

**SOUTH AFRICAN FOREIGN POLICY IN AFRICA: THE CASE OF SOUTH  
AFRICAN RETAIL MULTINATIONAL CORPORATIONS**

by

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I declare that **SOUTH AFRICAN FOREIGN POLICY IN AFRICA: THE CASE OF SOUTH AFRICAN RETAIL MULTINATIONAL CORPORATIONS** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete referencing

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**Key terms:**

Multinational corporations, South African retail multinational corporations, corporate diplomacy, international politics, international political economy, foreign direct investments, globalisation and foreign policies.

## **Abstract**

The significant role of multinational corporations (MNCs) in the international political economy necessitates innovative ways to study their activities and relationships with states. This study, therefore, analyses the foreign policy of the South African government in Africa during President Thabo Mbeki's administration – 1999 to 2008 – juxtaposed with the corporate diplomatic strategies of selected retail MNCs. The MNCs – Shoprite Holdings Limited, Massmart Holdings Limited, Woolworths Holdings Limited and Pick n Pay Holdings Limited – are treated as actors.

The study uncovers the nature and extent of coalescences and divergences of strategies between the government and the MNCs. It also finds divergences between government's policy pronouncements and interests. For example, the government's plan to craft a code of good business practice is found to be in conflicts with its support for multilateralism. The study lays the basis for a new model to study diplomatic strategies of firms and governments.

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## Abbreviations and acronyms

ANC	African National Congress
APRM	African Peer Review Mechanism
AU	African Union
B-BBEE	Broad-Based Black Economic Empowerment
DFA	Department of Foreign Affairs
DIRCO	Department of International Relations and Cooperation
DOD	Department of Defence
DPSA	Department of Public Service and Administration
DTI	Department of Trade and Industry
FDI	Foreign Direct Investment
GEAR	Growth Employment and Redistribution
IDG	Institute for Global Dialogue
JSE	Johannesburg Securities Exchange Limited
Massmart	Massmart Holdings Limited
MNCs	Multinational corporations
MNEs	Multinational enterprises
NEPAD	New Partnership for Africa's Development
OAU	Organisation of African Union
OECD	Organisation for Economic Cooperation and Development
Pick n Pay	Pick n Pay Holdings Limited
RDP	Reconstruction and Development Programme
SADC	Southern African Development Community
SARC	South African Retail Council
Shoprite	Shoprite Holdings Limited
TNCs	Transnational Corporations
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
Woolworths	Woolworths Holdings Limited
ZAR	South African Rand

## Chapter 1

### Introduction and background

#### 1.1. Introduction

The expansion of South African companies to the rest of the African continent has triggered debates about whether or not these companies were projecting the country's foreign policy. In 2005, for example, Parliament's Portfolio Committee on Foreign Affairs (re-named the Portfolio Committee on International Relations and Cooperation in 2009) initiated public hearings about the conduct of South African businesses on the continent.<sup>1</sup> Some Members of Parliament called for a code of good business practice to guide the operations of South African multinational corporations (MNCs) on the continent (Mkhabela 2006: 4). This was preceded by a seminar on "South Africa in Africa" hosted by South African-based think tanks namely, Centre for Conflict Resolution, Centre for Policy Studies and African Centre for Development and Strategies Studies. Strangely, it was pointed out at the seminar that while foreign direct investments (FDIs) were positive given Africa's investment needs, South African MNCs were also perceived to be exporting apartheid – long after its demise (Hendricks & Whiteman 2004: 8).

At its 52<sup>nd</sup> national conference in 2007, the African National Congress (ANC), South Africa's ruling party, passed a resolution which noted concerns regarding the practices of South African companies doing business on the African continent and called for the development of a code of good business practice to which companies trading in different parts of the continent would subscribe (ANC 2007a).<sup>2</sup> The code, according to the resolution, would have to be legislated by South Africa's Parliament without restricting the competitiveness of those companies. It would ensure that South African companies project home experience of good practices in the countries

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<sup>1</sup> The Department of Foreign Affairs (DFA) was renamed the Department of International Relations and Cooperation (DIRCO) in 2009 when President Jacob Zuma took office. This resulted in a name change of the national legislature's portfolio committee.

<sup>2</sup> According to the ANC's constitution as amended (2007b), the party's national conference is the supreme ruling body. It adopts policies that are translated into government policies.

in which they operate, do not use child labour, discourage bribery, recruit local labour and contribute to social responsibility programmes of the respective host countries. The host countries would be encouraged to tighten labour and trade laws, and to criminalise bad business practices (ANC 2007: 39)

The resolution called for South Africa's MNCs to espouse domestic policies in their external operations – in essence foreign policy. This reasoning was backed up by The Presidency's Policy Coordination Unit – the pioneer of South Africa's foreign policy during President Thabo Mbeki's tenure (1999-2008).<sup>3</sup> The Presidency suggested there was a need to improve the conduct of South African companies on the continent, in line with the values of the Constitution of the Republic of South Africa and ethos (South Africa, The Presidency 2008: 63).

In 2009, Parliament's International Relations and Cooperation Portfolio Committee chairperson, Thulas Nxesi (ANC MP), told the legislature that while South African companies, owing to their relatively strong position on the continent, have expanded rapidly, creating jobs and bringing investment to several parts of the continent, there was also a less charitable interpretation of South African capital. It was acting as a sub-imperialist power in pursuit of profits at all cost. He urged Parliament to develop a code of conduct for South African companies (Nxesi 2009: 4). Here, companies trading on the continent were lumped together and treated as a single actor – “South African capital” - with a common exploitative *modus operandi*.

In 2011, the Institute for Global Dialogue (IGD), a South African-based think tank, and the University of Cape Town's Graduate School of Business convened a roundtable discussion to explore the concept of the mooted code of good business practice. During the discussion, a government representative appeared confused about whether a code of good business practice would be viable. Thamsanqa

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<sup>3</sup> On 22 September 2008, Jacob Zuma, who had been elected president of the ANC at its 52<sup>nd</sup> national conference, announced the ANC's decision “recall” (ANC speak for demanding a resignation) of President Thabo Mbeki from government. The decision was taken by the ANC national executive committee, the highest decision-making body in-between national conferences. While acknowledging Mbeki's achievements – for example, economic growth averaged 4, 5 percent a year during his second term which began in 2004 – the ANC's national executive committee felt that public's confidence in the ANC and in government had weakened under Mbeki (Zuma, 2008).

Ngwenya, acting chief director of the Department of Trade and Industry's (DTI) Africa bilateral economic relations, questioned how the code would complement existing corporate governance codes to which many South African businesses already subscribe. Ngwenya said a code of conduct would need a national team of companies to spearhead it. He also remarked that a discussion about the code of conduct would have been more appropriate in the immediate aftermath of South Africa's democratic transition in 1994, which heralded its integration into the global economy. Since then South Africa's foreign policy and commercial engagement on the continent have evolved and undergone refinement (Coetzee 2011: 46).

The debates exposed an important problem in international politics - one that requires a scholarly inquiry: the relationship between South Africa's MNCs and the state with regard to their activities on the African continent.<sup>4</sup> This is what this study seeks to do. It analyses the South African government's foreign policy positions during Mbeki's presidency. A foreign economic policy position has been emerging from the state about the role of South African multinationals on the African continent. Research on this issue is, therefore, necessary to contribute to the discourse from a scholarly point of view. This study provides an analysis of the South African government's foreign policies in relation to MNCs on the continent.

In both the ANC's 2007 resolutions and The Presidency's policy stance, no empirical research was presented to support the emerging respective policy proposals. In 2008, Ayanda Ntsaluba, the director-general of the Department of Foreign Affairs, said some of South Africa's retail corporations were examples of how South African companies should not conduct themselves while operating on the African continent. His remarks were based on anecdotal evidence of alleged misdemeanor on the part of the companies he did not name (Mkhabela 2008: 5).

It is in the light of the above that this study of selected South African retail multinational corporations – to determine whether their expansion strategies have

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<sup>4</sup> For the purpose of this study, the concepts multinational corporations, transnational corporation, multinational enterprise, transnational enterprise and multinational company mean the same thing and are used interchangeably.

been in line with the country's foreign policies or have been, as claimed, inimical to them – is necessarily of scholarly and policy significance. It is of policy significance because policy debates are ongoing on the issue and will at some point require a resolution or reach some conclusion. It is of scholarly importance because domestic and international linkages (or the lack thereof) are central to field of International Political Economy (Underhill 1994: 34-5; 2000: 11).

This study adds to existing literature International Politics on the role of South African MNCs and their relationships with the home government. Part of the linkage factor to be interrogated is the domestic *versus* external behaviour of corporations in the context of South African companies and their corporate diplomacy on the African continent. Corporate diplomacy, in this context, is what Strange (1994a) described as “a new dimension of diplomacy”, involving the bargaining of MNCs with governments and other corporations as diplomatic actors in the international political economy. The bargaining is as a result of competition for world market share and it is forcing states to bargain with foreign firms to locate their operation within the territory of the state, and with national firms not to leave home, at least not entirely. This bargaining produces partnerships or alliances between host state and firm, which maybe of long or short duration, but which are based on the exchange of benefits and opportunities to enhance either party's success in the competition for world market share (Strange 1994a: 107).

This study systematically analyses the corporate diplomacy of selected South African retail MNCs on the African continent: Shoprite Holdings Limited (Shoprite), Woolworths Holdings Limited (Woolworths), Massmart Holdings Limited (Massmart) and Pick n Pay Holdings Limited (Pick n Pay). For purposes of feasibility, the study uses targeted sampling, focusing on the retail sector which has been cited as an example of how South African MNCs should not conduct themselves when doing business on the African continent (Mkhabela 2008: 5).

Significantly, the retail and food sectors have probably been the most visible and accessible part of the northward trek by South African business into the continent because of their wide exposure to the local population in the countries in which they

operate (Games 2004: 45). In addition, these MNCs, whose shares are publicly traded on JSE Limited, South Africa's securities exchange, avail information about their operational activities through annual reports to shareholders.<sup>5</sup> These reports are vital primary sources for this study.

The focus period is between 1999 and 2008, covering the Thabo Mbeki presidency. As pointed above, it is during this period that claims were made of the failure of some South African companies operating on the African continent to adhere to the country's constitutional values and ethos (South Africa, The Presidency 2008: 63).

Against the aforesaid, the questions the study seeks to answer are primarily about whether there were coalescences and/or divergences between the expansion strategies of South African retail MNCs and the Mbeki administration's foreign policy on Africa. For contextual purposes it is worth reviewing existing literature on the subject.

## **1.2. Literature review**

This study seeks to expand on current understanding of South Africa's foreign economic policy, focusing on the South African retail MNCs as actors involved in commercial diplomatic activities. It is not meant to be exhaustive, but to improve on the existing theoretical approaches and studies on the subject. It should be acknowledged that there has been very little attempt at a focused and systematic study of the diplomacy of this specific sector on the African continent. No known systemic study of the linkages between the political (foreign policy) and the economic (expansion strategies of South Africa's retail MNCs), has been conducted.

The discussion hereunder will focus on two broad issues. Firstly, it critiques the unfocused nature of the research done thus far. Secondly, it analyses the schools of thought that could be discerned on available - albeit extremely limited - literature

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<sup>5</sup>Previously called the Johannesburg Stock Exchange and Johannesburg Securities Exchange, South Africa's securities exchange, trades as JSE Limited or simply JSE.

regarding divergence and coalescence between the government's foreign economic policies and the expansion strategies of retail MNCs.

### **1.2.1. The limitations of existing literature**

A review of recent studies reveals shortcomings. For example, Patel's (2006) minor Master's dissertation in International Politics described South Africa's foreign investments on the African continent. While it fulfills its objectives of being a preliminary exploration on the subject, it does not pay attention to the link – or lack thereof - that strategies of these businesses might have had to South Africa's foreign policy goals. However, contained in exploration is a passing reference to debates about South Africa's role on the continent: "hegemon or partner?" The dissertation merely invoked it as a matter of interest, without addressing the question of whether the objectives of the state were different to that of business (Patel 2006: 51). The study did not zone in on specific corporations and their diplomatic forays. All it did was describe the extent of corporate expansions.

The "partner or hegemon" question was first raised by McGowan and Ahwireng-Obeng (1998: 177), in an article which, using Immanuel Wallerstein's (1974) World Systems Theory and Structural Power Theory, concluded that South Africa was a semi-peripheral member of the world system and that it used its structural power in relation to the African continent for selfish reasons. This conclusion was based on the expansion of South African corporations north of the Limpopo and the government's economic diplomacy. McGowan and Ahwireng-Obeng (1998) did not focus on the diplomacy of MNCs. However, their analysis did provide a glimpse of the linkages without necessarily tracing the strategies of specific corporations.

In her study on the expansion of South African business on the African continent, Grobbelaar (2004) concluded that there was resentment in some African states towards South African businesses, which has often led to calls for the regulation of these business operations. The resentment was rooted in, amongst others, the perception that South African private sector activities were undertaken at the behest of the South African government. This, according to Grobbelaar (2004a: 207-8),

indicate a fundamental misunderstanding of the role of the public as opposed to the private sector. While the observations have helped build an understanding of the role of South African capital on the African continent, there is a need to broaden the scope of enquiry: to study systematically the political significance of South Africa's corporations on the continent. In another study, Grobbelaar (2004b: 102) recorded that, when investing on the continent, South African businesses are merely "following their instincts". Although Shoprite is acknowledged as Africa's largest food retailer (Grobbelaar 2004a: 201), it is not stated which of the conclusions apply to this retailer specifically.

Hughes (2004: 36) also analysed the link between foreign policy and South African businesses by focusing mainly on whether or not South African business leaders and organised business formations had "influence" or made an "input" into the foreign policy formulation of the South African government.

It could be argued that Hughes (2004) implicitly saw the state as the main actor in foreign policy and all that multinationals could do was seek to influence it so that it could act in their interests. This, however, conceals the extent to which MNCs could very well be actors in their own right, and thus conduct their own corporate diplomacy. In their pioneering work on the diplomacy of corporations, Stopford and Strange (1991) argued that MNCs, in fulfilling their interests, enter into a political terrain: diplomacy with governments and other foreign firms.

Hughes' (2004) study is significant in that it deals with one important aspect on which this study will build: relations between the corporate sector and the government. Like Patel's (2006) and Grobbelaar's (2004a; 2004b) analyses, Hughes' (2004) study is an important contribution to scholarship, but it is somewhat general.

Some of the previous research endeavours suffer from an inability to borrow from literature in the field of International Business. This is what Rosenau (1970) described as "conceptual jail", into which political scientists have often locked themselves. As Sally (1996: 66) noted, Political Science and some approaches of International Political Economy have difficulty in conceptualising the role of

multinational enterprises (MNE), while the field of International Business pioneered by John Dunning in the late 1980s offer possibilities for studying MNEs.

The eclectic paradigm developed by Dunning is a case in point. The eclectic paradigm avers that the extent, geography and industrial composition of foreign production undertaken by an MNE are determined by the intersection of three sets of interdependent variables: ownership (O) specific advantages, locational (L) attraction and internationalisation (I). The eclectic paradigm also asserts the precise configuration of the OLI parameters facing any particular firm, and the response of the firm to that configuration, is strongly contextual. In particular, it will reflect the economic and political features of the country or region of the investing firm, and of the country or region in which they are seeking to invest; the industry and the nature of the value added activity in which the firm is engaged; the characteristics of the individual investing firms, including their objectives and strategies in pursuing these objectives; and the *raison d'être* for the expansion (Dunning 2000: 164).

In the case of literature on South African MNCs, there has been very little, if any, attempt to establish the link - or lack thereof - between foreign policy goals and private sector strategies. Instead, there is greater focus on trade and investment in general terms, thus highlighting the need to build on the existing literature.

Bond (2004: 5), in analysing the role of South African MNCs on the African continent, adopted a Marxist/*Dependencia* approach which, according to Gilpin (1975: 230), is a combination of Marxist and radical theories of imperialism. Bond likens the South African MNCs – in retail, mining and other sectors – to the imperialist mission of Cecil John Rhodes who sought to dominate the whole of Africa through a combination of commercial activities and political dominance.

According to Bond (2004: 5), South African MNCs were performing a “sub-imperial” role akin to Rhodes strategy on the African continent.<sup>6</sup> A version of this approach

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<sup>6</sup> An ambitious British citizen, Cecil John Rhodes (1853-1902) arrived in South Africa in 1817. He became a pioneer for British imperialism using a combination of political and economic power to pursue his ideals which entailed subjecting the whole of Africa under British control. After toiling in the Kimberley diamond mines he became director of seven diamond mining companies, including De

was developed by Hymer (1976), cited in Gilpin (2001), who set forth the idea that monopoly capitalism is driven by two fundamental laws: the law of increasing firm size beyond national boundaries, creating a hierarchical core/periphery structure; and the law of uneven development, which means MNCs exploit the world to their advantage and produce a wealthy core and an underdeveloped periphery which are complementary (Gilpin, 2001: 287). To support his thesis, Bond (2004) cited Miller's (2003) conclusion that Johannesburg corporations were de-industrialising African countries by sourcing their goods from South Africa at the expense of local producers.

According to Miller (2003), cited in Hudson (2007: 137), South Africa's largest retail corporation, Shoprite, had a workforce in Zambia that was dissatisfied after being plucked unceremoniously from their homes at very short notice to live in makeshift rooms. The "straight talk" culture of white South African management also possibly offended the cultural sensibilities of some Zambian workers, who in turn enjoyed no statutory protection and were made to feel like "second-class citizens" compared to their South African counterparts. This, it is argued, may have stemmed from the strong regulatory framework in South Africa.

Using sociological and geographical approaches, Miller's (cited in Hudson, 2007), unlike Bond (2006), did not argue that South Africans corporations were out to loot the African continent. Her research concluded that, despite their dissatisfaction due to the alleged dehumanising working conditions at Shoprite, Zambian employees were claiming equal inclusion to the perceived better treatment of their South African

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Beers Mining Company, and sat on the boards of water, coal, tramway, loan steam laundry and theatre companies. While a Member of the Cape Colony Parliament representing the Barkly West, a Kimberley constituency, he advocated for laws that sought to exploit labour and campaigned for the creation of mining monopolies and construction of an extensive railway network to reduce the cost of exporting commodities. These initiatives were meant not only to benefit his companies but also to expand commercial and political influence of the Cape Colony. He presided over mergers and acquisitions of several companies resulting in the creation of the largest mining company, De Beers Consolidated Mines Limited, in 1888 (Meredith 2008: 109, 113, 117, 161). At the age of 37, he became Prime Minister of the Cape Colony. In his acceptance speech he said he wanted to stretch the limits of the Cape Colony to Zambezi by creating a "perfect free trade" and a customs union stretching from "Delagoa Bay to Walfish Bay". On 26 March 1902, the day he died at the age of 48, Rhodes murmured, 'So little done, so much to do' (McDonald, 1971: 127-130 and 366).

counterparts within the post-apartheid Southern African regional space occupied by the MNC.

