Introduction to the Special Section 'Financialisation in South Africa'

This special section examines selected aspects of financialisation in South Africa. While the financialisation literature has grown extensively over the past two decades, the matter remains under-researched in emerging and developing economies. The literature mostly draws on the experiences of Anglo-Saxon economies. Nevertheless, the view is strengthening that financialisation is by no means a homogenous process, as it has been spreading across the globe at different paces and through variegated processes, shaped by domestic contexts and specific locations and sectors. There is an urgent need to extend the financialisation research beyond the Anglo-Saxon sphere to reveal the experiences of emerging and developing countries.

Accordingly, this special section focuses on South Africa as a developing country with considerable experience of financialisation over a long period of time. The three pieces offered here further the current debate, covering specific topics (e.g. corporate cash holdings) and analytical innovations (e.g. discussing financialisation in global value chains). Each illustrates that there are good reasons to presume that financialisation has destructive potential when unfolding in emerging and developing regions, as is acknowledged in the Global North.

To situate South Africa's financialisation in a comparative view, some historical context is appropriate. The economy has long and strong international contacts with finance, not least because of European (particularly English) financing of huge investments to fund diamond and gold mining (Kubicek, 1979). Under apartheid, two features were particularly important. First, mining conglomerates diversified across the economy in general, incorporating financial services in particular. Second, the traditional dominance of the economy by international capital was challenged by Afrikaner capital, in part by (state-sponsored) growth of financial services and, ultimately, through English and Afrikaner capital becoming integral with state-led expansion of the Minerals-Energy Complex (MEC) in the 1970s (Fine and Rustomjee, 1997). Under sanctions against apartheid, this led to the containment of capital within the domestic economy, giving rise both to increasing development of financial markets and concentration of ownership of productive capital and finance within the conglomerate mining houses. As a result, as South Africa entered the post-apartheid period, it was extraordinarily well-placed to (continue to) engage in financialisation within the domestic economy, and to make up for lost time in integrating globally into both productive and financial networks.

In the early 1990s, few would have expected the trajectory of financialisation followed by South Africa. The hopes were for a more equitable and productive economy, creating jobs and redistribution. With its first democratic elections in 1994, South Africa had seemed to promise a transformation based on two striking features. First, it had brought together an extraordinary coalition of forces for progressive change, a dream ticket for twentieth century progress: a coalition between the Triple Alliance of the ANC, the South African Communist Party and the leading trade union federation, COSATU and a well-organised and militant domestic movement (the Mass Democratic Movement). The corresponding coalition of forces provided a national liberation movement (against what was dubbed colonialism of a special, internalised type); longstanding and strong international solidarity in light of universal animosity to apartheid; a set of economic policies, i.e. the Reconstruction and Development Programme (RDP), that sought to finesse reform/revolution as the choice for future prospects; and a charismatic leader of international standing and renown, the prospective President Mandela. Nonetheless, despite the strength and breadth of these aspects, that neoliberalism had already been in place for twenty years, and that the Soviet Union was already beyond collapse, served to signal that South Africa represented the last throw of the twentieth century revolutionary dice, with the fates even of its near neighbours hardly offering optimism for the path ahead (Ashman, Fine and Newman 2010). Jump forward two decades in the post-apartheid era and hopes of progressive change had long since been dashed, not least with the neoliberal turn by the newly-elected government and its abandonment of the RDP. The timing and reasons for this dramatic shift continue to be subject to justification, speculation and, increasingly, scholarly enquiry.

Here, we point to six factors. First is to characterise the South African economy as a MEC. 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 corresponding restructuring of the MEC. Second, at a corporate level, there has been an integration of South African conglomerates, that owned and controlled the MEC, into global production networks. This has been accompanied by conglomerate unbundling with concentration of domestic production within sectors of the economy remaining high. The restructuring has enabled a new elite of enriched, politically-connected, black capitalists to emerge (through "Black Economic Empowerment", BEE). Third, there is a sense in which

South Africa has leapfrogged and combined the various phases of neoliberalism from which it was initially insulated by the stigma induced by its isolation under apartheid. Shock therapy as such (especially privatisation) has been relatively limited. But macroeconomic policy of containing deficits and targeting inflation was fully adopted, alongside excessive dismantling of protection of domestic industry, whilst government expenditure has been unusually large (especially pensions) in ameliorating the worst economic and social inequalities in the world.

