2016**




Source: World Bank 2018b.

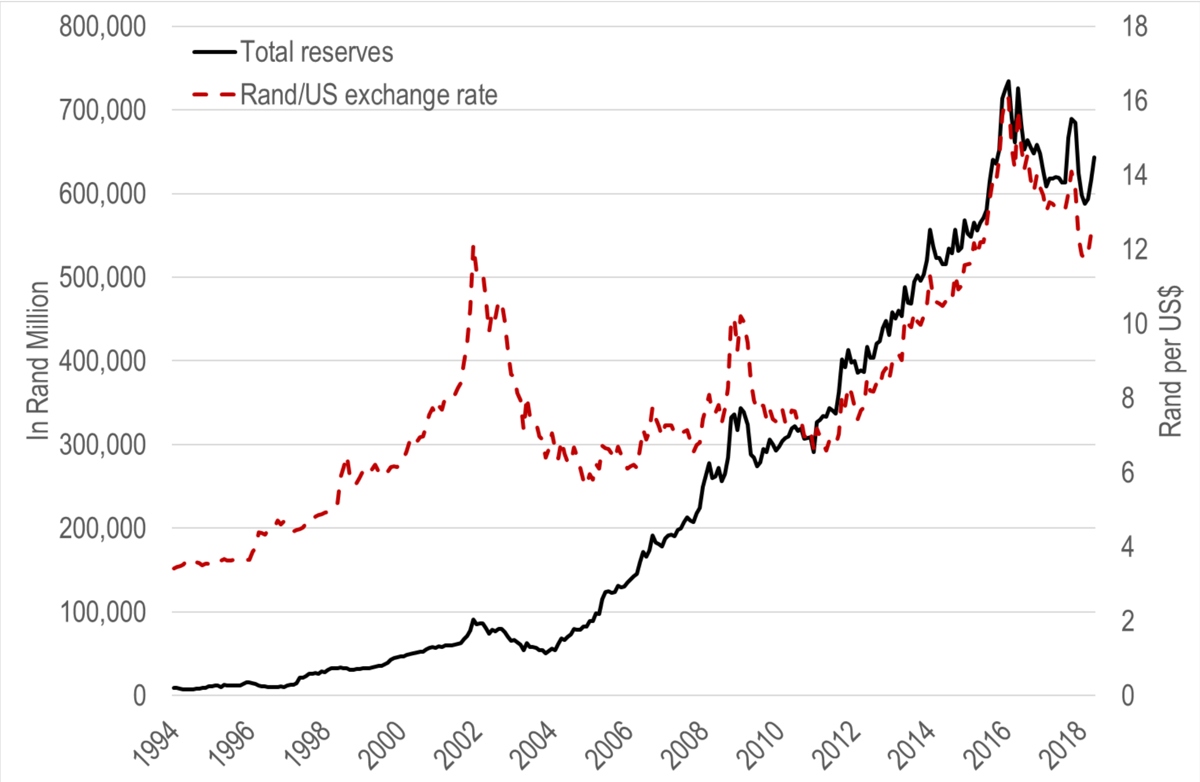
**Graph 3. Gross operating surplus by sector, 1993-2017**




Source: Statistics South Africa 2018.

Whilst investment has been low, finance expanded its gross operating surplus to capture one quarter of the country's profit in 2017 (graph 3). The sector employed 550,000 people, only 3.5% of South African jobs (ILO 2018). Yet the cost of integration into the global economy and especially financial liberalization, which allowed South African conglomerates to internationalize, is a volatile exchange rate and the associated economic and financial vulnerabilities. Exporting companies are adversely affected by exchange rate uncertainty with medium-size and smaller companies struggling to manage this additional 'risk' (Staritz et al. 2018). Government organizations are also affected. South Africa responded by increasing its reserves, held to some extent in gold but mainly in foreign currency (graph 4).

**Graph 4. Reserve accumulation and exchange rate volatility**




Source: South African Reserve Bank 2018b.