Miller (2005: 118) observed that Shoprite had been an anchor of Africa's shopping malls which, like a flower in the desert, had brought a new march to modernity akin to President Mbeki's vision of an African Renaissance. Her research also questioned whether South Africa's investments, including retail, represented sub-imperialism or subverted power. Using the Zambian case study, the research concluded that local interests, including workers, mounted forms of resistance aimed at challenging the terms of local engagement with foreign direct investments (Miller et al 2008: 6). Miller (2005: 136) made a passing observation about what could be an important issue of diplomacy: claims of inclusion by Zambian Shoprite workers are directed at the firm because the national state was seen as weak compared to the power of the MNC (Miller 2005: 136).

Like Bond (2004), Hudson (2007: 128) also analysed South African MNCs through the same lens of the *Dependencia* approach. In answering a question once posed by Honey (2003: 24) in the *Financial Mail* – whether these corporations were critical for Africa's recovery or whether they were exploitative neo-colonialists – Hudson (2007) concluded that it remained “unclear”. This conclusion is based on a discussion about the extent of the multinational corporate expansion of state-owned and private enterprises, the need for a code of good business practice for South African MNCs, concern about the existence of regulations in host countries and trade. The study did not focus on specific corporations.

### **1.2.2. Coalescences and divergences: The shortcomings**

Notwithstanding the shortcomings pointed out above, there had been attempts to make conclusions about the divergence and coalescence of the government's foreign economic policies and the expansion strategies pursued by the South African private sector in general. For the purpose of this study, divergences refer to those broad government policy articulations and practices which, when analysed, are incongruent with the strategies pursued by South Africa's corporate sector. The

opposite applies in cases of coalescence. Whereas available literature tends to be broad, as particularly critiqued in this chapter, the aim of this study is to attempt an as precise an analysis as possible, focusing on retail MNCs.

Existing literature is divided into two broad strands. First, there is a school of thought that suggests that the South African government had, for the period under study, worked in tandem with the corporate sector in general in ensuring that the latter penetrated the African continent in a manner inconsistent with its altruistic foreign policy rhetoric. According to this school of thought, so to call it, the South African government was guilty of the same sins of which it had accused the corporate sector – prioritising profits at the expense of ethos and values enshrined in the constitution.

In this group is Ikome (2006: 11), who argues that, like business anywhere else, the South African private sector was driven by typical corporate interests, namely profit, market-share, and the elimination of competition, the urge to dominate and to monopolise. Accordingly, and in contrast with the posture of South Africa's overall policy, South African business expansion was not altruistic. Rather, its expansion into African economies was directed by profit motives. And in pursuit of profits, the MNCs, like companies elsewhere, have not acted like saints.

This view holds that, despite Pretoria's insistence that its post-apartheid economic engagement with the rest of the continent is premised on mutually beneficial relations, it would seem that Pretoria promoted mercantilist interests by facilitating South African business penetration in African markets, and flooding those markets with goods and services produced in South Africa (Ikome 2006: 11).

Although Ikome (2006) concluded that the South African government had acted "in tandem", suggesting a coalescence, he also pointed out the government's altruistic rhetoric, presenting it as contradictory to the profit-making adventures of the corporations.

Also in the same school of thought are Daniel and Lutchman (2002), cited in Hudson (2007), who have suggested the South African government acted contrary to its own

normative policy positions in the manner it sought oil business deals with corrupt regimes and violators of human rights on the continent. These regimes included Angola, Equatorial Guinea and Sudan. In its scramble to acquire a share of this market – through the use of economic muscle, technical edge and tactical diplomacy – the government, according to the authors, appeared to have abandoned any regard to those ethical and human rights principles which it once proclaimed would form the basis of its foreign policy (Hudson 2007: 143). Here, the suggestion is that of coalescence – again for selfish reasons devoid of normative values that had often premised the rhetorical articulations of the government.

The second school of thought suggests there was a cleavage between the government's foreign policy positions and the private sector. This has its origins in the mistrust between the government and the private sector.

The cleavage was essentially between government foreign policy aspirations which projected a rapidly transforming society while the economy largely remained in the hands of a predominantly white, oligopolistic business sector - an apparent contradiction. In as much as this also lent itself to racialised politics at home, it also weakened South Africa's stature abroad, particularly in Africa, where the expectation that a black-ruled South Africa would jump-start the stalled economies of the continent had not materialised (Bischoff 2003). According to this analysis, the cleavage at the international level of analysis has its roots in the domestic economy.

In a different context, this view was partly shared by Mills (2000), who observed that South African-based business was a fundamental, yet seldom employed asset in Pretoria's Africa policy. Business had a wide range of contacts and experiences in the continent, broader and often more influential than those possessed by government alone. The Zimbabwean crises of electoral disputes and economic downturn since 2000 illustrated that South African business and government hardly exchanged views, let alone co-operated over Africa. In part, this related to the still largely white nature of the former and the sometimes racial paradigm of South African politics. While (white) business, like white-led political parties, might be

irrelevant in the political context, it was economically indispensable both within South African and outside (Mills 2000: 67).

This notwithstanding, and apart from the Mbeki administration's Big Business Working Group, a consultative forum between President Thabo Mbeki and captains of industry, there was very little (substantial) interaction between South Africa's multinational business executives and relevant line departments such as the Department of Trade and Industry (DTI) and Department of International Relations and Cooperation (Qobo 2011: 15).

At its infancy the Big Business Working Group consisted of Saki Macozoma, chief executive officer of New African Investment Limited (Nail), the first black-owned company to be listed on the JSE; Johann Rupert, chairman of Remgro, a diversified company with interests in financial and industrial sectors; André Fourie, chief executive officer of National Business Initiative (NBI), a corporate voluntary group; Dave Brink, chairman of Murray & Roberts Holdings Limited, an engineering and construction firm, Derek Cooper, chairman of Standard Bank Group; Eugene van As chairman of South African Pulp and Paper Industries Limited (Sappi); Jim Sutcliff, chief executive officer of Old Mutual, a financial services group; Graham Mackay, chief executive officer of South African Breweries; Leon Vermaak, chief executive officer of Sanlam, a financial services firm; Reuel Khoza, chairman of Eskom, a state-owned electricity utility; Tony Trahar and Michael Spicer, respectively chief executive officer and an executive of Anglo American, the mining conglomerate. The government component included Mbeki himself and Finance Minister Trevor Manuel, Trade and Industry Minister Alec Erwin and public Works Minister Stella Sigcau (Government Communications and Information Systems, 2002; Jack 2007: 7).<sup>7</sup>

Notwithstanding the consultative forum between Mbeki and some of the most powerful captains of industry representing some of the most powerful companies, the substantive inputs by South African business to Mbeki's policy machinery appeared

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<sup>7</sup>NBI, a voluntary association of MNCs based in South Africa, was established in 1995 to promote growth, development and to build relationships of trust between its members and the South African government (NBI, 2011).

to be not entirely effective. According to Hughes (2004: 36), the private sector had not made any significant input in, for example, the formulation of New Partnership for Africa's Development (NEPAD), Mbeki's Africa policy blue print (Hughes 2004: 36).

Gumede (2005) suggested that South African businesses were motivated by self-interest, pretending to support the government's African Renaissance strategy while, in effect, pursuing expansion strategies inimical to it. South African business embrace of the African Renaissance that was pursued by the Mbeki administration was not necessarily genuine.

NEPAD was seized on early by business. This gave rise to a cottage industry of conferences, dinners, workshops and consultancies, and white South African accents could, as a result, be heard throughout Africa, as business had conquered the continent. While new investment had been welcome, many black Africans complain that white entrepreneurs have carried with them loathsome and uncaring labour practices and racist interpersonal skills. But the black business people were no different from their white counterparts (Gumede 2005: 204).

Also in the second school of thought are those who hold the view that there ought to be a coordinated strategy between the South African government and the corporate sector similar to the strategy espoused by the National Economic Development and Labour Council (NEDLAC).<sup>8</sup> That strategy has been lacking. Premised on this observation is Qobo's (2010) critique (devalued by its failure to provide case studies) of the government's foreign policy for the period under review. Several critical points emerge sharply from his analysis. First, South Africa's economic diplomacy was not defined according to an integrated set of objectives grounded in the domestic development framework and directly linked to foreign policy outcomes, as is the case in a number of other emerging powers. As such, there were not sufficient linkages of the pursuit of power and wealth aggregation in the conduct of the country's foreign

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<sup>8</sup> Launched on 18 February 1995, Nedlac is South Africa's statutory body established to facilitate dialogue and consensus on issues of economic and social policy between government, organised business, organised labour and community organisations. Nedlac's council, in which representatives of all the four interested parties are represented, strives to promote the goals economic growth, participation in economic decision-making and social equity (National Economic Development and Labour Council, Act No. 35, 1994).

policy. Linkages between the domestic and the international arenas remained weak (Qobo 2010: 16).

Second, there was a lack of the kind of foreign policy activism found in other countries where government strategy and corporate objectives for expansion abroad are mutually supportive (Qobo 2010: 17). In this context, state actors should engage in commercial diplomacy as intermediaries working in bilateral foreign missions where much of their role is to pursue commercial interests (Qobo 2010: 19). Here, the scholar appears to be motivating the mercantilist foreign policy practices of which Ikome (2006: 11) of the first school of thought seemed to disapprove.

Third, despite the fact that South Africa has expended a huge amount of resources and effort in building political relations and providing much-needed assistance across the continent, the country has derived limited tangible commercial benefits from its investments. South African companies have not fully enjoyed the benefits of close political relations between the South African government and other African governments (Qobo, 2010: 22). This view was also held by the Mbeki administration. The government believed it had not taken full advantage of its contribution to peace on the African continent (South Africa, The Presidency 2008: 89).

In Qobo's (2010) analysis, a picture showing a divergence/cleavage at a domestic level of analysis emerges. This domestic divergence, which manifested itself through poor substantial cooperation between the political and the business elites, found expression at the international level – something to which the government had partly conceded. The major weakness in this regard has been the lack of appreciation of the role that commerce and active markets could play in bringing development. South Africa's foreign policy approach is in this sense "transvestite": although possessing a benign Afro-centric form, it is commercially Afro-pessimistic (Qobo 2010: 22). The government appeared to share this observation, as it noted cryptically that South Africa needed to develop the agility to take full (economic) advantage of the positive outcomes of its contribution to peace and development on the African continent (South Africa, The Presidency 2008: 89).

In this school of thought is also the observation by Dlamini (1999) that business expansion abroad should be seen, in rational/benign imperial terms, as a logical extension of the South African frontier, not unrelated to South Africa's need to assert itself in the mainstream spheres of commercial and global affairs. This project requires that South Africa and Africa develop, articulate and pursue imperial ambitions in the economic and commercial realms. This would be one of the ways of advancing the African Renaissance project.

At the same time, government has a responsibility to put in place appropriate regulatory institutions to check and balance the instincts of business and its tendency to put profit above all else. This, however, ought to be done in a way that does not discourage the innovation and entrepreneurship that is usually the engine behind successful wealth creation and national prosperity (Dlamini 2010). This implies that there ought to be coalescences of strategies between the South African government and its MNCs. This seems to have been absent (Dlamini: 2010: 214).

The discernible limitation of the two schools of thought discussed above is that they lack illustrative evidence. The respective arguments are couched in broad terms. The proponents were unable to link their conclusions to the expansion strategies pursued by specific South African MNCs.

Having exposed the contradictions and shortcoming of existing literature, the analysis now turns to South African foreign economic policies under President Thabo Mbeki and the broad principles that underpinned the policies.

The principles to be discussed in Chapter 2 will form the basis against which the expansion strategies discussed in Chapter 4 are evaluated in Chapter 5.

The outcome of the juxtapositions should give an indication of the nature and extent of the coalescences or divergences between the South African government's foreign policy and the strategies pursued by the retail MNCs.

### **1.3. Research questions**

Existing literature has to a very limited extent explored the diplomatic role of South African MNCs and linkages – or the lack thereof – with government's stated foreign policies. The brief review of literature showed that MNCs were not accorded the status of diplomatic actors, or, to put it differently, as economic actors whose activities have political significance.

While acknowledging the role of MNCs as actors in the international political economy, this study seeks to explore the relationship between the corporate diplomacy of South Africa's retail companies and the foreign policies of the South African government on the African continent.

The study, therefore, seeks to explore the corporate diplomatic strategies of South Africa's retail MNCs and to establish whether they had linkages (and, if so, what these were) with Mbeki administration's foreign policies. It seeks to establish whether these retail MNCs, as illustrative case studies, have pursued divergent strategies (and if so, what these were) to those of the South African government.

In exploring the diplomacy of the retail MNCs the study seeks, without necessarily following the chronology, to do the following:

First, to analyse South Africa's foreign policy on the African continent during the President Mbeki's administration.

Second, to establish the self-interest of the selected retail MNCs and how these interests relate to the domestic polity. It is here, at the domestic level of analysis, that the domestic linkages or divergences are established. The study further seeks to establish the extent to which there exists a structural interface – and the nature thereof – between the government and these corporations, as well as the extent of such structural interaction and the outcomes thereof.

Third, in addition to describing the expansion of the selected South African retail MNCs, the study analyses the entrance and expansion strategies to the rest of the continent.

Fourth, it explores how the domestic levels of analysis compare with the role of MNCs on the African continent (international level of analysis). Here the intention is to establish whether there exists any articulation of what the *modus operandi* of retail corporations should be on the continent. The study analyses the domestic interests of MNCs and then proceeds to establish whether or not those being pursued on the African continent are a logical extension of the domestic interests.

Fifth, it seeks to conclude whether or not the self-interest of the selected retail corporations and the domestic polity coalesce or diverge – and how. And finally, the study determines whether or not the interests of the South African government on the African continent (international level of analysis), as espoused in foreign policies, and the MNCs coalesce or diverge – and how.

What follows hereunder are the brief corporate profiles of the retail MNCs selected for the study.

#### **1.4. Corporate profiles of the selected retail multinational corporations**

This section provides brief profiles of the study's selected retail MNCs. Table 1 provides a short summary of these profiles. Woolworths is the oldest of these MNCs whereas Shoprite is the largest.

Table 1: Summary of case studies in comparative perspective (2008)

	<b>SHOPRITE</b>	<b>MASSMART</b>	<b>WOOLWORTHS</b>	<b>Pick n Pay</b>
<b>DATE ESTABLISHED</b>	1979	1990	1931	1967
<b>MAJOR RETAIL SECTOR</b>	Food, homeware, general merchandise and furniture	General merchandise and building material	Food, homeware and clothing	Food, clothing and general merchandise
<b>NUMBER OF STORES IN SOUTH AFRICA</b>	1790	220	369	720
<b>NUMBER OF STORES IN AFRICA</b> (Excluding South Africa)	223	22	35	93
<b>GROSS INCOME (ZAR)</b>	47,6 billion	39,8 billion	21,8 billion	45,3 billion

Sources: Nedbank Capital (2010); Massmart (2008: 1, 8); Shoprite (2008: 67; 2004: 11); Pick n Pay (2007: 1, 4; 2008: 1; 2009: 38); Woolworths (2008, 2009: 16, 47).

#### 1.4.1. Shoprite Holdings Limited

Shoprite was formed in 1979 – when the policy of apartheid was in full swing – with the purchase by the company Pepkor of eight Cape Town-based businesses from the Rogut family. Over the years, the company grew through aggressive acquisitions. It listed on the JSE in 1986. In its home market of South Africa, Shoprite grew in the early years especially through the acquisition of existing domestic chains. It bought the 17-store chain of Grand Supermarkets in 1990 and 185-store chain of Checkers Supermarkets in 1991 (Weatherspoon & Reardon 2003: 338). It acquired food stores from Ackermans (1984), Grand Bazaars and began operations in post-independent Namibia in 1990. In 1995, Shoprite began its expansion foray into the rest of the African continent (Shoprite 2004: 11) when it opened operations in Zambia.

The following year, Shoprite acquired Sentra, a buying organisation for independent stores in South African and neighbouring states (Planting 2009: 36). It acquired food retailer OK Bazaars in 1997. With Whitey Basson as chief executive, the Shoprite group had, by 2008, expanded into 16 African countries including Zimbabwe with total revenue of R47, 6 billion (Shoprite 2008: 67).<sup>9</sup>

#### **1.4.2. Massmart Holdings Limited**

Massmart, the youngest of the four retailers in this study, was established in 1990, when negotiations to end apartheid began to yield some fruit. Massmart started off with six Makro stores. Thereafter, it went on an aggressive acquisition spree, acquiring mainly general merchandise stores such as Shield (in 1992), Dion Stores (1993) and Game stores (1998). It listed on the JSE in 2000.

In 2002, Massmart acquired furniture stores Brown and Weirs, and Furnex. In 2003, it took over Builders Warehouse stores. Massmart subsequently acquired De La Rey stores, building and outdoor chain Servistar, and Federated Timber in 2005. In 2006, the company disposed of Furnex. In 2007, it launched Dion Wired, Masscash Retail Cash and Carry format stores (Massmart 2008a). The company's African forays began in 1997 when it acquired the Makro franchisee in Zimbabwe (Massmart 2003: 7). By 2008, it was operating in 12 African countries (Massmart 2008b: 8).<sup>10</sup>

Massmart defined itself as a South African-based international management group with a managed portfolio of wholesale and retail chains, each focused on high-volume, low-margin and low-cost distribution of mainly branded goods for cash (Massmart 2003: 2). In 2008, the group reported a total of R39, 8 billion in revenue (Massmart 2008b: 1)

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<sup>9</sup> According to Shoprite's 2008 Annual report, the company had operations in Botswana, Zambia, Swaziland, Mozambique, Madagascar, Lesotho, Mauritius, Namibia, Angola, Tanzania, Malawi, Uganda, Democratic Republic of Congo, Ghana and Nigeria. The operations in all these countries were wholly owned by the Group.

<sup>10</sup> According to Massmart's 2008 Annual Report, the Group had expanded to Botswana, Namibia, Mauritius, Mozambique, Uganda, Zambia, Nigeria, Ghana, Malawi and Tanzania (through Game stores), Zimbabwe (Makro warehouse), Lesotho and Botswana (CBW stores), Lesotho, Namibia, Botswana (Jumbo – food and groceries) and Botswana, Namibia and Swaziland (Shield –food and groceries).

### 1.4.3. Woolworths Holdings Limited

Woolworths, the oldest of the selected retail MNCs, was founded by Max Sonnenberg in 1931. Sonnenberg and his son Richard officially opened Woolworth's first store in former dining room of the Royal Hotel in Cape Town in October 1931, at the height of the Great Depression. With the financial backing of Elie Susman, who had been running successful businesses spanning banking and retail in Zambia, Woolworths opened its second store in Durban in 1934. Stores in Port Elizabeth and Johannesburg followed in 1935. Building on its success, Woolworths turned to the public for more capital, resulting in Woolworths Holdings Limited being listed on the JSE in 1936 (*Financial Mail*, 28 November 2012).