Fourth, the South African condition can be described in part as the “four lows”. The restructuring of the MEC has involved low levels of overall investment, concentrated in and around its highly capital-intensive core sectors. Consequently, there have been low levels of productivity, employment and wages. Despite strong growth of the financial sector, investment has remained subdued since the end of apartheid, rarely exceeding 20% of GDP. Finance accounted for a mere 10% of total GDP in the early 1960s. Today, the sector exceeds one fifth of South Africa’s annual output. The market capitalisation among Johannesburg Stock Exchange (JSE)-listed companies illustrates this specular growth. 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. Other than Hong Kong, it is the emerging market with the largest domestic stock market capitalisation. Since the end of apartheid, access to international capital markets for large South African conglomerates, and their subsequent internationalisation, were advocated as ways to achieve higher investment, boosting growth and employment (McGregor & Zalk, 2016). Instead, 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 (see Ashman and Newman 2018 for the de-industrialisation of Gauteng, the most important province for manufacturing). Financial services do not necessitate much capital investment. More damaging for the South African economy with its high and persistent unemployment rate (above, in its formal measurement, 27% in 2017) is that finance also does not tend to create much employment. While the sector managed to capture one quarter of the country’s profit in 2017, it employed just 550,000 people, a mere 3.5% of South African jobs (ILO, 2017).

Fifth, in light of these factors, it is less surprising not only how fully but also how quickly South Africa has incorporated the classic symptoms of neoliberalism as well as some home-grown dysfunctions of its own. In particular, the last few years have witnessed the unravelling of the political coalitions that had underpinned the restructuring and its consequences previously briefly outlined. Whilst frequent if fragmented protests have been an enduring response to poor public service delivery in conditions of high unemployment and inequality, the Triple Alliance is falling apart both within and across its individual elements. ANC electoral support has been faltering, and it is unclear to what extent this will be halted by the transition from Zuma to Ramphosa as ANC and country President. It is not simply that the hopes of a departure from the Mbeki policy regime have been disappointed but the sharp shock of the implications of Marikana have dovetailed with the gathering evidence of corruption and political manipulation in service of new elites (Bhorat et al., 2017). Sixth, the trajectory described has been driven by the concentration of policymaking in the Treasury together with, increasingly, the Presidency (with the South African Reserve Bank in tow). Such concentration of powers, at the expense of broader participation, is also characteristic of neoliberalism but it goes hand in hand with the prioritising of financial interests. South Africa follows suit, and its economic and restructuring has been accompanied by corresponding financial restructuring.

The articles in this special section update some of the core arguments constituting the original financialisation agenda, build bridges across different disciplinary strands of the evolving debate, applying new analytical approaches or explaining current phenomena. Isaacs and Kaltenbrunner update the critical debate on financial liberalisation in developing countries, bringing in financialisation. This literature stresses the vulnerabilities that opening capital accounts creates for poor countries. They point to the current increase in borrowing from emerging economies including South Africa. This borrowing has become increasingly dominated by short-term equity, bond and derivative markets, at the expense of long-term, productive investment. They argue that decisions made by investors have come to determine the South African exchange rate and its large swings witnessed since 1994, while state policies have strengthened domestic and international financial interests.

Bowman applies the shareholder value approach, one of the pioneering concepts of the financialisation toolkit, in an emerging market setting. He argues that financialisation has served to intensify the volatility in the local platinum industry as managements of major firms sought to conform to the shareholder value revolution, issuing high dividends and initiating substantial share buybacks. The result is huge pressure to deliver returns that match global norms whatever the specific conditions of production. While there is a flourishing literature on the role of resource extraction in development, financialisation research has neglected this area so far. Bowman's contribution introduces finance into global value chain analysis, by illustrating how shareholder pressure on parent companies – listed in financial centres such as

London – adversely impacts the financial position and sustainability of subsidiaries operating in the global South.

Karwowski's contribution observes growing cash holdings as a recent phenomenon, especially in emerging economies (BIS, 2015). She argues that investment behaviour over the course of the 1990s changed dramatically in the direction of more risky and liquid financial investments in South Africa, contributing significantly to price inflation in property markets. This is a consequence of the way non-financial firms have kept their liquidity with domestic banks which, over the 2000s, increasingly channeled this liquidity into mortgage lending, increasing the financial fragility of the economy. Conceptually, Karwowski's article creates a link between political economy analysis of firms' financialisation and accounts of real estate financialisation popular among economic geographers.

The overall message of the articles is that, with financialisation, emerging markets like South Africa have been experiencing growing economic vulnerabilities. Exchange rate fluctuations are a major symptom, inflicting greater costs and higher uncertainty on domestic exporters. The public cost is that of reserve accumulation which all developing countries have stepped up considerably since the 1990s as insurance against the threat of exchange rate crisis (McKinley and Karwowski 2015). The policy contributes to financialisation, creating lucrative South African government bonds which finance purchases of US Treasury Bills, for instance. As liquid financial assets become attractive for domestic corporations, they can potentially frustrate capital investment. In emerging economies, subdued investment and slow job creation have had an adverse impact on poverty and wellbeing. But liquid financial assets held by South African NFCs are recycled into mortgages and credit expansion that reinforces financialisation. This exaggerates inflationary dynamics in real estate markets – South Africa's house prices were more volatile over the past decade than residential real estate in the USA/UK (Karwowski and Stockhammer, 2017). For many ordinary South Africans these developments translate into low wages and unemployment.

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