Total reserves were around 650 billion Rand in 2018, proportional to 13% of GDP, a sharp increase since 1994 when reserves were equivalent to less than 2% of GDP. This insurance strategy is costly, as pointed out by SARB governors themselves, since reserves are financed through the issuance of SARB debentures that have a markedly higher interest rate than rich-country government bonds held as reserves (Mminele 2013). In 2017, the money market rate of SARB debentures was close to

7% while US T-bill rates stood at around 2% varying with maturity. Simultaneously, reserve accumulation and sterilisation policies to 'mop' up domestic liquidity as a consequence of foreign financial inflows create lucrative investments for financial investors, alternatives to fixed capital investment.

These trends have contributed to South Africa's worsening income distribution. The country is now the most unequal society in the world (World Bank 2018b). On the eve of the first democratic election, the richest 10% of the country earned more than twice as much (2.2 times as much) as the poorest 40%. By 2014, the richest 10% had increased their income share to almost three times (2.7) as much as the bottom 40%.

Thus, the 'four low economy' summarises the economic paradox in which South Africa finds itself. The country is afflicted with low growth, dampened investment and weak employment creation as its large conglomerates look abroad. The only dynamically expanding and highly profitable sector, finance, does not create much employment, while exacerbating domestic inequality. Nevertheless, economic policy champions support for the big four domestic banks,[8] while turning a blind eye to illicit shifts of corporations' profits abroad. The next section will deal with the political paradox, that the very policies embraced by state institutions have undermined democratic processes in the country.

## 4. The financial system, corruption, and 'State Capture'

The South African case, while possessing its own peculiarities, reveals that financialization has a detrimental effect on democracy and development. This section discusses first the neoliberal macroeconomic reforms that facilitated the quick spread of financialization through economy and society. The economic results were low growth and the preponderance of large, established capital. Politically, power was concentrated among a small group of public institutions, marginalizing representatives of labour and the poor. Secondly, corruption became an attractive way for the emerging black elite and other groups close to the ANC leadership to enrich themselves, given the low-growth environment and concentrated political power. The ways in which democratic processes were undermined and corrupt deals organized took a leaf out of the old (apartheid) playbook. However, financialization

[8] Finance and banking in South Africa were described as examples of best practice in the first BRICS report in 2012 when South Africa joined the group.

fueled and internationalized corruption, bringing in new players (such as the Indian Gupta family) and facilitating (illicit) financial outflows and capital flight.

The timing of the transition to black majority rule meant that political democracy arrived in South Africa under conditions of established neoliberalism elsewhere – with catch up to be achieved. As the ANC stood for election, it had made it clear to business and the old white elite that private property would be respected, and that colonial and apartheid era capital would have considerable freedom of movement (Terreblanche 2012). Economic policy implemented under both Mandela and later Mbeki were characterized by an adoption of so-called Washington Consensus policies, meaning a buy-in into the World Bank's and IMF's preaching of fiscal restraint and inflation containment (Isaacs 2014, Padayachee and van Niekerk 2019). As early as 1996, the Growth, Employment and Redistribution (GEAR) macroeconomic strategy represented this buy-in into orthodox economic thinking (Ansari 2017). GEAR, bearing the clear signature of the National Treasury (NT), stressed the need for fiscal consolidation, financial and trade liberalization, wage moderation and labour market deregulation as well as monetary policy tackling inflation (Department of Finance 1996).[9] The former minister, Ronnie Kasrils, has referred to this policy mix as a Faustian pact 'by which the ANC and South Africa is understood to have been caught in a trap, pushed into selling its soul to the forces of global capitalism' (Padayachee and Fine 2018). Notably, GEAR was implemented without support from the National Economic Development and Labour Council (NEDLAC). Established in the early 1990s, NEDLAC was meant to be the country's prime social dialogue institution, bringing unions and community organisations alongside employers to the table when major macroeconomic policies were to be decided by the government. Bypassing the institution marginalised the interests of labour and the poor at the highest level, signalling that the government was committed to neoliberal reforms even if it was at the expanse of democratic and social dialogue (Webster and Joynt 2014).