Since then Woolworths grew even further. Another major development in the company's history came in 1981 when it merged with Truworths. The two were housed in a holding company, Wooltru, which went on to accumulate other retail assets, including Makro, Game and Dion, the first components of what was to become Massmart. The Wooltru retail conglomerate began to unwind in October 1987 with Woolworths' partial unbundling and relisting on the JSE. Truworths was partially unbundled from Wooltru and relisted in May 1998, and in July 2000 Massmart was partially unbundled and listed. The full unbundling of Woolworths, Truworths and Massmart came in June 2002 (*Financial Mail*, 28 November 2012).

Through franchise partnerships in Africa and the Middle East, Woolworths operates more than 400 stores. By 2009, Woolworths was running operations in 13 African countries (Woolworths 2009).<sup>11</sup> The company's influence extends to Australia, with a majority share in Country Road Limited (Woolworths 2009). Woolworths describes itself as an investment holding company operating through Woolworths (Proprietary) Limited, Woolworths Financial Services and Country Road Limited. Woolworths (Proprietary) Limited is a chain of retail stores, offering a selected range of clothing, homeware and food under its own brand name in South Africa, other African countries and the Middle East (Woolworths 2006a:3). In 2008, the Group reported

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<sup>11</sup> Botswana, Namibia, Lesotho, Swaziland, Ghana, Kenya, Tanzania, Uganda, Zambia, Zimbabwe, Mozambique, Nigeria and Mauritius.

total of R21, 8 billion in revenue, up from R18, 6 billion the previous year (Woolworths 2008).

#### **1.4.4. Pick n Pay Holdings Limited**

Founded in 1967 as a family-controlled business with four small stores in the Western Cape, Pick n Pay listed on the JSE in 1968. Consequently, the company grew into a large retail group. Concentrating on food, clothing and general merchandise, the Pick n Pay group is managed through three divisions, each with its own management. These divisions are retail, group enterprises and Franklins Australia (Pick n Pay 2007: 1). Under its retail division, Pick n Pay runs pharmacies, supermarkets, hypermarkets and liquor stores. Under the Score brand, it runs a supermarket. Under the Boxer brand, there are supermarkets and hardware stores. Franklins Australia is a supermarket chain (Pick n Pay 2007: 4).

Pick n Pay was at some point focused mainly on growing market share in Australia than on the African continent. This explanation was among those given when the Pick n Pay sold its Tanzanian interest to Shoprite in 2002 (Weatherspoon & Reardon 2003: 339). For the period covered by this study – 1999 to 2008 – Pick n Pay's Africa operations have been focused on Southern Africa, especially in Namibia, Botswana, Swaziland, Lesotho and Zimbabwe. Pick n Pay's turnover totalled R45, 3 billion by 2008 (Pick n Pay 2008: 1).

#### **1.5. Research methodology: Analytical frameworks and research methods**

This study spans the political (foreign policy) as well as the economic (retail MNCs expansion strategies) and aims to explore the existence of linkages or divergence between the two. It spans state-market relations. It also straddles the domestic and international realms. It uses a qualitative approach that implicitly combines the "levels of analysis" theory as developed by Underhill (2000), Sally's (1996) theory of "national embeddedness", Rosenau's (1970) "linkage phenomenon", Strange and Stopford's (1991) "triangular diplomacy", which sets forth the idea that corporations

conduct diplomacy with foreign corporations and with governments, and Carlsnaes' (2002) tripartite approach of conducting foreign policy analysis.

A brief sketch of the analytical frameworks will suffice. Underhill (2000: 806) makes three broad premises about the field of International Political Economy which form the basis of what he terms "framework for progress". First, the political and economic domains cannot be separated in any real sense, and even doing so for analytical purposes has its perils. Second, political interaction is one of the principal means through which the economic structures of the market are established and transformed. This second premise is also held by Gilpin (1975: 22), who pointed out that the dynamics of international relations in the modern world are largely a function of the reciprocal interaction between economics and politics. Third, there is an intimate connection between domestic and international levels of analysis: the two cannot meaningfully be separated from one another. When applied to the role of MNCs, Underhill's thesis is complemented by Sally's (1996: 71) analysis of the linkages between the multinational enterprise and the political environment, and also to Rosenau's (1970) concept of the "linkage phenomenon".

Rosenau (1970) listed among others two basic types of linkage processes concerning the way in which outputs and inputs in between polities are linked. First, a penetrative process occurs when members of one polity serve as participants in the political process of another. That is, they share with those in the penetrated polity the authority to allocate its values. (An example of this would be the influence of foreign MNCs in a host country).

Second, a reactive process is the contrary of the penetrative one: It is brought into being by recurrent and similar boundary-crossing reactions rather than by the sharing of authority. In this case, the actors who initiate the output do not participate in the allocative activities of those who experience the input, but the behaviour of the latter is nevertheless a response to the behaviour undertaken by the former. (An example of this would be the impact traders and foreign policy actors have on foreign polities. The impact of MNCs cannot be excluded from the reactive actions of a polity).

A major advantage of the linkage framework is that it calls attention to a major category of purposeful behaviour that is often overlooked and that ought to be the subject of extensive inquiry: those recurrent activities that private persons or groups undertake with the intent (or effect) of preserving or altering one or more aspects of the polity's external environment. MNCs are among these (Rosenau 1970: 382, 383, 391).

This study is mainly focused to a limited extent on the application of the linkage phenomenon to the role of both the actions or inactions of the state and the actions of the selected retail MNCs beyond the domestic polity.

According to Sally (1996:71) the MNE could be embedded economically, politically within the nation-state. At one extreme, MNEs may be weakly embedded in national economies which are strongly disintermediated; that is, where MNE relations with governments are brittle and frequently at arm's length. At the other extreme is a strong national embeddedness in which MNEs are deeply committed to organised long-term, usually historically-defined, relations with the government. The concept of embeddedness provides one structural dimension to the political economy of the MNE, within which relational processes linking the MNE to external actors take place, including the bargaining between MNEs and governments on public policy issues.

The national embeddedness of MNEs (domestic level of analysis) influences the way in which they behave commercially on the global stage (international level of analysis); and differences in national embeddedness point to the fact that MNEs are not undifferentiated corporate actors, but coloured, to a greater or lesser extent, by their home country particularities (Sally 1996: 73).

One facet of interdependence here is the intermeshing of domestic and foreign economic policies. MNE-related public policy extends from foreign policy issues of trade, direct investment flows, technology and skills transfer, the repatriation of profits and the like, all the way to domestic, economy-wide issues of infrastructure,

privatisation, standards-setting, antitrust, subsidies and regional development (Sally 1996: 73).

The linkage concept allows for an analysis of direct and indirect linkage phenomena. There are two basic sets of linkages. One involves those initiated by the direct outputs of polities. Actions directed at the external environment are undertaken by the government polities, so that the primary category of direct outputs consists of all those activities, both decisional and implementational, and are usually described as foreign policies. Foreign policies are recurrent forms of action – or inaction – that the duly constituted authorities of a polity initiate towards one or more objects in their external environment to secure the interests and needs of the polity. The linkage framework calls for attention to the behaviour of MNCs (Rosenau 1970: 391).

The study uses the Carlsnaes (2002) approach to foreign policy analysis to unpack the foreign policies of the South African government during Mbeki's administration. According to Carlsnaes (2002), foreign policy can be explained in terms of a tripartite approach consisting of intentional, dispositional and structural dimensions. Although analytically autonomous, these dimensions are conceived as closely linked in that they can be conjoined in a logical, step-by-step manner to render possible comprehensive explanation of foreign policy.

This approach is useful for understanding domestic-international linkages and state-market relations. In other words, the intentional, dispositional and structural dimensions are to be found within the domestic-international context as they are within the state-market relations. This approach applies to traditional foreign policy and foreign economic policy, more precisely with the latter (Carlsnaes 2002: 242, 3).

This approach, according to Carlsnaes (2002: 343), moves from the premise that a teleological explanation in terms of intentional dimension is feasible, based either on strict rational assumption or on more traditional modes of international analysis. It also means that one can choose to deepen the analysis by providing a causal determination of policy – as opposed to an explanation wholly in terms of given goals

and preferences. The factors which characterise the intentional dimension are themselves given to an actor to have this and not that preference or intention.

The distinction between the first two – intentional and dispositional - can be described in terms of an “in order to” and a “because of” dimension. The former refers to the intentional sphere, the latter constituting the link between this intention and the achieving of it. The third factor is based on the assumption that intentional behaviour is never pursued outside the crucible of structural dimension. Sometimes what appears as an intention is a logical outcome of structure (Carlsnaes 2002: 343).

This approach provides a particularly useful guide in decoding foreign policies of the South African government in Chapter 2 as well as unpacking the production structure in Chapter 3.

Without pretending to be an all-embracing theoretical framework - the type correctly rejected by Strange (1994b: 16) – an implicit combination of five approaches adopted by this study has advantages. First, unlike the state-centric realist approaches of international relations - which hold that (international) systems outcomes are a function of the distribution of power among states (Krasner 1995: 257) - the approach of this study recognises the fact that, although states remain important actors in international politics, they are no longer the sole actors. The study recognises this without seeking to undermine the role played by the state in foreign policy formulation and diplomatic activities.

Second, unlike the *Dependencia*/Marxist approaches which attach conceptually pre-determined imperialist and exploitative outcomes to multinational corporate activities, the approach adopted in this study has no pre-conceived outcome. The framework adopted in this study is merely a guide to explore and seeks to avoid circumscribed conclusions.

Third, this study allows for all the activities of diplomatic actors – both state and selected cases of non-state – and their dynamic interaction to be studied so as to

establish the outcomes of such interactions. Such outcomes, it should be stressed, cannot be pre-emptively assumed without a thorough inquiry.

Fourth, using the qualitative method, the study collects, reviews, selects and interprets information gathered in line with the outlined theoretical framework. However, there is no attempt to pedantically discuss the analytical frameworks as the study *is not* about the analytical framework. The analytical framework mainly serves as an implicit guide. The main objective is to interpret the information by deducing links coalescences and divergences between what could be summarised or tabulated as foreign policy objectives and the diplomatic strategies in the expansion of South Africa's retail MNCs.

Fifth, while acknowledging the role of retail MNCs and those of the South African government as actors, this framework also takes into account the role of the production structure of the South African economy.

#### **1.6. Sources of information**

The study uses primary and secondary sources. Primary sources include policy pronouncements by the ANC and South African government officials. Other primary sources are policy documents of the ANC and the South African government.

Parliamentary documents and reports particularly from Parliament's Portfolio Committee on International Relations and Cooperation, reports from the South African government departments and The Presidency, are vital. Also important are Annual reports of selected retail MNCs.

Secondary sources are newspaper reports and analytical pieces, books, journal, reports of international organizations and dissertations. The internet is used to access primary and secondary sources of information.

## **1.7. Conceptual clarification**

Three concepts are pertinent to this study and require clarification. These are MNCs, foreign policy, corporate diplomacy and foreign policy divergences and coalescences.

### **1.7.1. Multinational Corporations**

MNCs are companies that manufacture and/or sell products or services in several countries. Typically, a MNC operates a number of plants abroad and markets through large networks of subsidiaries. MNCs are also referred to as MNEs, global companies, transnational corporations (TNCs), transnational firms or stateless corporations (Jeannet & Hennessey 1998: 16). Robert Gilpin (2001: 278) refers to an MNC as simply a firm of a particular nationality with partially or wholly-owned subsidiaries within at least one other national economy.

According to John Dunning (1981: 388), the real significance of TNCs derives from the fact that they combine, in a single directing body, an efficient and powerful concentration of financial means, technological know-how, and distribution of expertise. MNCs have assumed a role alongside states as primary actors in the international system (Strange 1996: 296).

For the purposes of this study South African retail MNCs refer to those retail firms with investments – either through franchises, alliances or subsidiaries – in other African countries. The South African-ness of the corporations is a function of their primary domicile. They are predominantly owned and managed from South Africa. They are primarily listed on the South African bourse, JSE. However, they might have secondary listings in the countries into which they have expanded. For example, Shoprite has secondary listing in Lusaka Stock Exchange.

### **1.7.2. Foreign policies**

Foreign policies are recurrent forms of action – or inaction – that the duly constituted authorities of a polity, that is a government, initiate towards one or more objects in their external environment to secure the interests and needs of the polity (Rosenau 1970: 391). The articulation of these interests is done through various means of communication – diplomatic acts - while the combination of messages inherent in the acts or inactions makes for foreign policies. Thus, foreign policies rest at a delicate junction between domestic and international politics, and the actions of government leaders in the world arena inevitably reflect these intersecting pressures (Hook 2002: 2). This study embraces the Rosenau's (1970) definition of foreign policy. Added to this are aspects foreign policy adopted to achieve particular economic outcomes. The study refers to such aspects as foreign economic policy.

### **1.7.3. Corporate diplomacy**

Corporate diplomacy is the bargaining of firms with other entities – be they other corporations or states. As Stopford and Strange (1991: 22) put it, in the explicit bargaining between host governments and a foreign enterprise, sometimes one and sometimes the other has the “whip hand”. In this analysis, diplomacy is no longer the exclusive preserve of states, as was the case with traditional diplomacy.

Corporate diplomacy is what Strange (1994a: 107) describes as a “new dimension of diplomacy”, triggered by MNCs competition for global market share and wealth. This is forcing states to bargain with foreign firms to locate their operations within the territory of the state, and on the terms of that location. According to Strange (1997: 136), once it is accepted that politics is not limited to the conduct of politicians and governments, firms and their executives could be regarded as political actors in the language of international relations.

International firms and markets could now be considered as influential as national governments. As a result, states – with less capability to pursue independent economic policies – had to muster a new task: bargaining with, rather than directing,

transnational corporations (Lawton & Michaels 2000: 58). It is this bargaining which has been described as the new dimension of diplomacy (Strange 1994a: 107). A bargaining relationship exists between the MNC and the host government in which each side seeks to extract maximum concessions from the other (Gilpin 2000: 173).

Van Zyl (2004), in his study of the diplomacy of MNCs, cites the definition employed by Evans and Newnham (1999: 88-90), that diplomacy is a means of communication that involves the exchange of ideas, the representation of interests and negotiation. Its aim is to find common interests and areas of conflict between parties.

In the bargaining process MNCs dispense rewards and mete out punishments to states, depending on whether their interests are served. Corporations and capital are moving from place to place, finding the best location in which to do business, rewarding some governments while punishing others (Zakaria 2008: 4).

Coulombis and Georgiades (1975: 162) foresaw the diplomatic activities of MNCs quite early on when, in rather dramatic terms, they put it thus:

So despite the fact that we forecast the nation-state will win the bout against the growing threat of [MNCs], the winner will emerge substantially changed. Therefore, processes of strategy and diplomacy [between states] will no longer be the only ones typifying international transactions. The diplomats and soldiers will be given a run for their money by managers and the bankers.

Nye and Rubin (1975) also noted that corporate or economic power could be translated to political influence. If the scale of direct political actions of corporations were to be ranked, most direct political activities can be found clustered at the lower end - from the hiring of private armies, the bribery of host country soldiers or politicians, campaign contributions to political parties, legitimate lobbying of host government legislators, and advertising to influence the political climate of ideas. Corporations may have private foreign policies, so one can also think of them as having "private foreign aid policies". When the direct political role of MNCs in world politics is to be considered, it could be useful to drop the traditional assumption that states always act as coherent entities (Nye & Rubin 1975:129).

According to Barnet and Muller (1975: 89), the goal of corporate diplomacy is nothing less than replacement of national loyalty with corporate loyalty. Multinational corporations have the ***greatest political muscle*** (my emphasis) and use it in their bargaining with governments (Barnet & Muller 1975: 256). In a sense, transnational corporations are acting as ***political authorities*** (my emphasis), so much so that the World Investment Report (UNCTAD, 1992), cited by Strange (1996: 45), gave them Harold Lasswell's (1950) definition of politics: they have become part of economic decision-making over who gets what, when, where and how.<sup>12</sup>

For the purpose of this study, corporate diplomacy involves the activities of South African retail MNCs. Their expansion strategies are seen as diplomatic acts because the establishment of operations on the African continent are interpreted not only as commercial activities, but commercial acts with political significance.

#### **1.7.4. Foreign policy coalescence and divergence**

These concepts refer to whether or not there are commonalities in the external strategies pursued by a multinational company in its commercial diplomacy and the foreign policy positions of the home government. Where a commonality exists, this is described as coalescence. Where there is a cleavage, this is described as divergence.

#### **1.8. Justification of the study**

Given the fact that the study was conceived at a time when there were policy debates about the role of South Africa's MNCs on the African continent, it could be regarded as a modest contribution to the discourse.

While adding onto existing literature, the study provides another way of studying the relationships between home governments and MNCs. The sampling of specific retail

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<sup>12</sup> Lasswell (1950) provided an analysis of politics based on methods used by elites to achieve their goal of staying in power.

MNCs allows for a systemic enquiry and presentation of illustrative evidence. The approach adopted seeks to combine theories of International Politics and International Political Economy. The approach provides room for development of new ways to study the relationship between MNCs and states.

### **1.9. Scope of the study**

The study focuses on the diplomacy of the retail corporations between 1999 and 2008 – the Thabo Mbeki presidency. It is limited to a few retail corporations. This helps to sharpen the focus. The significance of the Mbeki presidency is that it was the period in which there was exponential expansion of South African MNCs on the continent. Mbeki pushed for the New Partnership for Africa's Development (NEPAD), whose major aim was to propel the African continent to a higher economic growth trajectory. As Miller (2004: 22) pointed out, albeit without saying much about the diplomacy of MNCs, South African investment attains a political importance beyond its economic impact.

In addition, according to Le Pere and Van Nieuwkerk (2006: 299), Mbeki's foreign policy philosophy formed part of a global movement to improve the conditions and plight of developing countries, particularly those in Africa. And the fact that the debates about the regulation of South African businesses on the continent began, in essence, during Mbeki's term in office, makes a compelling case for locating the study within that period.

Even more importantly, the concerns discussed above regarding the behaviour of South African corporations were raised during the presidency of Mbeki – the main driver of South African foreign policy on the continent and the architect of many of Africa's development institutional frameworks within NEPAD.

### **1.10. Limitations of the study**

Notwithstanding the aforementioned importance to the field of International Politics, the study's approach is not devoid of drawbacks. The first limitation is that it does not include fieldwork in the host countries where South African retail MNCs are operating. This is mitigated by the fact that the study uses a variety of authoritative source of information. Secondly, the limited number of MNCs, while giving it an opportunity of focusing, it nevertheless limits the reach of the study. The limitations, however, do not in any way detract the significance of embarking on such a study, which by its very nature, is not meant to be exhaustive.

### **1.11. Outline of chapters**

Having regard of the study's methodology, framework and approach, as explained above, this section briefly sketches the themes covered by the chapters.

Chapter 2 analyses South Africa's foreign economic policies during President Mbeki's administration. The principles that underlie such policies - how they were conceived, articulated and executed - are the defining features of the analysis.

Chapter 3 analyses the production structure of the South African economy. The structural power of South African capital and how it has shaped domestic policy constraints in the context of historical state-market tension and the domestic *versus* the international level of analysis form the basis of this chapter.

Chapter 4 provides, in some detail, analysis of the expansion strategies of Shoprite, Massmart, Woolworths and Pick n Pay on the African continent. The strategies are located in the context of the rationale that underpins corporate expansions.

Chapter 5 juxtaposes the foreign principles that underpinned President Mbeki's administrations foreign policies and the corporate diplomatic strategies employed by the retail MNCs. This chapter provides an indication of the coalescences and divergences between foreign policies and corporate expansion strategies.

Chapter 6 maps out the findings and conclusions of the study. Possible implications for policy and scholarship are briefly stated.

## Chapter 2

### Evolution of Mbeki's foreign economic policy

#### 2.1. Introduction

Understanding the foreign economic policies of the Mbeki administration on the African continent will provide the basis for determining the divergences or coalescences between these policies and the expansion strategies of the selected retail MNCs. This chapter analyses South Africa's foreign economic policy in the context of domestic-international levels of analysis and state-market relations during Mbeki's presidency (1999-2008). Using the framework explained in Chapter 1 - Carlsnaes' (2002) tripartite approach - the analysis seeks to answer the questions:

What were Mbeki's foreign policy intentions on the African continent?

How did his foreign policy on the African continent evolve?

What dispositional (institutional) tools (or instruments) did his administration possess?

What were Mbeki's foreign economic policies with regard to South African MNCs?

Foreign economic policies in the context of this study are limited to the state's articulated actions and preferences that had a bearing on the external behaviour or conduct of South African MNCs. In endeavouring to answer the outlined questions, this chapter traces the evolution of Mbeki's foreign policy and his early articulation of the vision of an African Renaissance, which was at the heart of his intentional dimension of his foreign policy.

The discussion on the evolution of the African Renaissance as a foreign policy vision is followed by NEPAD, as an expression of partly the intentional aspect of Mbeki's foreign policy as well as the institutional mechanism to implement his grand vision. Added to this is how Mbeki sought to restructure his office while simultaneously seeking to alter the external environment in an attempt to create institutional mechanisms at the domestic and international levels to implement his grand vision.

## **2.2. The evolution of the African Renaissance as a foreign policy doctrine**

Articulated as a grand vision, the African Renaissance served to reflect Mbeki's intentional dimension of foreign policy. It became the hallmark of his administration's foreign policy towards Africa when he took office in 1999.

For the purposes of this study it is significant that Mbeki first elaborated on the idea of an African Renaissance at a business conference while he was deputy president of South Africa in 1997.<sup>13</sup> Addressing the Corporate Council on Africa, a United States-based organisation that facilitates commercial relationships between the US and the African continent, Mbeki (1998) spoke of the need for Africa to get a larger share of foreign investments destined for emerging markets.

Mbeki appeared to have understood that the success of such a grand vision needed material (dispositional) means beyond his dispositional capacity to articulate it. In the final analysis the grand vision depended as much on economic factors as it did on political factors. The two could not be meaningfully separated.

Mbeki (1998) recognised the importance of the African business sector which, he said, had a critical role to play in continuing the African Renaissance into the 21<sup>st</sup> century. The sector should be capable of acting on its own and in partnership with international investors. Africa, according to Mbeki, had been readying herself for growth and development, fuelled by her own efforts and the profitable and safe injection of international private capital. He appealed for joint efforts to achieve African development (Mbeki 1998).

In 1999, Mbeki's advisor Vusi Mavimbela told the Foundation for Global Dialogue, a South African think-tank, that the advent of the East Asian economic miracle was

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<sup>13</sup> The idea of the African Renaissance can be traced back to Pixley Isaka ka Seme, one of the founders of the ANC in 1912. In 1905, at the University of Columbia, United States, he gave a speech on 'The Regeneration of Africa'. In June 1994, at a summit of the Organisation of African Unity (OAU), President Nelson Mandela spoke of the need to undo the destruction of Africa. After Mandela's call, Mbeki made the African Renaissance a centre piece of his foreign policy (Magubane, 1999: 10, 11, 31 & 32).

one of the most important socio-economic developments of the 20<sup>th</sup> Century. According to Vale and Maseko (2002: 127), Mavimbela contended the Asian Tigers offered hope to Africa that economic development could be rapid and could be achieved without the annexation of foreign markets through imperial physical force. Imperial strategies were not a consideration. According to Nathan (2008), Mbeki, having been an integral part of the struggle against apartheid, remained an anti-imperialist post-1994. His anti-imperialism revolved around the following themes: the political and economic power imbalance between North and South (Northern and Southern hemispheres) to the great detriment of the poor; the need to transform the UN and other international bodies in order to address global inequalities; the domineering, hypocritical and self-serving approach of Western countries that chide and bully developing states; multilateralism and respect for international law in the conduct of international affairs (cited by Firsing 2010: 75).

As Mbeki's African Renaissance ideas gained traction within his government, it was followed with a change of tack. In 1997, the DFA indicated that because of South Africa's past experiences of destabilisation in the Southern African region - and for fear of being labelled "big brother" - South Africa did not see itself as playing a leading role on the continent. But this normatively timid stance was altered by South Africa's role expectation, and by the country's self-interests in adopting a pro-active approach to African affairs (Lester et al 2000: 288).

The African Renaissance vision required more than fear for continental leadership. In a way, Mbeki had set himself up to lead continental renewal project. The African Renaissance, as articulated by Mbeki, was not meant to be an isolationist grand vision. It took cognisance of global developments and sought to negotiate means through which South Africa and the rest of the African continent could link up and participate in shaping the globalisation process, and thus reap benefits from it.

As Schraeder (2001: 232-233) observed, an emphasis on South Africa's unique position as the leader of the African Renaissance – following the strengthening of democratic practices and economic liberalisation through Africa since the fall of the Berlin Wall in 1989 – constituted an important component of foreign policy adaptation

in the post-Cold War era. This foreign policy stance was designed to emphasise the centrality of the African continent in South Africa's foreign policy. South Africa would be an embodiment of Africa's future political and economic potential.

The African Renaissance sought to position Africa as an expanding and prosperous market alongside Asia, Europe and North America, one in which South African MNCs were destined to play a special role via trade and strategic partnerships. This globalist framing of the African Renaissance was enthusiastically embraced by South African elites, whose understanding of modernisation is the generation of wealth, a world in which trade and global competitiveness are as important as the political dimension of diplomacy (Vale & Maseko 2002: 127).

The mention of the Asian Tigers as the model of what Africa could achieve was not without consequence. Mbeki sought to craft and popularise what is termed a "developmental state" – a term usually associated with East Asian countries that recorded magnificent economic growth towards the end of the 20<sup>th</sup> century and at the beginning of the new millennium. It is due to this growth that the "rise of the rest" emerged. This is phenomenal growth for non-Western countries – including those Antoine van Agtmael, Washington-based fund manager, called "emerging markets" (Zakaria 2008: 2).

Developmental states are those whose politics have concentrated on sufficient power, autonomy, capacity and legitimacy at the centre to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and promoting conditions of economic growth (in the capitalist developmental states), by organising it directly (in the socialist variants) or varying combinations of both (Leftwich 2000: 155). Mbeki pursued a developmental state within a market economy bequeathed by the racial polarisation of the past.

In 1998, at a conference on the African Renaissance, Mbeki elaborated further: central to his government's vision was the provision of a better life for Africans who would enjoy and exercise their right to determine their future. The African Renaissance would address the question of sustainable development which would

impact positively on the standard of living and the quality of life of Africans. For its renewal, the continent needed human resource development, the emancipation of women, building of a modern economic, social and communications infrastructure, the cancellation of foreign debt, an improvement in terms of trade, an increase in domestic and foreign investment, the expansion of development assistance and access for Africa's products into the markets of the world (Mbeki 1999: xvi).

Africa had to recognise that its struggle for development could not be won outside the context and framework of the world economy. The continent needed to take part in the globalisation debate for its own benefit, since the continent had not seen the results of this phenomenon. There was the need to attract into the African economy significant volumes of capital without which the development being sought would not happen. Both domestic and foreign investors, and both private and public sectors, were sources of capital (Mbeki 1999: xvi, xviii).

In 2000, the government made it clear that the African Renaissance informed its foreign policy programme during Mbeki's tenure. The vision was to be implemented through four broad pillars linked with South Africa's domestic considerations:

It would seek to achieve economic development. At the centre of this strategy would be the integration of not only the South African economy into the world system, but also those of other countries in the African continent. Such integration would advance the interests of the Africa continent;

It would pioneer social development; an exclusive focus on economic development was perceived as unwise and limited. The social development component acknowledged that technology made it possible for instantaneous dissemination of ideas, images and symbols. Africa needed to have access to this wealth of information and knowledge;

It would ensure peace and security. This was motivated by the realisation that regional conflicts were wreaking havoc across the continent, casting a dark shadow over the prospects and success of the vision of the African Renaissance. Instead of involvement by joining one or other belligerent in conflict situations, South Africa would intervene as a mediator and seek

political rather than military resolution of conflicts through legitimate international instruments; and

It would promote good governance anchored in human rights. It would not support undemocratic means to attain power (Dlamini-Zuma, 2000).

With his foreign policy vision, Mbeki had recast South Africa's hierarchy of priorities in geo-ideological and practical terms. His focus was vast in outreach. Following the restructuring of his foreign policy machinery, the 14-member SADC region was his immediate focus, followed by Africa as a whole and an active diplomacy on behalf of developing countries in multilateral institutions. These platforms provided for Mbeki what Schraeder (2002: 261) described as a "coherent template and prudent compass" – although this description could have been an over-statement of Mbeki's state-crafting and diplomacy.

### **2.3. Mbeki's foreign policy: Domestic institutional mechanisms**

Mbeki's vision needed a concrete plan and institutional mechanisms for implementation at both domestic and continental levels. After articulated his vision in speeches, Mbeki began to change the institutional architecture of foreign policy formulation and implementation.

#### **2.3.1. The Presidency restructured**

In an attempt to create dispositional means to achieve his vision, Mbeki assigned Frank Chikane, director-general in The Presidency, to restructure its operations. The restructuring was done in a manner that took into account the evolutionary stage of his foreign policy conceptualisation and articulation (South Africa, The Presidency 2001: 20). The restructuring also entailed the institutionalisation of consultative mechanisms between non-governmental actors and The Presidency. A number of presidential working groups were formed. The Big Business Working Group was among them, serving as a sounding board for Mbeki on matters affecting big business.

Mbeki's grand vision was translated into policy details during his two terms in office – from 1999 to 2008. Part of the dispositional aspect of his foreign policy was overhauling state machinery of government and foreign policy to provide greater coherence and better co-ordination – albeit not always successfully. The Presidency, as the primary locus of policy, set goals and was the architect of an over-arching vision and foreign policy philosophy. This vision formed part of the movement and normative ethos to improve the conditions and plight of developing countries, in particular those of Africa (Le Pere & Van Nieuwkerk 2002: 266).

The foreign policy machinery was restructured to ensure coordination among stakeholder departments. These were the Department of Foreign Affairs (DFA), Department of Trade and Industry (DTI), Department of Defence (DOD), and Department of Sports and Recreation. They were grouped under International Relations, Peace and Security Cluster located within The Presidency. One of the cluster's priorities was to pursue an international agenda to boost South Africa's growth and development (South Africa, The Presidency 2008: 57).

Seeing itself as being at the “coalface” of South Africa's interaction with the world was DFA which moved from the premise that the country's foreign policy was anchored on domestic policy. South Africa's progress in poverty eradication, job creation, combating crime and corruption, good governance, and respect for human rights was seen as inextricably linked with that of Africa (South Africa, Dept. of Foreign Affairs, 2002).

It is apparent from the foregoing that Mbeki sought to create an integrated policy implementation mechanism at domestic level, tightly managed at his office.

### **2.3.2. Foreign economic policy: Beyond the cluster approach**

Beyond The Presidency, which transformed itself into the nucleus of foreign policy formulation, how did other role players couch South Africa's self-interest? It is this question to which this section turns. The involvement of other role-players in the foreign policy machinery and their interpretation of Mbeki's foreign economic policy

require focused analysis. This will help the study reach reasonably comprehensive conclusions about what could be interpreted as Mbeki's foreign economic policies for Africa as articulated by him and those who served under his administration.

Domestic economic interests were often invoked in explaining the country's extensive involvement on the continent – from peace-brokering in the Democratic Republic of Congo, Ivory Coast, Burundi and Sudan, among others, to continental institutional reforms as undertaken by Mbeki in the case of the African Union formation and NEPAD. Aziz Pahad, South Africa's Deputy Foreign Minister during Mbeki's administration, argued that the resolution of Africa's conflict and development of the continent was in South Africa's own self-interest of economic growth. The increase of investments on the African continent by South African firms was thus seen as a logical extension of this self-interest. It was seen as reflective of the country's diplomatic engagements (*The Economist Survey of South Africa*, 6 April 2006: 7).

From the self-interest perspective, South Africa's foreign policy towards Africa was not dissimilar to some developed countries' foreign policy towards Africa. Like South Africa, Western countries such as Canada and Britain see Africa as a market that needs to be developed (Makgetlaneng 2004: 42). Pursuant to this, the South African government facilitated the expansion of South African firms to the rest of the African continent through the liberalisation of capital markets (Ikome 2006: 5). This analysis gave an impression of well co-ordinated foreign policy machinery that involved South Africa's private sector.

According to Schraeder (2001: 234), Mbeki's domestic priorities - reconstruction and development, as the most important - and his underscoring of the critical role of foreign trade and investment were seen as a "success" in that they led to "close cooperation" between the government and business.

The indication of this success was the penetrating of Southern African markets by South African corporate enterprises, as well as other regions of the African continent; hence, the suggestion that South Africa was a hegemon (*The Economist Survey of*

*South Africa*, 6 April 2006: 6; Schoeman 2007: 92). Whether such a logical coalescence between the government and corporate South Africa did indeed exist is a matter that will be discussed in the forthcoming chapters of this dissertation.

Mbeki's key policy advisor, Joel Netshitenzhe, argued that NEPAD was not merely a matter of African patriotism or some ephemeral love for the continent, but was impelled by profound South African self-interest. South Africa, he argued, would never be an island in a sea of poverty. Growing aggregate demand in Africa was critical for South Africa's industrial development. South Africa had its own medium and long-term needs in respect of such resources as water and energy, and the potential presented by such marvels as the Congo River Basin. Such opportunities for South Africa would also help create mutual dependencies that are crucial for true integration (Gumede 2005: 205).

Institutionally, DFA and DTI were key state articulators of foreign (economic) policies, working closely with The Presidency. The Presidency and DOD, through the South African National Defence Force played a role in peace-keeping and conflict resolution on the African continent. This was among what was recorded as "tangible elements" of the African Renaissance, in addition to the establishment of the African Union and the adoption of NEPAD, described as the "social development blueprint" for Africa and the framework for its engagement with the North and other international actors (South Africa, The Presidency 2008: 59).

The DPSA (2007) became involved, popularising aspects of the African Renaissance such as post-conflict reconstruction and development on the African continent, the African Peer Review Mechanism, a project located within NEPAD and through which African governments sought to review each other's governance credentials. The DPSA's international programme was aimed at executing international interventions based on national priorities.

The main objectives of the DPSA included:

Consolidating the African agenda;

Promoting South-South cooperation;  
Fighting corruption; and  
Promoting peace and security.

The DPSA spearheaded South Africa's accession efforts to the Organisation of Economic Cooperation and Development's (OECD) Working Group on Bribery, as well as the OECD's Convention on Bribery of Foreign Officials in International Business Transactions in 2007. Significantly, South Africa was the first African country to sign the convention (South Africa, Dept. of Public Service and Administration 2007: 2, 11).

By signing the OECD's Convention on Bribery of Foreign Officials in International Business Transactions, in 1997, South Africa introduced an important aspect in South Africa's relations with the African continent. It imposed an obligation on South Africa to live up to an anti-corruption stance on African countries which were not party to the convention.

The National Treasury was involved in activities which have foreign economic policy implications. In line with Growth, Employment and Redistribution (GEAR), it became a lead department in relaxing capital controls, allowing South African multinationals to increase their levels of investment on the African continent. By 2004, approved investments were R2-billion for Africa (including SADC), and R1 billion for the rest of the world. Also, from 2003 dividends repatriated from foreign subsidiaries were eligible for an exchange control credit, which could be retransferred for approved foreign direct investments (Farrell and Todani 2004: 28). The relaxation of capital controls was in recognition of the important role the private sector could play in development on the continent (Grobbelaar 2004b: 2).

The implementation of GEAR, the economic policy, and the promotion of wealth creation and security combined to provide a clearer – albeit contentious – definition of South Africa's foreign policy priorities (Le Pere & Van Nieuwkerk 2006: 288). Although the GEAR policy emerged under Mandela's administration in 1996, Mbeki – then deputy president - was central to its crafting and even went to the extent of

ensuring that hardcore Leftist leaders within the ANC-led alliance were converted to what is generally referred to as neo-liberal thinking (Gevisser 2007: 672).

GEAR was not only sold to domestic constituencies. It found expression in Mbeki's foreign policy – attesting to the DFA's stance that foreign policy is anchored on domestic policy. Thus, according to Gumede (2005: 204), principles underpinning GEAR found their way into NEPAD, which is discussed in greater detail below.

Although Gumede does not discuss the aspects of GEAR that found their way into NEPAD, he was probably referring to the principle of liberalisation of capital markets and the creation of a propitious and friendly environment to attract investments. In fact, Landsberg (2007: 211) reached similar conclusions when he observed important elements of South Africa's conservative macro-economic policy were being incorporated into NEPAD. This was dubbed as the "Africanisation of GEAR."

Despite Mbeki's attempts, through the cluster system of governance, to foster coordination between the respective departments in the international relations realm, these were not always successful. In the area of bilateral relations and bilateral investment treaties, the DIRCO officials have pointed out that such strategies were driven by an inter-departmental task team in the pursuit of attracting foreign direct investment and an open economy. Overall, there was lack of a consistent approach to bilateral policy-making and strategic planning. Similarly, officials from The Presidency took guidance from the DFA, as they did not draft any policies pertaining to South Africa's foreign political and economic relations. Within the DTI, the Trade and Investment South Africa unit rarely coordinated their work with the International Trade and Economic Development division. Sufficient coordination across all levels of government to ensure a streamlined focus in relation to South Africa's international relations was lacking (South Africa, Dept. of Trade and Industry 2009a: 15, 22).

The cluster approach of decision-making created many micro-policy pitfalls, not only between departments but also within them. At some stage, officials within the DFA, including missions abroad, felt excluded (Landsberg 2005: 749-750). Based on this lack of coordination, Schraeder's (2002: 261) description of Mbeki's policies as

having been set on a “coherent template and prudent compass” is suspect, if not entirely devoid of substance. At this level of dispositional means to execute what required well-oiled machinery, Mbeki’s policies encountered significant challenges.