As shown in the previous section, the policy package has reproduced some of the extremes of apartheid era political economy as trade liberalization hit labour-

[9] The policy stance of the South African NT is deeply rooted in neoclassical orthodox thinking. Given its ability to attract and retain skilled employees it built up a dominant position in economic policy making especially between 1995 and 2009. NT also has very close links to the South African Reserve Bank (SARB) and the financial sector with personnel moving between NT and SARB but also from NT into finance. See Segatti and Pons-Vignon (2013).

intensive manufacturing, whilst the growth of the financial sector has created few jobs and failed miserably to allocate capital at high enough levels nor towards labour-intensive sectors. In the context of weak accumulation in the post-apartheid period, corruption has proven an attractive option for sections of capital and rival sections of the ANC, with access to national and provincial state structures, the means to garner support, and make and offer economic gains through policy in general and through access to contracts and employment in particular.[10]

Financialization is critical to understanding post-apartheid socio-economic development in South Africa and also the phenomena now widely referred to as 'State Capture', the patronage network that Zuma and the Indian business family, the Guptas, were able to establish (The Public Protector of South Africa 2016, Bhorat et al. 2017). The economic and political settlement cemented in 1994 has proven unsatisfactory. The Marikana massacre of 2012 (in which the current president Cyril Ramaphosa was implicated as a Lonmin director) was a key turning point for many and a further manifestation of the breakdown of social dialogue at the highest level, for instance, within NEDLAC (Webster and Joynt 2014). 'Service delivery protests' have long reflected disaffection with the provision of basic amenities. More recently, students have challenged the ongoing white dominance of universities and called for decolonization. The Tripartite Alliance between the ANC, COSATU and the SACP has come close to unravelling (and a rival union federation to COSATU, SAFTU, has been formed). The breakaway Economic Freedom Fighters has made electoral gains, as has the Democratic Alliance opposition in some provinces. In fact, intra-elite competition has undermined these traditional alliances in South Africa. Competition between different clientelist factions of the ANC has become increasingly violent, as seen in struggles for control over the coercive instruments of the state, the use of assassinations in rivalry for ANC positions, and the mobilization of 'collective violence' in ANC structures and/or community protests (where ANC factions mobilize communities in order to boost their position within factional battles, von Holdt 2013). Access to the state for accumulation opportunities is important to understanding the violent nature of South African democracy since 1994, and that

[10] Kenneth Brown, former National Treasury chief procurement officer who resigned in 2017, claimed that as much as 40% of the government's $44 billion/R600 billion state procurement budget in 2016 was fraudulent. See Mkokeli 2018.

violence, as well as corruption, has become integral to processes of class formation and class relations in South Africa.

Corruption in South Africa is not confined to the Zuma period and his networks of support and beneficiaries. White capital, typically large and established corporations, has been at least complicit in corrupt processes. Historically, white capital has grown through highly exploitative colonial and then apartheid-era accumulation regimes which have actively blocked more broad-based and inclusive social and economic development. Van Vuuren has documented two decades of extensive apartheid era corruption, in which the major banks played a pivotal role, aimed at countering the international sanctions against the apartheid regime (van Vuuren 2017, Open Secrets 2020). The United Nations imposed both voluntary and then mandatory arms embargoes against the apartheid regime from the early 1960s until the first democratic election in 1994. The apartheid state and the major South African arms manufacturers sought to circumvent these sanctions. The three major arms manufacturers were part of South Africa's major mining-finance houses discussed in the previous section: Reunert (Old Mutual), Altech (Anglo American) and Grintek (Anglovaal). The regime was prepared to pay a premium price for arms and supplies for domestic manufacturers to those suppliers willing to break the sanctions. There is a continuity to this activity. French arms company Thomson-CSF, today the Thales Group (which is partially state-owned and in the top ten of global defence contractors), was one of the major beneficiaries of this operation. Thales is accused of later paying bribes to Zuma to prevent itself from being prosecuted for corruption.