It is evident from the foregoing that Mbeki sought to build a new institutional architecture for his foreign economic policies even as his government continued to implement certain policies that had a bearing on South African MNCs. The relaxation of capital controls to improve investments by South African MNCs on the African continent and the stated intention to encourage such investments were key foreign economic policies.

Institutionally, a plethora of South African government departments within and beyond The Presidency were involved in executing various aspects of Mbeki’s policies on the continent, arousing tensions in some cases.

#### **2.4. Mbeki’s foreign policy: External institutional mechanism**

An institutionalist of note, Mbeki sought to create not only domestic institutional architecture to achieve his goals. He also contributed towards the creation of an external platform on which to execute his foreign policies.

While redesigning his domestic machinery, Mbeki simultaneously pushed for changes at the international level – ostensibly to create a propitious dispositional environment for the attainment of intentional goals espoused in the grand vision. The bigger vision was to extend the integrated approach of domestic policy-making through cooperation with Southern African neighbours to build a regional economic competitiveness (South Africa, The Presidency 2001: 20).

In a way, this could be reflective of Evans’ (1999: 627) prediction that South Africa, under Mbeki, would be on a quest to obtain maximum economic concessions from as many regional blocs as possible. This would be done while simultaneously concentrating on the areas within which South Africa has a competitive edge: the Southern African sub-region where South Africa enjoys a trade surplus. The logic of

this position would dictate that a winning strategy would be to pursue policies designed to wrest concessions from the global core and at the same time enlarge its share of the African market.

Evans' (1999) seemed to anticipate coherence between the domestic, regional and even global plank on which Mbeki sought to executive is policies. This thinking appears to collapse South Africa's foreign policy and foreign economic policy as coherent and systemic policies. This is a matter to which the study will return.

There were indications, though, that some of the domestic priorities had indeed found expression at the external level. The four pillars articulated by Mbeki's Minister of Foreign Affairs, Nkosazana Dlamini-Zuma (2000), found expression in NEPAD – a blueprint for Africa's developmental goals that was adopted in 2001 by the Organisation of African Unity (OAU), the AU's precursor. This was among the strongest indications of Mbeki's hand in NEPAD's concept document.

Consequently, South Africa viewed SADC as an implementing agent of NEPAD. South Africa's vision for the Southern African region was one of the highest possible degrees of economic cooperation, mutual assistance and joint planning of regional development initiatives, leading to integration that was consistent with socio-economic, environmental and political realities. South Africa saw NEPAD as the continent's instrument to advance people-centred development, based on democratic values and principles. Its success was to be dependent on Africans themselves. Africans needed to cooperate in areas such as intra-African trade, transport and joint regional infrastructure development, as well as information and technology. NEPAD was about genuine partnership between Africa and the rest of the world instead of paternalism (South Africa, Dept. of Foreign Affairs 2002).

In essence, Mbeki's concept of an African Renaissance was a curtain-raiser for his ambitious and energetic campaign for NEPAD (Vale 2002:139). The government saw NEPAD as the operationalisation of the African Renaissance vision (DFA, 2002). There was a desire to reinvigorate South Africa's foreign policy in terms of a broader continental – and even global – agenda that conformed, in the first instance, with the requirements of a developing country in an impoverished region and,

second, with the normative precepts of Mbeki's own articulation of the African Renaissance (Alden & Le Pere 2004: 287).

The African Renaissance has had other implications for foreign policy. The Mbeki administration made a serious attempt to bridge the gulf with the rest of Africa. It identified a common destiny for South Africa and the rest of the continent. South Africa, under Mbeki, stressed the need for an African commonwealth as opposed to any (contested) national interest. According to Vale and Maseko (2002), the idea was promoted that the transformation of society at home (domestic level of analysis) must ultimately grow in line with the advancement of African development in general (international level of analysis) – (Bischoff 2003: 191).

The conceptualisation of the African Renaissance informed the over-arching framework of South Africa's foreign policy which was NEPAD (Hughes 2004: 9). The NEPAD strategy set forth two broad goals: one political and one economic, neither achievable without the other. From a political perspective, the document stresses the importance of good [political] governance, peace and security as conditions for sustainable development. These political goals are, in turn, a precondition for attracting investments – both domestic and foreign – on the continent. From an economic perspective, at the heart of NEPAD, are four outcomes: Economic growth, development and increased employment; reduction of poverty and inequality; diversification of productive activities, enhanced international competitiveness and increased exports; and increased African integration (African Union 2001: 15).

NEPAD is predicated on, and consistent with, core philosophical tenets of South African foreign policy such as a commitment to multilateralism, human rights and global governance reform. NEPAD is quintessentially a visionary idea in documentary form. While setting concrete targets for the achievement of the United Nations Millennium Development Goals, it is clearly propelled by a vision of a transformed African continent and a reconfigured pattern of African-global trade and investment relations. The ideological premise for NEPAD is squarely located within the concept of an African Renaissance (Hughes 2004: 79).

While Mbeki played a central role in guiding the drafting process, (African Union, African Peer Review Secretariat 2007: 155), the final NEPAD document reflects a broad consensus between the technocratic drafters and the initiating heads of state on the need for political and economic good governance and the imperative for investor-friendly policies across the continent (Hughes 2004: 87). NEPAD was adopted by the OAU in 2001, providing long-term political direction to South Africa's regional integration efforts in Africa (South Africa, The Presidency 2003: 66).

NEPAD's document further states that a significant proportion of domestic savings in African states is lost due to flights of capital which could only be reversed if African economies become attractive locations for residents to hold their wealth. Therefore, there was also an urgent need to create conditions to promote private sector investments by both domestic and foreign investors (NEPAD, 2001: 36). This provision led to the conclusion that Mbeki's influence ensured that elements of GEAR, such as the need to create a propitious environment for investments, were found in NEPAD (Landsberg 2007: 211).

Assessing South Africa's role on the continent in the first decade of democracy, Dlamini-Zuma (2004) observed that South Africa had been fully integrated into the world as a responsible member of the international community, and had conducted itself in a manner consistent with the ideals and values enshrined in the South African constitution, in particular the promotion of democratic governance founded on the pillars of non-racialism and non-sexism. South Africa established itself as a force in contributing to the global effort for sustainable peace and people-centred socio-economic development based on a firm belief in multilateralism and rules-based international order. The government also expanded the horizons for its citizenry to freely exploit opportunities across international boundaries. South Africa was a truly established African country (Dlamini-Zuma 2004).

One can reasonably conclude that from the conceptualisation and articulation – both at the domestic institutional and external institutional levels - Mbeki's foreign economic policy articulations sought to attract investments onto the African continent. Africa's development depended on private sector commitments.

His foreign policy articulations suggest he would have liked to see more domestic corporations leading the charge with regard to investment on the continent. This is not to discount his strong messages about the role of Foreign Direct Investment in general, in aiding sustainable development on the African continent. Indeed, NEPAD was premised on attracting FDI as a means to realise development in a context of a political peaceful and stable environment underpinned by democratic ideals.

## **2.5. Foreign economic policy: Expected role of South African business**

Although foreign economic policies which had a bearing on South African MNCs operating on the African continent were coached in broad terms, there have been instances where Mbeki's administration attempted to be precise to a certain extent.

According to the DFA's 2002-2003 Strategic Plan, the department's priority areas were to boost its capacity to advise South African firms on international investment trends. In addition the department sought to promote an investor-friendly environment in South Africa and other African countries. Regional harmonisation of investment strategies and addressing the negative perceptions about the South African business community and aggressively marketing South Africa and the Southern African region abroad were some of the priorities.

Some of these responsibilities appeared to belong to the DTI whose primary role was to promote trade and investments. The fact that the DFA had taken it upon itself to perform these functions was a clear indication that Mbeki's redesign of his foreign policy machinery to ensure coordination (rather than overlap and competition) among departments did not entirely succeed.

Mbeki's administration encouraged South African MNCs to expand their foothold throughout the African continent. Through the prism of the power of the South African corporations, Mbeki's Trade and Industry Minister Mandisi Mphahlele (2007: 9) told the Export Africa 2005 conference that the South African government was

supportive of its domestic businesses becoming more involved in Africa, as a contribution to Africa's much-needed economic growth.

According to the United Nations Conference on Trade and Development (UNCTAD) (2006), the internationalisation of South African firms into the rest of the African continent accelerated after 1990, following the removal of sanctions imposed on the apartheid regime and the government's liberalisation of outward Foreign Direct Investments (UNCTAD 2006: 126).

By liberalising outward FDI, through relaxation of exchange and capital controls, South Africa directly facilitated capital outflows to the Southern African region (and the continent), while in a way responding to pressures of the companies who wanted to list off-shore. By 2002, mining MNC AngloGold Ashanti and MTN, the telecommunications MNC, each derived more than half of their group worth from their African activities (Miller et al 2008: 3). In this case, these MNCs triggered a regulatory response from government; not the other way round.

While the DTI saw its responsibility to speak about investment issues affecting South African businesses on the continent, the Foreign Affairs Ministry was also unrelenting in performing the same role. This represented some kind of institutional tension. But the tensions between DFA and DTI, coupled by perceived internal weaknesses in the former, dated back to Mandela's administration. There also tensions between the DFA which was reduced to a supporting role to the DOD in relation to piece keeping initiatives (Le Pere & Van Nieuwkerk 2006: 286).

These tensions notwithstanding, Mbeki, according to The Presidency (2001: 20), wanted to extend his vision of an integrated approach of domestic policy-making to Southern Africa in order to build regional competitiveness in a thoughtful and regionally integrated way.

Furthermore, Dlamini-Zuma (2007) saw Africa as a "laboratory of possibilities". She boasted that South Africa had become the biggest investor on the continent. She encouraged businesses affiliated to the National African Federated Chamber of Commerce to invest on the African continent. Government was prepared to do all it

could to assist their expansion. Sectors that South African businesses needed to exploit included construction, small-scale mining and beneficiation, mining, oil and gas. Business was also advised of opportunities in agriculture and agro-processing, textiles, hospitality, tourism, handicrafts and interior decoration. Marine resources were also important, as well as the provision of infrastructure such as telecommunications and roads, among other things (Dlamini-Zuma 2007).

This was seemingly premised on the acknowledgment that South Africa's interests – politically and economically – were intrinsically linked to those of the African continent. The DTI's global economic strategy stated that economic growth on the continent would provide markets for South African products and provide impetus to create an integrated manufacturing economy that South Africa sought to build. Economic deterioration in Africa would limit South Africa's markets and produce a negative interdependence. This could include security threats to South Africa (South Africa, Dept. of Trade and Industry 2001: 3).

South Africa's foreign economic policy strategy on the African continent was informed by two precepts, both of which sought to correct regional imbalances – investment and trade – which were invariably in favour of South Africa. These predicated that:

Democratic transformation, stability, security and economic development could not be assured if the Southern African region continued to confront underdevelopment, instability, poverty and marginalisation; and

Regional economic cooperation and integration offered an opportunity for regional industries to overcome the limits of small national markets, achieve economies of scale, and enhance competitiveness as a platform to participate in the global economy (South Africa, Dept. of Trade and Industry 2009a: 44).

According to the DTI (2002: 1), a key department on economic and trade policy, the rest of Africa is of strategic importance to the objectives of South Africa's post-1994 trade strategy, which has been to overcome the country's previous isolation from international markets and to grow exports and inward investment through, inter alia, establishing long-term access to key markets. For the DTI (2002:4), maintaining and

expanding economic and trade links with the rest of Africa is of strategic importance to South Africa's foreign economic and trade policy for two reasons:

Being the leading economy in Africa presents the country both with unique trade and investment opportunities, but also with the challenge of systematically contributing to the continent's economic revival and development; and

South Africa faces potential market competition on the continent from major developed world players such as the European Union and the United States, whose own trade strategies envisage securing preferential market access for themselves on the continent (Makgetlaneng 2003: 96).

According to the DFA's 2002-2003 Strategic Plan, priority areas for cooperation included promoting increased investments and trade. Where investment promotion was concerned, the department was to focus on boosting its capacity to advise South African businesses on international investment trends, promotion of an investor-friendly environment in SA and other African countries, harmonisation of regional investment strategies and addressing negative perceptions about the South African business community.

Significantly, the "negative perceptions" about South African investments on the continent were not spelt out. But, the concerns were expressed six years later when it was stated that there was a need to continually improve the conduct of South African companies on the continent, in line with the values and ethos contained in the South African constitution (South Africa, The Presidency 2008: 63).

This concern was further expressed differently when DIRCO (2010) stated that the dominant perception was that South African business was neo-colonial in its mode of operation, showed little regard for local labour laws, and failed to discharge expected social responsibility as well as transfer of knowledge to the local population. South Africa should work towards developing a balanced growth relationship with countries in Africa and ensure that companies play a role in the development of the economies in which the companies invest through, inter-alia, local (host country) procurement.

(Although this assertion was articulated post the Mbeki administration, it is instructive as it carries through the dominant narrative of his administration).

According to DIRCO (2010), there was a need to ensure that South African companies which invest in other African countries promote Brand South Africa through the exercise of fair labour practices and development of local suppliers.

DIRCO and the DTI have been trying to craft a joint economic-diplomacy strategy, ostensibly to deal with the policy gaps in government and historical institutional tensions between the two departments. The new strategy would acknowledge that South Africa's foreign policy – characterised as a liberal-democratic egalitarian framework, with emphasis on human rights, peace-keeping and conflict resolution – had not been linked with the country's commercial interests. Government would therefore need to encourage South African businesses to conduct themselves as commercial ambassadors for the country on the African continent and other emerging markets. The government would have to engage with South African companies in a constructive manner on their role in the continent and to ensure that both pursue common interests. In terms of the new strategy, South African companies doing business on the African continent would refrain from exploiting, directly or indirectly, those that are vulnerable to their actions, and this includes issues of the environment and labour standards, as well as neglect of obvious social challenges in countries where they operate. In the same vein, government would then ratchet up efforts to assist businesses that wanted to access markets in Africa in line with South Africa's domestic policies (South Africa, Dept. of Trade and Industry, and Dept. of International Relations and Cooperation 2009: 14).

Although DIRCO's policy proposals fall outside the period under review in this dissertation, they are nevertheless significant, as they indicate a hitherto lack of Africa investment policy (a component of foreign policy) for South Africa. The harmonisation of investment policies and foreign policy is now seen as the next policy agenda for the government, as it acknowledged that economic diplomacy had moved to centre-stage in international relations and now extended beyond commercial diplomacy (South Africa, Dept. of International Relations and Cooperation, 2010).

Although the new policy harmonisation appears to be at its embryonic stage, it would appear that the assumption about the need for South African businesses to play ball may have been done on the basis of the government's own subjective expectations. Such expectations may have been driven by an idealistic notion of partnership even in instances which require the cold rigour of competition for market share.

A key part of Mbeki's foreign economic policies was fostering of economic integration. South Africa became an active participant in several regional integration efforts including the Maputo Development Corridor and cross-border game parks aimed at developing a Southern African tourism sector. These projects were part of South Africa's grand scheme to integrate Southern Africa into the global economy, from which the sub-continent ought to benefit. It was acknowledged that, in the long run, sustainable reconstruction and development in South Africa required sustainable reconstruction and development in the Southern Africa region as well as on the continent at large. The bigger vision was to extend the integrated approach of domestic policy-making through cooperation with Southern African neighbours to build a regional economic competitiveness (South Africa, The Presidency 2001: 20). Clearly, Mbeki's foreign policy was so ambitious it included exporting policy-making procedures to the Southern African region.

In the twilight of Mbeki's presidency, Dlamini-Zuma (2008) reported some progress on NEPAD, in addition to acknowledging Mbeki's leadership role on the continent, with the launch of the Pan African Infrastructure Development Fund in 2007. This fund would drive and sustain Africa's infrastructure development in the fields of transport, energy, water and sanitation, and telecommunications.

The preceding discussion illustrates clearly that the Mbeki administration envisaged a leadership role for South African on the African continent. While the political aspect of it was clear, judging from Mbeki's involvement in the drafting of NEPAD, it was entirely clear how the South African government wanted South African business to expand into the continent. There was already evidence that, soon after 1994, many companies expanded northward; hence the relaxation of capital controls is attributed to business pressure on the government to enable them easy expansion rather than it having been purely a government initiative.

While South Africa's leadership role was clear from a political point of view – for example in the conceptualisation of NEPAD - its corporate aspect was not clearly discernible. The role-expectation of South African business was not proactively articulated, save for Mbeki's advice that there should be "partnerships" between states and businesses to ensure sustainable development and, of course, the DFA and DTI's stated intention to promote South African business expansion.

The DTI (2009) concluded that no coordinated policy existed with regard to outward FDI. The Africa desks of the DTI and DFA pointed out that they relied on statements emanating from the Presidency in relation to NEPAD and South Africa's attempt at strengthening political relations on the African continent. But neither the NEPAD secretariat nor the African Union were found to have comprehensive strategy documents with respect to investment in Africa.

The SADC Protocol on Finance and Investments had not been harmonised with South Africa's bilateral investment treaties. The protocol has also been described as failing to cater for intra-SADC investment, the latter being a factor which is directly relevant to South Africa in respect of its *de facto* intra-African investment stance and the sizeable investment which South African companies have made in Africa. Significantly, the bilateral investment treaties South Africa enters into with African countries have been largely influenced by private sector interests (South Africa, Dept. of Trade and Industry 2009a: 17).

In this regard, Miller et al (2008: 1) were correct in their analysis that Southern Africa's economy structure had been reshaped by South Africa-led regional economic integration against the backdrop of globalisation, neoliberal reforms and NEPAD. However, the precise direction and implications of this process remained unclear for South Africa, the investment-receiving countries and the economic coherence of the SADC bloc as a whole.

Three factors paint a contradictory, if not chaotic, picture of South Africa's foreign economic policy articulation. First, the conclusion reached by Hughes (2004: 86) in his assessment of NEPAD that South African business made no input into its formulation. Second, DIRCO and the DTI's admission that there was lack of

coordination between business and government interests in promoting South Africa's foreign policy on the African continent. Third, the DTI's observation that South Africa's bilateral investment treaties on the African continent have been largely influenced by the private sector.

The Mbeki administration's assessment and progress report of NEPAD's implementation by August 2007 makes no explicit mention of the role of South African MNCs, either as implementation agents or as subject to specific policy requirements by the government. The assessment is largely state-centric, discussing mainly the role that African states, particularly South Africa, need to play to promote NEPAD (Dlamini-Zuma 2007). However, when the Programme of Action to Improve Governance in South Africa – a programme conceived after the AU-sanctioned African Peer Review Mechanism (APRM) – completed its review, it had implications for corporate South Africa. It pointed out under the section on corporate governance that national development imperatives needed to inform the planning and conduct of companies in the private sector (South Africa, Dept. of Public Service and Administration 2007: 8).

The national objectives included economic growth, job creation and poverty alleviation, while at the same time realising returns for shareholders (DPSA, 2007: 10). Implicit in this requirement is that the South African business sector was not attuned to these domestic goals.

The priorities of the government and the private sector were sometimes a point of tension during the Mbeki administration. It is, therefore, curious that the Mbeki administration could seek to marshal corporate South Africa's conduct on the African continent, albeit without a clear and coherent policy framework, while his administration was at the same time admitting to have failed to do the same domestically. Although the code of good business practice was mooted during the Mbeki administration and was among the policy positions adopted at the ANC's 2007 conference, it was never implemented.

In addition to the above-mentioned expectations, the NEPAD Business Foundation, through which business sought to support NEPAD projects, was formed at the

behest of Mbeki's office to facilitate opportunities for business on the African continent. In a foreword to the NEPAD Business Foundation magazine in 2007, Mbeki (2007) stated he did not expect government to work alone to fulfil the goals of NEPAD. The private sector and other stakeholders needed to partner with governments on the African continent.

Through this channel business signed declarations of support to NEPAD and committed to work with the NEPAD secretariat to develop effective public-private partnerships to support NEPAD (Khoza 2007: 30). According to Khoza (2007), companies and institutions who were members of the NEPAD Business Foundation included the King Commission on Corporate Governance, the JSE, and the South African Chamber of Business, which represents about 20 000 small and big companies, state-owned lender Industrial Development Cooperation, accounting and auditing firms, Deloitte & Touche, PricewaterhouseCoopers and Ernst & Young. They committed to contribute towards social responsibility projects, elimination of bribery and corruption and ensuring sound accounting and audit practices. Members of the NEPAD Business Foundation included both local and international companies.

Given the preceding, it would appear that there is validity to Underhill's (2000: 821) analysis that preferences of market agents and other constituencies of market society are integrated into the institutions of the state through policy and regulatory process at domestic and international level of analysis, depending on their individual and organisational capacities and coherence and, of course, power. But whether this necessarily results in coalescences or divergences is an issue to which this study will turn in Chapter 5.

The South African government has conceded a lack of policy coordination. It has tacitly admitted to failure in crafting coherent investment policies for the African continent. The declaration of support to NEPAD by some MNCs did not stop the ANC from proposing a code of conduct that would govern the operations of South African MNCs on the African continent.

## 2.6. Summary

Given the poor policy articulation and intra-governmental haphazardness of foreign economic policy co-ordination, Mbeki's administration would not have been in a position to claim that it had a recognisable policy in place to which South African MNCs could subscribe.

However, within the context of poor co-ordination, certain policy desires – in other words, intentional dimension of foreign policy – could be deduced from government's articulations of its preferences. Broad principles could be deduced from the foregoing discussion about what constituted South Africa's foreign economic policy principles under the Mbeki administration.

First, at the evolution of his African Renaissance vision, Mbeki set forth the importance of partnership in the exploitation of African resources. Although it was ambiguous in the sense that it was not clear whether the partnership meant partnership between foreign investors and Africa-owned firms, or partnership between foreign investor and the host government, or home government. However, the principle of partnership could be extended to mean all three aspects, as there is none that appear irrelevant in Susan Strange's formulation of the concept of triangular diplomacy, which is discussed in Chapter 1;

Second, the Mbeki administration articulated the principle of African development explicitly devoid of annexation of foreign markets through imperial physical force;

Third, there was the principle of achieving development through trade investments, while ensuring that trade deficit with African countries is contained, or lessened;

Fourth, there was an ethical component that was expected of both the government and South African multinational corporations in their external behaviour. The signing of the Organisation of Economic Cooperation and Development Convention on Bribery of Foreign Officials and International Business Transactions meant that South Africa's business dealings on the African continent ought to be above board, even though the African countries

in which the South African MNCs were doing business were not signatories to the convention;

Fifth, a broad principle could be discerned that the Mbeki administration sought to achieve integration of markets and diversification of African economies;

Sixth, there emerged an intention to extend the domestic value system – in the form of labour laws and rights - to the external environment; and

Seventh, there was an clear intention to foster regional integration on the African continent;

Finally, South Africa sought to implement its foreign policy objectives through multilateral institutions such as the AU and SADC.

It is against these principles as articulated by the government, though not put into a coherent policy, that an assessment of the linkages with the diplomacy of the South African retail corporations on the African continent could be made. But this analysis, which is the subject of Chapters 5 and 6, would be incomplete without the historical structural dimension of the South African economy and how this constraints or enables certain actions by the South African government and the South African retail MNCs. Chapter 3 analyses the production structure of the South African economy.

## Chapter 3

### **South Africa's production structure and the political economy of retail expansion into the rest of the African continent**

#### **3.1. Introduction**

South Africa's retail MNCs did not emerge in isolation from the broader South Africa's production structure. Nor can the analysis of their expansion into the rest of the African continent be de-linked from the rest of the South African economy. This chapter, therefore, discusses production structure of the South African economy both as a constraint and an enabler of the policy intentions of the government.

Taking the discussion in the preceding chapter further, the chapter locates the retail sector within the South African production structure. It further analyses general role expectation, interest articulation and behaviour of the South African government towards the corporate sector. Such articulation is situated within the historical context of post-apartheid government-business relations. This chapter is not an exhaustive account of the South Africa's production structure, but focuses only on aspects salient for the study. This includes the consequences of the government-business relations in general.

Pursuant to the study's domestic and international levels of analysis approach, among others, the external environment on the African continent and its broader role in allowing for greater foreign direct investment by South African companies are critical in this chapter. And so are links between the retail sector and the South African production structure and how this translates to the external environment on the continent.

This analysis takes into account the fact that South Africa's production structure was shaped by factors such as policy of apartheid; the adoption of the Constitution of the Republic of South Africa (Act No. 108 of 1996); GEAR economic policy, the liberalisation of the external business environment and the policy of B-BBEE. In

addition, the analysis takes into account the dual role of the state: to please South Africa's business sector by trying to ensure its continued growth while at the same time seeking to discipline it.

### **3.2. The structural power of capital**

Who decides what is to be produced, by whom, by what means and with what combination of labour, capital and technology and how each shall be rewarded is a fundamental question in political economy (Strange 1994b: 29). This is at the heart of how the production structure is constituted domestically and internationally, and who wields power in an economy. As Gilpin (1975: 47) observed, applying the core-periphery model, the core or dominant economy organises and manages the international economic system in terms of its own interests. The same can be said about the dominant producers at a domestic level; they do so in a manner they believe serves their interests.

Typically, capitalists pursue the creation of wealth, which has a direct correlation to the availability of goods and services in the market. For government, wealth creation means an expanding tax base to finance the operations of the state and the creation of jobs (Ahiakpor, 1990: 20). In a capitalist economy like South Africa's, the combination of the factors of production to produce particular products or services is largely the role of the private sector, though state-owned enterprises, including state monopolies, play a significant role in the economic domain. In addition, the state also plays the role of a regulator that seeks to facilitate economic growth, whose proceeds are subjected to taxation (Strange 1994b: 80). But the structural power the capitalist class enjoys in South Africa (in determining economic outcomes) goes beyond command of the means of production and wealth (Terreblanche 2002: 74).

Strange (1994b: 29) might have been referring to South Africa when she observed that the class in a position to decide to change the mode of production can use its structural power over production to consolidate and defend its social and political power, establishing constituency and setting political institutions and laying down legal and administrative processes and precedents that make it hard for others to

challenge or upset. The role of South Africa's capitalist class during the period under review shows clearly that its interests were to secure an economic policy deal from the emergent democratic state that would guarantee its interests and, more than that, expand its production base (Terreblanche 2002: 74).

Strange's (1994b) conception of the production structure is partly derived from Robert Cox (1987) who analysed relations of production from the perspective of the Gramscian school. The hegemonic state and class act together at all levels – state, international organisation and in the production structure - to advance their interest (Strange 1996: 24). Strange (1994b: 29) argues that the social and political power context determines the “what” and the “how” of production, and that within these modes there is a dominant and a subordinate group of people. The dominant group controls production; the subordinate group works under its control. To explain this basic cleavage, it is necessary to refer to factors whose control origins lie outside of the immediate production process in the ambient society. The dominant group is usually drawn predominantly from one class and the subordinate from other classes (Cox 1987: 18). In the context of South Africa, the matter of who belonged to the dominant and who to the sub-ordinate group was for a long time invariably not only a function of economics but also of race – precisely the political economy of colonialism and apartheid.

The post-1994 political economy of South Africa validates Underhill's (2000) observation that the production structure has a huge impact on society, its more formal institutions of governance, the rules by which it lives and who has the power over whom. In addition there is the continuing tension between the private interests of individuals and the needs of the wider community – tension between the pursuit of self-interest and the public good (Underhill 2000: 816).

Having theoretically mapped out the power of those who decide what is to be produced and the political power inherent in this, an analysis of the relationship between the South African production structure and the state is critical. How has the power of corporate South Africa played itself in relation to the post-apartheid

government? And what is the place and role of retail MNCs? Moreover, what is its role in South Africa's economic diplomacy?

### **3.3. South Africa's capital and the state**

Since 1994, when South Africa became a democracy, relations between the country's business and the state have been characterised by both tension and interdependency. It would be difficult to appreciate these relations if the focus is exclusively on the period under consideration (1999 to 2008). Since this period is a product of the political economic developments preceding it, a historical context is therefore appropriate.

#### **3.3.1. Clearly defined polarisation**

During apartheid, a great ideological distance existed between the South African corporate sector and the liberation movement with regard to a desirable economic system for South Africa. The corporate sector operated within the protective framework of the capitalist-oriented Western world, despite the fact that the domestic system of colonial and racial capitalism recognised neither the democratic freedom nor property rights of black Africans. Within this framework, the corporate sector was neither overtly critical of the racist character of the South African dispensation, nor of the violation of the human rights of blacks and others opposing apartheid (Terreblanche 2002: 51).

In fact, the corporate sector benefited immensely from this order. The system of migrant labour, for example, secured labour-power at a cheap rate by allowing only the male labourer into the areas of capitalist production, thus forcing his family to remain in the rural areas, eking out subsistence from the land as well as what little he was able to send to them (Innes 1984: 142). Modern South Africa was built on one of the most vicious forms of labour exploitation in the history of capitalism. The evolution of segregation and the migrant labour system into an apartheid system sought to crush all black initiative and to protect all white interests; hence the intertwined nature of apartheid and capitalism (Hirsch 2005: 13, 26).

The racist nature of South Africa's capitalist system didn't originate with apartheid. The apartheid system only took it to the extremes. The exploitative nature of the apartheid capitalist system could be traced back to the colonial system which laid the foundation for a modern South Africa. The political elites and business class of the colonial era formed a collaborative exploitative system. The establishment of De Beers Consolidated Mines Limited, led by Rhodes, in 1888 was preceded by legislation, at Rhodes' behest, to enable exploitation of labour and the creation of monopolies in the diamond mining sector. Black South Africans were not allowed to own stakes in the mines – an industry which would define future of the modern South African economy (Meredith 2008: 113).

This exploitative monopoly system was perpetuated further when the growth of Anglo American, a giant mining house run by Ernest Oppenheimer, resulted in the takeover of De Beers Consolidated Mines Limited on 19 December 1929. Oppenheimer founded Anglo American Corporation in 1917. Like Rhodes, who used his position in the colonial parliament to sponsor legislation that favoured De Beers, (Meredith, 2008), Oppenheimer did the same, using his position in parliament to amend the Diamond Control Act (Act no. 39 of 1925) to weaken De Beers' hold on the diamond trading syndicate which was registered abroad. Oppenheimer shrewdly eclipsed De Beers by inserting a clause in the legislation giving preference to local buyers whenever there was a dispute among dealers in the diamond trading market. Anglo American's trade syndicate was registered in South Africa. This effectively gave Oppenheimer's mining empire monopoly over the buying of diamonds. It also paved the way for Anglo American to take over De Beers. The centralised control of mining operations allowed mining entrepreneurs to manipulate production and output of commodities in line with market demand (Innes 1984: 105,106).

Anglo American diversified its interest, spreading its tentacles across the economy. It invested in explosives and mining equipment, banking, industrial commodities (steel, paper, and chemicals), engineering, and consumer goods, including beer and furniture (Fine & Rustomjee, 1997). Innes' (1984) detailed study about the evolution of Anglo American showed that the industrial boom of the 1960s was a direct off-

shoot of the company's strategy to diversify into manufacturing and finance. Thus, South Africa reached a position in which monopoly companies dominated the economy. Anglo American's interests outside the mining sector were held consolidated under a separate division: Anglo American Industrial Corporation. The company's interests included finance, steel and paper production (Innes 1984: 222).

It was evident during the period leading to the establishment of De Beers and consolidation of the mining sector under Anglo American that the overall strategies of the corporate sector and the political elites were in tune with each other.

The dominance of so-called English capital in the South African economy predominantly featuring De Beers and Anglo American did not benefit Afrikaners. According to Goldstein and Richard (2009), this contributed to the rise of National Party in 1948, that brought with it two profound changes in the South African economy. According to Clark (1994), cited in Goldstein & Richard (2009), the state-owned enterprises became a vehicle for Afrikaner-focused economic development and to provide some autonomy from foreign producers in the light of sanctions imposed by countries opposed to apartheid, the overarching policy of the National Party (Clark 1994). Among the companies formed were Sasol (originally Suid Afrikaanse Steenkool en Olie – South African Coal and Oil) to convert petrol and diesel from coal using Fischer-Tropsch synthesis. Second, the introduction of apartheid forcibly removed blacks to townships and homelands where basic economic infrastructure was lacking (Goldstein & Richard 2009: 246).

The political economy of apartheid was essentially about the state aiding the establishment of Afrikaner capital which it used as a political survival tool and to improve the lives of Afrikaners. There was a striking similarity between the rein of English capital and the rise of Afrikaner capital. Both were propelled by the legislative instruments of an undemocratic South African state which, among other things, secured the supply of cheap black labour.

The capitalist class during apartheid was extremely hostile towards communism, socialism and state intervention in the economy – policies which were popular in the

liberation movement. The liberation movement was highly critical of the racist character of the South African dispensation. And because of its close links with the South African Communist Party, and the support it received from countries in the communist bloc it favoured a socialist-oriented economic system for a liberated South Africa. To this extent, it advocated for the nationalisation of gold mining and other industries (Terreblanche, 2002: 51). The writings of Govan Mbeki (1991), a communist party intellectual, while serving time on Robben Island for his anti-apartheid activities, bear testimony to the mistrust that existed between the government and the liberation movement. Analysing the rise of Afrikaner capital and impoverishment of blacks, he remarked:

Thus there has emerged a clearly defined polarisation (Mbeki 1991: 39).<sup>14</sup>

This clearly defined polarisation would feature in the transitional negotiations leading to the democratisation of South Africa. It would also shape the relationship between the South Africa's corporate sector and the new democratically elected government post 1994.

### **3.3.2. From pre-1994 enemy construct to post-1994 mistrust**

When informal negotiations between the corporate sector and the democratic movement began in the late 1980s in a bid to end apartheid the ideological gap between the two parties could hardly have been greater. It was, therefore, not surprising that both parties were mutually mistrustful and suspicious (Terreblanche, 2002: 51). It was for this reason that at the initial stages of secret talks the informal talks had to dismantle the "enemy construct" and to create a construct around the idea of "negotiating partners" between the role-players (Esterhuysen 2012: 90).

Prior the negotiations, domestic and external forces on the one hand, and market and political pressures on the other coalesced to temper the ideological distance between the democratic movement and South African corporate sector. Political instability caused by apartheid was increasingly becoming unbearable – if not

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<sup>14</sup> Govan Mbeki (1910-2001), father to South Africa's former Thabo Mbeki, was imprisoned for 24 years on Robben Island by the apartheid government for his anti-apartheid activities.

unprofitable – for the corporate sector (Terreblanche 2002: 51). By 1989, domestic political unrest had become common and the international community was fast losing patience with the apartheid regime. These factors, although they did not crack the apartheid government they, however, compromised its economic interests. A combination of these factors significantly weakened the resolve of the apartheid state (Marx 1992: 226).

As a result of this economically and politically untenable situation, the white established business was a key to transitional negotiations towards a democratic dispensation. But the unprofitability of apartheid had an external dimension: strangled by a limited domestic market, South African companies could not expand abroad (at least not to the extent to which they did post-1994). There was also, coincidentally, a market-friendly international milieu that was developing as a result of the collapse of the communist bloc in 1989 (Terreblanche 2002: 51).

What, then, were the consequences of all of the above factors? Strange (1994) suggests that to decipher possible changes or the range of choices available to those who operate within the international political economy, we must go beyond studying structural power as derived from other means including the production structure. It is worth considering what she termed, a “network of bargains” – basic bargaining being a tacit one between political authority and the market (Strange, 1994: 39). The basic bargain between the South African political authorities and market players oscillated between tacit and explicit confrontation over substantive policy matters.

In the 1990s, South Africa was dominated by conglomerates desperate to restructure and venture into the global market place, but unable to do so until a political settlement unlocked new economic opportunities (Marais 2011:123). As a result of loss of business opportunities caused by sanctions imposed by countries opposed to apartheid, South Africa’s business sector dramatically changed tune and seized the moment. And once prominent business leaders became committed to non-racial democracy, the private sector became enormously influential in shaping the post-apartheid economic programme. Policy changes permitted South African firms to

restructure their operations largely on their own terms, becoming major investors elsewhere in Africa and around the world. Capital's strategic intervention in support of majority rule set the ground for the new economic framework that re-secured the conditions for capital accumulation (Basset 2008: 188).

South Africa's major firms had a huge stake in the termination of apartheid for their own material interests that depended on international expansion. They also had interest in the nature of the successor regime. Yet they had substantial difficulties presenting their demands as in the interests of society. Until the 1990s, capital, shaped by the restrictive laws of apartheid, was predominantly in white hands. Among blacks there was a small professional class, a handful of large entrepreneurs based in the former homelands, and some small competitive business people who served the black market in townships.<sup>15</sup> According to Fine and Rastomjee (1996), white capital was highly concentrated, with six conglomerates, based in minerals, energy and finance, dominating the economy, termed the Mineral-Energy-Complex. A few large firms also controlled key consumer sectors like food, beverage, automobiles and the retail sector, but smaller enterprises prevailed in competitive consumer sectors like clothing and agriculture (Basset 2008: 188).