The methods employed during the sanctions period are now very familiar. The apartheid state set up a number of shell or front companies, registered in Liberia and Panama, with Kredietbank bank accounts in Luxemburg and Belgium, just at the time that electronic money transfers were becoming possible (Friedman 2017). The arms deal is an important precursor to the more recent period in a further way: the erosion of the state institutions designed to stop corruption. The Zuma faction took over the security services to be able to cover up illegal practices better, and established a network of party leaders within the ANC and in senior leadership positions who were loyal to Zuma – the so-called 'Premier League'. The South African Revenue Service (SARS) and the National Prosecuting Authority (NPA) were similarly undermined. This included the disbanding of the Directorate of Special

Operations (the Scorpions) and their replacement by the more amenable Hawks and an exodus of skilled staff. Mxolisi Nxasana, a former head of the NPA, testified at the Zondo Commission in 2019 that political interference had undermined the work of the NPA (Mailovich 2019).

Many of the same processes in the arms deal are evident today in the major national level corruption cases (The Public Protector of South Africa 2016, Bhorat et al. 2017, Pauw 2017, Myburgh 2017).[11] The Report by the then Public Protector of South Africa, Thuli Madonsela, investigated complaints of unethical conduct by Zuma and others in relation to the appointment of Cabinet ministers and the directors of state-owned enterprise (SOE) appointments (The Public Protector of South Africa 2016). Bhorat et al. (2017) trace the emergence and evolution of national level corruption and ‘State Capture’, involving the boards of parastatals such as Transnet and Eskom, as far back as 2012. These and other sources demonstrate corruption with regard to state contracts, notably with regard to Eskom, Transnet, the putative nuclear deal with Russia, and the Estine-Vreda dairy project in the Free State in particular. We do not discuss all these cases in depth for reasons of space. But the example of Transnet reveals a recurring pattern.

Transnet’s procurement of, in total, 1259 electric and diesel locomotives from China was Transnet Freight Rail’s largest ever contract. The major corporate beneficiaries were Chinese state-owned rail companies (China South Rail, CSR, and China North Rail, CNR) which secured the contracts. CSR and CNR recently remerged to form one of the biggest rolling stock manufacturers in the world. Individuals benefited also, of course, including Transnet executives and individuals linked to the Guptas. The policy of leveraging public procurement to advance inclusive industrial policy goals was lost. There were repeated manipulation of the procurement process to ensure contracts went to preferred parties; emails revealed that CSR knew it would receive the contracts before the tendering process even began; there was a close relationship between then Transnet CEO, Brian Molefe, and a senior director of CSR; CSR did not have a South African-based partner and so did not qualify for the state contract under the Broad Based Black Economic Empowerment regulations B-BBEE (and local bidders were disbarred for not meeting the B-BBEE requirements);

[11] Investigations by journalists at amaBhungane, and the ‘#Gupta leaks’ emails, have also played an important role, as have the various testimonies at, and submissions to, the Zondo Commission of Inquiry.

CSR failed to meet delivery deadlines but late delivery penalties were not applied; escalating costs were approved. Payments from Transnet to the CSR were passed on to Gupta-linked companies. For example, it is estimated that 20 per cent of payments to the CSR were transferred for “consultancy” fees to a Gupta-linked company, Century General Trading, registered in the United Arab Emirates, a jurisdiction which has been identified as most corrosive corporate tax haven against African countries (Etta-Phoya 2019). Century General Trading is registered as a trader of scrap metal, rice, beans and other commodities (Open Secrets 2020). Bhorat et al. (2017) point to the Guptas’ use of offshore brokers to manage, boost and hide their financial resources. Others have highlighted the Guptas’ accounts with the Bank of Baroda and HSBC, and their involvement in diamond trading as a means of moving money (Sharife and Joseph 2018).