The so-called "reform coalition", as Taylor (2007) described those who embraced the impending democratic reforms, emerged concurrent with the wider transition in South Africa because the institutional strength of key business actors – firms that constitute 'big business' - and nascent and established associations allowed them to unite behind various organisations in order to devise a new economic framework for the post-apartheid state (Taylor 2007: 189). One such organisation was the South African Foundation (SAF), re-named Business Leadership South Africa (BLSA) in 2005 and the Brenthurst Group. The latter was informally convened by Harry Oppenheimer at President Nelson Mandela's personal request in 1994 to advise him

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<sup>15</sup> Homelands consisted of Transkei, Bophuthatswana, Venda and Ciskei (TBVC territories). Other territories created along ethnic lines as part of the apartheid scheme were KwaNdebele, Qwaqwa, Gazankulu, KaNgwane and Lebowa.

on economic policy (Gevisser 2007: 686).<sup>16</sup> Significantly, the retailers Massmart, Woolworths and Pick n Pay are members of the BSLA, which by 2006 boasted membership of the top 50 companies listed on the JSE (Spicer 2006).<sup>17</sup>

The South African economy was, over the past century, the epitome of a mineral-rich economy, exporting commodities – gold, platinum, diamonds, and coal – to the rest of the world. Agriculture, a variety of manufacturing industries, services, an expansive wholesale and retail distribution network, and other facets of a full economic life developed around that basic exporting system (Manuel 2007: 2).

The post-1994 economic framework, *inter alia*, removed restrictions on the mobility of capital to invest and market its products, which included the right to withdraw investments from certain countries, buy up companies on a worldwide scale and reduce the risk of foreign investment by accessing new forms of state protection. The new global marketplace offered attractive opportunities for South African firms to transcend the seemingly intractable domestic economic crisis and restructure their operations to take advantage of international (especially Southern Africa's regional) opportunities. During apartheid, South Africa's integration into the global economy could never have occurred (Basset 2008: 189). Indeed, the liberalisation of the exchange control environment since 1994 has contributed to a robust two-way flow of capital into and out of the South African economy (Manuel 2007: 4).

A mix of factors led to the explosive growth of northward investments to the African continent. The end of apartheid's political and economic isolation brought down important barriers to capital flows. Higher home production costs and stagnant profit

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<sup>16</sup> Harry Oppenheimer (1908 – 2000) was the son of Ernest Oppenheimer (1880-1957), the founder of Anglo American. Harry chaired Anglo American Corporation and De Beers respectively for 25 years and 27 years until they retired from those positions in 1982 and 1984 (Oppenheimer, 2008).

<sup>17</sup> SAF was established in 1959 to foster the commitment of business to South Africa. During the secret negotiations between business and the ANC aimed at ending apartheid, SAF was in contact with Mbeki. On 25 November 2005, the organisation was renamed Business Leadership South Africa (BLSA), an association of South African based corporations represented by chief executive officers and chairpersons. Its aim is to lobby for the reduction of the costs and risks of doing business in South Africa. It represents the top 50 JSE-listed companies. They include Standard Bank, Sappi, Transnet, Vodacom Group, MTN Group, Anglo American SA Limited and top 20 MNCs subsidiaries in South Africa and top five state owned enterprises, including South African Airways and Transnet (Spicer, 2006 and Gevisser, 2007: 685).

margins in a saturated domestic market provided push factor incentives for producers and traders to move across borders. But there were also pull factors. The neo-liberalised and deregulated consumer and labour market found in SADC, though smaller in size and diversity than their South African counterpart, offered the promise of lower competition and higher returns. Marginal production costs founded on low wages were also a strong pull factor (Miller *et al* 2008: 2).

The composition of South Africa's outwards investments tended to mirror the domestic production structure. Thus, outward investment has been remarkably varied, ranging from mining to chemicals, metals and paper production, and retail, telecommunications, media and transportation services. The internationalisation of South African firms accelerated after 1994 following the removal of sanctions and the ANC-led government's liberalisation policies (UNCTAD, 2006: 126).

South Africa's economic policy of liberalisation didn't occur in isolation. At the time when Mbeki (1998) was declaring his over-arching ideal of the African Renaissance in 1997, many Southern African countries such as Zambia, Tanzania and Mozambique deepened the liberalisation of their economies. They sold state-owned enterprises to mainly private and foreign investors. South African MNCs took advantage of these new investment opportunities. These neoliberal economic policies of African governments converged with a period of restless, over-accumulated South African capital. Many South African-owned shopping malls and stores have been opened elsewhere on the continent since the early 1990s, extending their reach throughout the entire continent (Miller 2006: 28).

The external liberalisation, (insofar as it relates to South African companies allowed to direct FDI on the African continent and the liberalisation of African host economies) coincided with what one might call domestic liberalisation. South African supermarkets were not allowed to locate in black townships before the end of apartheid, and after that they were focused until the early 2000s on consolidating business in the cities. But the competitive pressure (and relatively saturated markets) at the top of the market, for example from retailers such as Woolworths pushed both

Shoprite and Pick n Pay to expand into townships in South Africa (Weatherspoon & Reardon 2003: 337-8).

The post-1996 era, which followed the adoption of the Constitution of the Republic of South Africa, could not have been more favourable for South African businesses intent on expanding investments locally and internationally. And as Taylor (2007) concluded, South Africa's ruling ANC had acquiesced to the demands of big business to the exclusion of smaller business actors, both white and black. Business and the emergent ANC-led state needed each other; each conferred legitimacy upon the other. The Constitution of the Republic of South Africa guaranteed property rights while the GEAR policy relaxed capital controls, allowing domestically stifled businesses to expand into the African continent (Taylor 2007:189) <sup>18</sup>. The powerful role business played in securing investor-friendly policies and the demise of the Reconstruction and Development Programme, a Keynesian type of policy, was a result of the politics of coalitions and pacts between business and political elites. This helped to secure the interests of business at the expense of interests of the ANC's leftwing allies (Van Wyk 2009: 24-25).<sup>19</sup>

However, the policy changes did not overcome the historic mistrust to which Terreblanche (2002) referred, between the black political elites of the liberation movements and the predominantly white leaders of capital. As Makgetlaneng (2003: 88) points out, relations between the state and capital in South Africa have been characterised, in part, by conflict and tension, often racialised. These tensions were more pronounced during Mbeki's presidency. He set out to advance transformative policies of his government (designed to change the ownership of the production structure in favour of the historically disadvantaged). These were policy positions that some sections of the business community were seen to be challenging. So, despite its structural strength business was constrained by its ethnic profile and political past, specifically its association with the political and economic programme

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<sup>18</sup> Section 25 (1) of the Constitution guarantees all citizens the right to private property.

<sup>19</sup> The RDP (1994) was the first broad policy document of the Nelson Mandela administration aimed at reversing the effects of apartheid. It had broad principles: to integration of resources across the spheres of government; being people-driven, ensuring peace and security, nation building, and meeting the basic needs and building infrastructure.

of apartheid. The racially exclusive nature of the business community, historically at least, affected its broader political legitimacy and policy profile with the ANC government (Handley 2008: 93).

At the same time, the mistrust was seen as responsible for the uncertainty in the corporate sector about the future of South Africa, leading to their reluctance to invest massively in the domestic economy. Such an investment would mean vesting a strong interventionist authority and power in a state that the incumbent elite regards with distrust and anxiety, fearful that such authority might be put to radical use. That lack of trust, combined with the state's weakened leverage over South African corporations makes it difficult to build consensus for a genuinely new industrial strategy. Key imperatives of most of the largest conglomerates have been met already – they were allowed to move abroad and relaxed capital controls mean that they could circulate their profits virtually anywhere on the planet. Their domestic operations are now aspects of global corporate strategies and do not enjoy privileged consideration (Marais 2011:150).

The mistrust resulted in Mbeki's outbursts against some of the leading business personalities. In an online column, Mbeki (2003) took Sasol to task when it mentioned as a risk Broad-Based Black Economic Empowerment (B-BBEE), one of the ruling party's economic transformation policies which were prioritised under Mbeki's administration. Sasol did this when it applied for listing on the New York Stock Exchange (NYSE). In filling Document 20-F, Sasol stated in its application that B-BBEE posed a risk to shareholder value in the event that the company conducted a B-BBEE equity transaction. Sasol also stated it could not guarantee that "forced participation" would be conducted through fair market prices.

In response, Mbeki articulated what could be understood to have been his view about the conduct of South African companies in general. He argued that Sasol – "and others like it" – needed to outgrow their outdated mindset that had become entrenched as part of their corporate culture. Sasol, Mbeki argued, had gone out of its way to bad-mouth South Africa abroad (Mbeki, 2003: 4). In other words, Sasol was neither a diplomatic agent nor corporate ambassador for South Africa. It was not

a “responsible and far-sighted corporate citizen”, unlike other firms in the energy sector which understood the importance of B-BBEE in nation-building (Mbeki 2003: 3).

In a public statement directed particularly at Tony Trahar, chief executive of Anglo American, and generally at some of the leadership of white-led South African multinational corporations, Mbeki argued that businesses had failed to appreciate the disappearance of political risk since the ANC came to power. Mbeki accused white business leaders of bad-mouthing South Africa. This, after Trahar had said that political risk had “started to diminish but I am not saying it is gone” (*Financial Times*, 2004). Mbeki referred to a “disjuncture” between “our political and business leadership”, which was also pointed out in the government’s Ten Year Review document. Mbeki viewed business expansion as a direct result of the end of apartheid. And white-controlled businesses failed to appreciate the benefits of liberalisation brought about by the ANC government, which allowed Anglo American and other companies to shift their listings abroad (Mbeki 2004: 3,4).

Mbeki’s reference to a “disjuncture” between predominantly white-run, white-owned companies and a black-led government was reminiscent of the “disjuncture” between the economic and political power within the capitalist class which came to a head in the 1930s with the Afrikaner faction holding state power and the English mining and foreign faction exerting economic control (Fine & Rustomjee 1996: 64). This, however, change with the introduction of apartheid in 1948.

Mbeki’s sense of injustice about Trahar’s comments stemmed from the fact that the ANC had implemented the most business-friendly policies ever in South Africa that were far more conducive to private sector growth than anything the National Party had come up with. It had embraced fiscal austerity, agreed to the independence of the South African Reserve Bank (SARB), relaxed exchange controls and had even given permission to several of South Africa’s corporate behemoths, including Anglo American, to list offshore (Gevisser 2007: 689).

Mbeki, who broke bread with white businesses and Afrikaner intellectuals in exile, was key broker of the post-apartheid settlement that guaranteed property rights and eschewed nationalisation, must have felt betrayed by a corporate sector eager to use its structural leverage to secure its interests to the detriment of his transformative policies.

The conflict between the post-apartheid government and business as represented by tensions between Mbeki and Sasol and Anglo American were not new. Even in the earlier years of the Mandela administration, the government-business relationship [at a domestic level] was often conflictual. In response to big business's criticism of government's anti-monopoly stance in 1995, Trevor Manuel, Minister of Trade and Industry, lashed out at the sector. According to *The Argus* (6 March 1995), Manuel said:

Some of the people who call themselves capitalists in this country would function best in the planned economy of the Soviet Union after 1917. We have capitalists who don't like markets, capitalists who don't want to compete, and capitalists who don't want to be capitalists (Hirsch 2005:157).

The government-business friction notwithstanding, following the adoption of GEAR in 1996, the state became more dependent on big business, and the range of policies favourable to that constituency expanded significantly. This was when the South African business sector demonstrated satisfaction with economic fundamentals and economic policy (Taylor 2007: 180).

Mbeki had been at pains to explain that the post-1994 government had done its best to restructure public finances – reducing public debt and privatising some state-owned enterprises - to create propitious conditions for the private sector to grow, and that the government had passed policies that ensured that impatient masses were not a risk to private capital. Yet, white business which invariably controlled South Africa's production structure - which in Strange's (1994b) conception meant they could decide what was to be produced and what factors of production to use - had failed to appreciate this generosity. Mbeki (Mbeki 2003: 3) felt that the reciprocity he sought from business was not forthcoming as South African business sector was

only half-heartedly accepting of his domestic transformative policies, while still benefiting from a peaceful post-1994 settlement.

It is the state's dependence on business, insofar as it creates wealth and the enactment of policies favourable to the business sector that academic Sampie Terreblanche (2002) took issue with. Terreblanche (2002:74) listed several strategic influences on capital towards what he termed the "Anglo-Americanisation" of South Africa society. First, once the corporate sector became involved in the transitional negotiations, it provided advice that was meant to advance its interests.

Second, the corporate sector was inclined to twist the trade-offs involved in favour of its own short-term profitability. Third, the corporate sector could not be held accountable by the electorate for erroneous policy advice. Finally, the media, being controlled by the corporate sector, tended to view the latter's activities in a more sympathetic light than those of the political sector. These "dangers" materialised visibly during the first phases of the search for a new accumulation strategy, but were ignored as a result of the corporate sector's persuasive power (Terreblanche 2002:74).

Mbeki attempted to politically attack this persuasive power. His challenge was initially focused largely on insisting that white capital reciprocate to the business-friendly policies provided by his government. This ought to have found expression in pronouncements and actions, domestically and internationally. Second, Mbeki initiated a process that sought to condition the conduct of South African multinational corporations on the African continent (South Africa, The Presidency, 2008:63).

Having discussed the structure which, as Strange (1994b) pointed out, was half of the battle, there are other important questions to discuss. The next important question is where to go from here, how to proceed with the analysis of a particular situation so as to discern in more detail where a government or a corporate enterprise has a range of feasible choices, and what possible scenarios might follow depending on which choices are made (Strange 1994b:39).

According to Strange (1994b:80), the business corporation is both the partner and sometimes the national champion of government; and sometimes its adversary. It is the supplicant of the state when it wants protection or subsidy from government, and at the same time the quarry of the government inspector, the tax collector and the regulator (Strange, 1994b:80). In the context of the period under consideration, as Mbeki (2004) pointed out, there had been a “disjuncture” between business leadership and political leadership in South Africa. This disjuncture existed despite what Mbeki called ‘the institutionalised system of regular interaction that exists’ between government and business (Mbeki 2004:4). Mbeki had established consultative working groups which, among others, included the Big Business Working Group, through which his office sought to be kept in touch with the representative spectrum of South Africa’s sentiments (Chikane 2001:17).

In addition there was also NEDLAC which provided a platform for business, labour, government and community representatives to discuss economic policy related matters. And as Van Wyk (2008: 24) observed, the establishment of NEDLAC illustrated the role of elite and their coalitions in determining policy outcomes. NEDLAC, includes elites from government, business, labour and civil society. Significantly, NEDLAC recommended the establishment of Broad-Based Black Economic Empowerment charters.

Mbeki’s concerns validate the observation that loyalty of MNCs to the government of the home state [embeddedness] is no longer something the latter can take for granted. States have tried to assert control over transnational corporations in two ways: through nationality and by multinational agreements (Strange, 1994b:84). Mbeki’s administration chose engagements with business and, in the process, gave several concessions. For example, under Mbeki, the government opposed a lawsuit against multinational corporations that claimed they aided the National Party government by defying sanctions. It was hoped that this would be reciprocated in the manner that would suit his political leadership: loyalty to the country and expanding domestic investment.

In addition to his frustrations with the leadership of Anglo American and Sasol, Mbeki also had a public spat with banking group FirstRand, one of South Africa's largest banking institutions, in 2007. The tension erupted after FirstRand attempted to launch an anti-crime advertisement campaign that would seek the signatures of citizens frustrated by the spiralling crime rate. Mbeki felt the bank's public relations campaign was aimed at undermining his anti-crime policies. He again spoke of an ungrateful business sector. In a meeting with FirstRand Group executives in 2007, Mbeki indicated that government's crime-fighting budget had increased. He insisted that the company should express its views in government-business forums like Business Against Crime South Africa (BACSA), established as partnership between the private sector and the government (South Africa, The Presidency, 2007).<sup>20</sup>

If anything, this signified the battle of a government seeking to re-assert control it lost over the private sector through its liberalisation policies. It also sought to underscore Mbeki's long held (since 1996) feelings about the business sector's inflexibility towards the ANC-led government on policy matters, a stance he viewed as short-sighted, arrogant and racist (Gevisser 2007: 686). Mbeki did a great job in encouraging South African firms to access global investment and market opportunities. However, the level of engagement (with government) by most local firms was backward partly because of the historical legacy of isolation and lack of competitive spirit in corporate South Africa (Dlamini 2007: 2).

Mbeki expressed his frustration at the behaviour of companies that sought to undermine domestic policies such as B-BBEE and anti-crime policies. Mbeki (2004) felt the business sector was not appreciative of the institutionalised structures of engagement with his office. In turn, the business sector demonstrated its structural power over the government.

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<sup>20</sup> BACSA is a non-profit association of South African based companies partnering with the government to prevent crime. It was formed by business in 1996 in response to a request by President Nelson Mandela for business to join hands with government to fight crime. Members include companies who belong to the NBI, the Business Trust – a partnership initiative between government and business to grow the economy and to create jobs.

As Terreblanche (2002) argued, South Africa has been exposed to the dual influence of (domestic) corporate (structural power) and global Anglo-Americanisation. This has significantly enhanced the power and wealth of the local corporate sector; more so since it is now embedded in a highly favourable politico-economic system whose legitimacy is unquestioned – at least for now. The regular summits of government and business leaders (both local and global) provide the latter with strategic opportunities for prescribing their policy agenda, and prioritising the interests of the capitalist class (Terreblanche 2002:422).

What has emerged from the preceding discussion is that unlike the colonial and apartheid regimes which enjoyed a reciprocal relationship with business, Mbeki's administration had no corporate allies. It became evident that South Africa's business's relationship with the ANC-led government was more about extracting concessions for their own self-interest. Once those interests were secured – through GEAR, the Constitution of the Republic of South Africa, the relaxation of capital controls – business and the South African government had a brittle relationship. Unlike the colonial and the apartheid governments, there were no corporations who shared historical loyalties with the ANC.

From Sally's (1996) approach of embeddedness, South Africa's white capital was not fully embedded in the politics of the liberation movement which was now in charge of government. The liberalisation policies pursued by the ANC-led government, under pressure from capital, have served only to further relax whatever embeddedness might have been there. Domestic tension had a bearing on the external conduct of South African MNCs. Mbeki felt that some MNCs were involved in badmouthing South Africa.

It could be argued that it was within this context that Mbeki sought to push for a comprehensive B-BBEE to transform the economy so that black people, who had been barred through statutory instruments from accessing the means of production could, be given opportunities to do so. They would, therefore, be in a position to be in a position – albeit on a small scale – to influence the production structure.

### **3.4. Broad-Based Black Economic Empowerment and the multinational retail corporations**

Black economic empowerment is a policy instrument aimed at repairing the damage done by the apartheid regime which denied black South Africans economic opportunities.<sup>21</sup>

According to Jack (2007), the journey of B-BBEE went through three waves. The first wave of black economic empowerment was engineered by white business in collaboration with the emerging politically connected business elite but without any government-sanctioned legal prescripts to enforce it. It occurred on the eve of the first democratic election in 1994 when the financial services group Sanlam sold its controlling interest in insurer Metropolitan Life to black shareholders of Metlife Investment Holdings, a consortium formed by prominent black business people. The consortium eventually became New Africa Investment Limited (Nail). Nail was the first black-owned company to list on the JSE.<sup>22</sup> Other high profile deals followed when Nail bought industrial conglomerate Johnnic from Anglo American Corporation.