Moreover, corruption is not only national but is also embedded at small-scale, and provincial, levels involving webs of party connections, private business interests, and local state officials (Olver 2017, McKinley 2017). Schools, for example, particularly in rural areas, are important sources of procurement, of employment, of influence, and so being on a School Governing Body provides a variety of advantages in the context of low investment, low employment, low wages and low skills (Basic Education Department 2016).

Such major South African ‘State Capture’ cases reveal how financialization has undermined democracy. The ability to utilize the international financial system to establish numerous shell companies with bank accounts and to launder money by moving it between these numerous accounts has grown and been facilitated by the liberalization and financialization of the world economy. The Competition Commission has found major South African and international banks guilty of deliberately manipulating the value of the Rand (Friedman 2017).

Financialization has also fueled the growth in investment managers, accountants, lawyers, and auditors as well as allowing for the self-regulation of these sectors, their involvement in the writing of the legislation governing these sectors, and of revolving doors between these sectors and government. The enabling role of lawyers, auditors and accountants is sometimes underestimated. Since the 1980s internationalized mega-law firms (mostly headquartered in the US and UK but operating globally) have emerged. Auditing and accounting companies, such as the big 4 – PWC, Deloitte, KPMG and EY – and the big 3 management consultancy firms – McKinsey, Bain and the Boston Consulting Group – have also grown substantially, becoming global players (Open Secrets 2020).[12] The size and corporatization of business services have raised important ethical questions. Their large, international networks allow them to facilitate tax avoidance and capital flight, designing and operating legal and financial vehicles that escape the control of governmental or intergovernmental organizations through the use of offshore jurisdictions (Wójcik 2013). Given how intertwined these companies are with global finance they constitute an inherent part of financialization (Falconbridge and Muzio 2009). Recent examples of how such law firms enable unethical and often illicit dealings are captured by the Panama Papers, leaked documents revealing operations of Panama-based law firm Mossack Fonseca in 2016. One of the company's South African clients was Marcus Jooste, the CFO of the Steinhoff group, a big Frankfurt-listed blue-chip company headquartered in South Africa. The group crumbled in 2017, almost overnight, prompting the largest financial collapse in South African history. Losses of over R100 billion were made in two days. It was later revealed that, for years, Jooste manipulated the group's earnings, hid losses through off-balance sheet operations, committed tax fraud and overloaded the corporation with debt while all the while enriching himself through secret dealings and offshoring profits (Styan 2017). Steinhoff's accounts were audited and (almost until the very end) found to be in order by Deloitte.

Big capital continues to take much wealth out of the country, by legal and illegal means, or diverts it into speculative activity with a negative impact on domestic investment and job creation (Ashman, Fine and Newman 2011). Long-term outflows of capital are facilitated by the financial system and the SARB has actively fostered financialization. This is illustrated in the growing volume of capital flight from South Africa. During the 1980s and up to 1993 illicit outflows accounted for around 5% of GDP. The volume grew with the neoliberal reforms of the 1990s to almost double that size, ballooning to 20% of GDP in 2007.[13] South African and international banks

[12] It should also be noted how the Bell Pottinger 'reputation management' multinational came under scrutiny as the 'State Capture' revelations unfolded. Bell Pottinger closed down after the extent of its involvement in South African politics on behalf of the Guptas became public, revealing that it had used a strategy of portraying the Guptas as putative victims of white monopoly capital.

[13] Capital flight is measured as various unreported components of capital outflows in the Balance of Payments, Ashman et al. 2011.

have facilitated these capital movements. In the Transnet case for example, Standard Bank, one of the big four South African banks, willingly turned a blind eye to suspicious transactions of BEX, a company created to implement the CRS-Transnet deal. There is clear evidence that Standard Bank ignored several red flags on the BEX bank account including that the account was mostly dormant, followed by short periods of large depositing activity. These deposits were then immediately transferred out – all obvious signs of money laundering as a SARB official testified in 2019 (Open Secrets 2020).

The growth of illicit financial flows, transfer pricing, and 'base erosion profit shifting' are crimes against the people. These operations damage citizens' democratic rights to mandate social change through wealth redistribution or the public provision of goods and services, hollowing out official decision-making processes by starving them of resources. As argued by critical accountants, "[i]n democracies, ordinary people have the right to determine the size of the state, its operation and the level of redistribution that it undertakes to alleviate poverty, reduce inequalities and exclusion and make provision for public goods" (Mitchell and Sikka 2011).

Corruption is now so widespread it has become integrated into the system of accumulation, with finance at its core – stifling industrial development and job creation yet aiding and abetting the processes outlined above. Big national corruption in particular is greased by the financial sector and the growth of finance, and financial liberalization helps this corruption. Smaller-scale, more localized corruption is necessitated as means of accumulation because of the existence of a financialized economy which does not provide other avenues for small-scale accumulation or employment as a backstop. The neoliberal policy framework and its structures of institutional power have facilitated 'State Capture'. Neoliberalism is profoundly anti-democratic and in general terms and in South Africa, this policy regime has facilitated a concentration of policy making power within certain institutions within the State – NT, the Presidency, and as reflected through the SARB. Indeed, the concentration of power under Mbeki, especially within NT and the Presidency as a way of enforcing neoliberal imperatives as non-negotiable (the phrase used with the introduction of GEAR), can be seen to have facilitated and paved the way for the corrupt extremes of the Zuma era.

## 5. Conclusions

While research on financialization in emerging economies is increasingly popular, the systemic impact of financialization on developing countries' economies and societies especially in Africa is rarely analysed. Especially, the structural dimensions of financialization on the continent remains under-researched. However, the macroeconomic framework provides the essential broader context for these micro and sectoral studies. Using the case of South Africa, this article illustrates the crucial impact that financialization has on a country's economic and political outcomes and democratic processes. Financialization, we have argued, favours the emergence of a 'four low economy': low investment, low employment, low wages and low productivity. This aggravates distributional conflicts, profoundly shaping the domestic political economy. Neoliberal policy that ushers in financialization not only jeopardizes economic prosperity but also democratic political institutions.

The international financial system which has grown and developed post the ending of Bretton Woods, and which has been facilitated by technological changes and is tied to the uneven internationalization of productive capital, has had numerous effects on global accumulation and economic and social reproduction. It has also entrenched secrecy and aids both licit and illicit financial flows which are particularly detrimental to developing economies and which are linked to corporate and other economic crime, particularly entailing multiple front companies and bank accounts across several geographical locations. These flows, whether legal or otherwise, have become commonplace part of corporate strategy for tax and wage avoidance but have also facilitated the corruption around 'State Capture' where an important role has been played by offshore structures, secrecy jurisdictions or tax havens to hide wealth, avoid tax, and launder money (as the Panama and Paradise papers revealed on a broader scale). These are all critical features of the global financial system and they act to undermine democracy. In the South African case, the widespread use of these practices has not only enriched Zuma, the Guptas, and their networks, it has also benefited major corporate interests including the banks, and led to systematic campaigns against particular state institutions in order to prevent and undermine their ability to detect and punish corrupt activities, all of which has emerged in a context of weak domestic accumulation where reliance on state contracts (legitimately or illegitimately obtained) and political connections have become vital for emerging capital.

The situation in South Africa is not unique. As financialization unfolds in both rich and poor country contexts, it is adversely impacting on investment, employment and income distribution albeit in variegated ways. Yet despite the evidence of this, the push for financial deepening on the continent by international financial institutions and national governments continues and will generate new and specific financialization trajectories in these societies. Therefore, the experience of South Africa should be a warning for other African societies that envisage taking on further financial liberalization or actively promoting themselves as financial centres in the region.

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