The second wave began in 1997 when the Black Management Forum, an association of black professionals, proposed the establishment of the Black Economic Empowerment Commission to define the precisely what empowerment entailed. The commission, chaired by Cyril Ramaphosa, set the scene for draft codes of B-BBEE released by DTI in 2004 after NEDLAC endorsed the process.

The third wave emerged when the government released the preferential procurement strategy in 1997. It found its way into the final B-BBEE Act and allowed

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<sup>21</sup> Prior the B-BBEE legislation which stressed the empowerment of all black people – an attempt to shift it away from benefitting only the political elites connected to the ANC - the economic empowerment of black South Africans was previously referred to as BEE.

<sup>22</sup> Prominent personalities involved in the consortium were Cyril Ramaphosa, former co-chair of the Constitutional Assembly which drafted the Constitution of the Republic of South Africa, and other former anti-apartheid personalities: Dr Nthato Motlana (Nail founding chairman), Dikgang Moseneke (former Pan Africanist Congress leader), Zwelakhe Sisulu (former journalists and unionist) and Saki Macozoma (ANC activist and Nail founding chief executive).

companies to score empowerment points if they procured goods and services from businesses owned by black South Africans (Jack 2007: 13).

According to Jack (2007) South African white-owned companies go through different stages of acceptance and implementation of B-BBEE. The first stage is that of denial which is reflected in those companies which adopted a wait-and-see stance when the policy was adopted. This attitude was evident in manufacturing, media, healthcare, transport, hotel and leisure, property, services and retail.

The second happens when companies realise that there are no shortcuts to B-BBEE. Such companies often feel resentment and rage with the belief that B-BBEE is reverse discrimination and unfairly forced onto white business.

The third stage is bargaining, when companies begin to ask questions about what needs to be done to score the maximum points. The final stage is acceptance and the company understands the objectives of B-BBEE and starts to embrace the concept (Mathura 2009: 77-78).

The implementation of B-BBEE is ascertained when a company subscribes to the B-BBEE Codes of Good Practice (DTI, 2007), published in terms of Broad-Based Black Economic Empowerment Act No. 53 of 2003.

As the **Tables 2 and 3** show, in terms of the Generic Scorecard, measurement of B-BBEE compliance – or lack of it - is done according to the extent to which black people are benefitting in terms of seven elements of B-BBEE. These are ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development initiatives.

Table 2: Code series 100-700 to measure elements of the B-BBEE scorecard

ELEMENT	WEIGHING	CODE SERIES REFERENCE
<b>Ownership</b>	<b>20 points</b>	<b>100</b>
Management control	10 points	200
<b>Employment equity</b>	<b>15 points</b>	<b>300</b>
Skills development	15 points	400
<b>Preferential procurement</b>	<b>20 points</b>	<b>500</b>
Enterprise development	15 points	600
<b>Socio-Economic Development initiatives</b>	<b>5 points</b>	<b>700</b>

Source: DTI, 2007

Table 3: B-BBEE status based on overall performance

B-BBEE STATUS	QUALIFICATION	RECOGNITION LEVEL
<b>Level 1 contributor</b>	<b>&gt; 100 points on the Generic Scorecard</b>	<b>135%</b>
Level 2 contributor	>85 but <100 points on the Generic Scorecard	125%
<b>Level 3 contributor</b>	<b>&gt;75 but &lt;85 on the Generic Scorecard</b>	<b>110%</b>
Level 4 contributor	>65 but <75 on the Generic Scorecard	100%
<b>Level 5 contributor</b>	<b>&gt;55 but &lt;65 on the Generic Scorecard</b>	<b>80%</b>
Level 6 contributor	>45 but <55 on the Generic Scorecard	60%
<b>Level 7 contributor</b>	<b>&gt;40 but &lt;45 on the Generic Scorecard</b>	<b>50%</b>
Level 8 contributor	>30 but <40 on the Generic Scorecard	10%
<b>Non-Compliant</b>	<b>&lt;30 on the Generic Scorecard</b>	<b>0%</b>

Source: DTI, 2007

Based on the stages of acceptance by companies as described above, the selected retail MNCs corporations were for the later part of the period under consideration oscillating between the third and fourth stages of implementation. Massmart reported 49, 44% B-B-BBEE recognition by 2008 (Massmart), Woolworths (2008) reported 60% and Pick and Pay (2008) 10%. By 2008 Shoprite had not obtained B-BBEE certification, although the company said it was committed to implementing the transformative policy. In 2009, Shoprite chairman Christo Wiese remarked:

We will not do a BEE deal because we have to do one. We will do it because we think it's the right thing to do, and we will do it our way. We want it to be broad-based and we want the correct people to benefit (Planting 2009: 38).

Against this background, it could be concluded that the South African retail MNCs were not completely embedded to the wishes of the Mbeki's administration with regard to B-BBEE. The retail MNCs may have been far more embedded to the South Africa's production structure than they were to the politics of Mbeki's government.

### **3.5. The state-capital nexus and the African expansion of the retail multinational corporations**

Mbeki's foreign economic policy approaches since the adoption of GEAR took place against the backdrop of entrenched structural power of South African capital in relation to the African continent. Unlike other African countries, South Africa (through the power of its private sector) occupies an intermediate position within the international division of labour. South Africa's position is characterised by the fact that it exports raw materials and semi-manufactured products and it imports manufactured products which are essential for the operation of its economy. While South Africa has not been successful in its struggle to become a significant exporter of manufactured products in the multilateral international markets, other African countries constitute the main markets for its manufactured products (Makgetlaneng 2003: 89).

South Africa's retail MNCs play a significant role in taking some of the domestically manufactured products across the African continent (Hartzenberg and Mathe, 2005: 12-13), demonstrating the link between the retail sector and South Africa's production structure. The retail sector essentially provides an infrastructural and logistical gateway for manufactured products to reach other markets on the African continent. This, and the politics of procurement and sourcing, will be discussed in greater detail in Chapters 4 and 5. These retail MNCs play a crucial role in the chain of South Africa's dominance on the African continent. But their significant role, while driven by powerful domestic structural context, does not take place outside the

agency role of each of these corporations and their individual bargaining power with the host countries in which they invest.

Mbeki's administration maintained a somewhat ambivalent approach towards South Africa's MNCs. His economic policy of liberalisation was deemed favourable to business expansion. GEAR made it clear that the government's efforts to improve access of South African companies to foreign markets would inform its multilateral diplomacy (Department of Finance 1996: 14). Mbeki also noted there was a "disjuncture" between government and some companies, despite the existence of what he termed the "institutionalised system of regular interaction that exists" between government and business (Mbeki 2004: 4). Mbeki's biographer, Mark Gevisser (685-690), listed a number of examples showing tension that sometimes characterised Mbeki's relationship with big business. Mbeki felt captains of industry undermined his authority, were negative towards the government and generally looked after their own interests. He was much closer to some business leaders who appeared enthusiastic about transformation and easily accepted his authority.

According to Makgetlaneng (2003), the South African government adopted - at least in practice - a foreign economic approach that was entirely in agreement with business. In terms of this view, the South African state and capital have acted as rivals not only of other African countries, but also of the developed countries and other developing countries throughout Africa. The aim of the South African state has been to use political power to extend and expand South African external trade and economic interests in conjunction with its foreign policy. The key objective has been to secure privileged access to national markets of other African countries and the rest of the South for South African goods and services. This process has been led by South Africa's private capital (Makgetlaneng 2003: 94).

This view is supported by the fact that South Africa, under the Mbeki administration, strengthened its foreign policy of continental peace and stability. While this was happening, South Africa's business community was *already* involved in business ventures across the African continent. They were already expanding the country's business interests and forging closer ties with African countries beyond the Southern

African region that was primarily the focus of Nelson Mandela's administration (Schoeman 2007:96-97).

After being shackled within the South African economy for decades, many South African firms, especially within the services industry, adopted an outward orientation and sought opportunities in markets where they had a competitive advantage, particularly in Africa. This led to the dawn of a new era of multinational activity in Africa. South African firms emerged as the new MNCs. The retail sector was among the prominent investors (Hartzenberg & Mathe 2005: 11).

The South African retail sector's linkages with other sectors of the economy at a domestic level of analysis are as important as the external dimension. According to Statistics South Africa (2008), the retail, wholesale and trade sector contributed 13,4% of the total Gross Domestic Product. It was among the top three biggest contributors to the South African economy. According to the South African Retail Council (SARC), manufacturing contributed 18, 2%. The retail sector as a whole accounted for 23, 3% or 3, 18 million workers (SARC 2009:7-8).

By their very nature, retail MNCs source manufactured products (mainly from the manufacturing sector) for resale. With the advent of globalisation, the sourcing of such products no longer exclusively focuses on the domestic economy (Bytheway & Slabbert 2010: 751). According to Dawson and Mukoyama (2006), cited in Bytheway & Slabbert (2010), the internationalisation of retailing is evident in many ways, including: the sourcing of products for resale, the operation of stores in foreign countries, the use of foreign labour, the adoption of foreign ideas, and the use of foreign capital (Bytheway & Slabbert 2010: 749). Chapter 4 discusses the political economy of sourcing by the retail multinational corporations.

The link between the retail sector and other sectors of the economy – at the domestic and international level – is significant. Retail investments provided a logistical infrastructure that facilitated the distribution of South African-manufactured consumer products throughout the continent. Consumer preferences became an important demand-side factor. Exports of South African processed food products

through the distribution networks and, particularly, retail chains, are now competing strongly with locally produced products. In the case of the Southern African Customs Union (SACU), flows of products in the wake of investment in retail and distribution capacity may be significant in the context of extra-regional trade and economic relationships (Hartzenberg & Mathe 2005: 12,13).

South Africa's capital-enabling state policies and capital's expansion strategies have yielded some results. South African-based or South African MNCs have played a central role in constituting a new regional reality. The MNCs have aided economic growth. This enhanced the role of MNCs as an important characteristic of post-apartheid Southern Africa (Miller et al 2008: 39).

South Africa's production structure - for the period under consideration - operated in a capitalist mode, dominated by conglomerates which cut their corporate teeth during the apartheid and colonial era. These conglomerates have tried by all means – using political lobbying and structural power – to shape the outcomes of the transition from apartheid to democracy in line with their interests. Pursuant to the domestic-international levels of analysis, these interests, which invariably have to do with maximising shareholders' value, are extended beyond the domestic realm to cover the rest of the African continent, as evidenced by the FDI of South African MNCs (Miller et al 2008: 2).

It is evident from the foregoing analysis that South Africa's retail MNCs emerged in the context of a production structure that was consistently and broadly shaped by white-owned capital. Viewed from the levels of analysis theory perspective (Underhill, 2000), it is clear that at the outcomes of the networks of bargains to which Strange (1994: 39) referred, generally worked in favour of white-owned capital. Looked at from the approach of embeddedness (Sally, 1996), it is apparent that South Africa's corporate sector was economically strongly embedded in the country, but weaker politically and socially. How this domestic level of analysis translated to the international level is a subject of the next three chapters.

### **3.6. Summary**

The power of the corporate sector has been quite immense in shaping South Africa's economy during the period under consideration and that preceding it. This structural power of capital had an impact on the nature of economic policies and, eventually, foreign economic policies pursued by the government.

There is also no doubt that government's economic policies have in turn been instrumental in shaping the post-apartheid economic edifice. The influences that business and government brought to bear on the policy edifice were sometimes cooperative and at other times fractious. These were also shaped by prevailing realities of the time - the historical and structural power of capital over the post-apartheid government and the government's attempt to secure support from the business sector to grow the South African economy.

Emerging from this milieu are South Africa's retail multinational corporations, which have been expanding on the African continent in a manner that directly links the South African production structure with the African continent. These corporations have provided a logistical infrastructure for South African products to find markets in the rest of the continent, fuelling economic growth in South Africa (Miller et al 2006: 39). Notwithstanding this, there were tensions between Mbeki and the corporate sector in South Africa. These tensions - in relation to conglomerates such as Anglo American, Sasol and First Rand - were about both domestic policy and foreign economic policy contestations. Even though these corporations fall outside the retail sector they could not be left out of an analysis that sought to understand the tension between the state and the private sector in general.

While the ANC-led government's proposal to adopt a code of conduct for multinational corporations expanding into the African continent was crafted more broadly, there is no doubt, as discussed in Chapter 1, that the target is the retail MNCs.

Having internationalised, in the context of a South African economy that is relatively and structurally more powerful than the rest of the continent and in the context of

domestic contestations between the private sector and the Mbeki administration, a question remains to be answered whether the retail multinational corporations contributed to the economic development of South Africa and the host African countries in a manner consistent with Mbeki's vision as deduced in Chapter 2.

This is a question to which this dissertation will return in Chapter 5, which will deal with the linkages – or lack thereof – between the multinational corporations and the foreign economic policy of the Mbeki administration. That discussion is possible only after the retail multinational corporations' expansion strategies – their commercial diplomacy – have been carefully analysed. And that is the business of the next chapter, which discusses the expansion strategies of Shoprite, Woolworths, Massmart and Pick n Pay.

## **Chapter 4**

### **The expansion and procurement strategies of South African retail multinational corporations**

#### **4.1. Introduction**

Like all MNCs hunting for market share and profits all over the globe, South African retail MNCs operating on the African continent must be given the treatment they deserve in the international political economy. How they articulate their interests at the international levels of analysis, in this case expanding operations into the African continent, constitute commercial diplomatic activities. The rationale and strategies that underpin the expansions form part of the basis for analysing the coalescences or divergences between the expansion strategies of these companies and the government's foreign policy on the African continent.

Bearing in mind the structural dimension context discussed in the previous chapter this chapter, therefore, discusses the rationale that informs the expansions and the actual expansion strategies of Shoprite, Woolworths, Massmart and Pick n Pay. Only the salient aspects of the expansions such as the mode of entry and procurement strategies are discussed in greater detail. In addition, the rationale behind the expansions of the South African retail MNCs is analysed.

Compared to Massmart, Pick n Pay and Woolworths, Shoprite gets most of the attention in this chapter. Not only is Shoprite's case illustrative of South African MNCs expansion and procurement strategies, but also because Shoprite was the first retailer since 1995 to expand aggressively. It has established a footprint far in advance of the other three, and boasts the longest reporting period to its shareholders on its Africa division. Due to these factors, Shoprite has generated a reasonable amount of literature. This is evidenced by its annual reports, press coverage and academic literature.

## 4.2. Expansion rationale

According to Stopford and Strange (1991:69-70), the basic driving forces propelling firms abroad in the age of globalisation come from managers' desire for growth, for cost reduction and for control. These are the same as in domestic expansion but assume greater complexity and risks once firms stray from their known markets. The balance of effects of expansion depends largely on what the specific firm is trying to do. The firm may be market-seeking, in the sense that it wishes to gain access to more customers and consumers. Alternatively, it may be resource-seeking, in the sense that it wishes to gain access to raw materials that are not readily available without investment.

For firms that have already invested abroad, there is a third motivation: efficiency-seeking from investments that transform the workings of their international network. In the hunt for market share and resources, managers invest to create three basic kinds of new advantage that make it difficult for others to compete. First, they may create an internal market that allows them to control all the activities involved in cross-border transactions. They do this when they believe they can operate more profitably and with greater stability than could be achieved by reliance on the workings of imperfect international markets. Second, they may wish to exploit advantages of scale. The third reason is the desire to spread risks by diversifying markets (Stopford & Strange 1991:70). The combination of factors that make up what Dunning (2000) in his eclectic paradigm called OLI –ownership (O) specific advantages, locational (L) attraction and internationalisation (I) - determine the mode and the extent of expansion by MNCs.

Behind market-seeking and market-share extension is the imperative for firms to make profit. The rationale of expansion into virgin markets is as profit-driven as the original establishment of the firm itself. Firms are established by entrepreneurs primarily because of the profits they expect to earn (Ahiakpor, 1990:20). In the process, they provide certain services by carving out markets. Firms do not provide services or goods because they are generous to their customers. As pioneer of free-market thinking Adam Smith (2003: 23 – 24) once famously remarked:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.

In line with this thinking, Massmart chairman Mark Lamberti (2008) has said that the South African business community had to stand proud as the unapologetic bastion of free market economic activity (Massmart 2008b: 22).

Equity in the distribution of the gains from private enterprises is not the primary concern of corporations. Rather, they are concerned with whether the recipients of incomes contribute at least equivalent amounts to the total revenue of the firm. The contribution of firms towards economic growth and development are thus to be assessed in respect of their creation of demand for the services of a country's land, labour, and capital to be employed in the creation of new wealth and added value. Firms contribute to economic growth by directly creating or transforming raw materials into more useful forms, or provide services as demanded by consumers. Given the incentive for making profit in the market place, firms choose their factor combinations on the basis of their contribution to total revenue relative to the rewards (or price) they command (Ahiakpor 1990:20).

The expansion of companies to maximise profits is an integral part of their survival. Marx and Engels (1884) described in dramatic terms the rationale of those who own the means of production (bourgeoisie) for driving their firms across the globe:

The need for a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, [and] establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production in every country. To the great chagrin of reactionaries, it has drawn from under the feet of industry the national ground on which it stood (Marx & Engels 2002: 223).

The nature of retail services suggests that South Africa's retail MNCs have been driven to a greater extent by market-seeking than they are by resource-seeking motives. Both pull and push factors explain the expansion of these firms. The major pull factor was lack of competition and a largely underdeveloped external market on

the African continent. The push factor on the domestic market was intense competition and a developed market. In this respect, Brian Bruce, chief executive of South African construction firm Murray & Roberts in 2003, could have been referring to the retail MNCs when he said that the South African market was too small and too competitive to sustain growth, and yet local companies were too small to compete in the developed world (Honey 2003: 25). Shoprite chief executive Whitey Basson has stressed the fact that the South African market was “over-traded”, while the rest of Africa was “under-utilised” (Lipson 2002: 1). Massmart chief executive Grant Pattison reached similar conclusions, describing Shoprite as a competitor in the quest for access to the “under-traded” African market (Reuters 2009: 1).

Shoprite’s rationale for expansion is instructive for the purposes of this study. For Shoprite, it became clear quite early on that for it to maintain its growth it would have to start developing viable new markets on the African continent. There were sound business reasons for this decision. Consumer preferences were similar to those in South Africa. The company’s retail formats could be replicated with ease elsewhere on the continent. There was little existing competition from other retail groups in these new markets (Shoprite 2003:8).

Shoprite also came to the conclusion that food retailing in the domestic market was highly competitive. The group was cautious about domestic expansion as it was not prepared to buy market share at the expense of earnings. The company decided that some of its other divisions, such as convenience stores and furniture, could be used to increase domestic market share. But when it came to prospects in Africa, Shoprite was bullish. It stated that growth outside South Africa would be pursued by using all opportunities (Shoprite 2003:13).

Once the group had become part of Africa’s retail landscape, its rationale for deepening its expansion into countries into which it had already invested changed. Once it had come face to face with some of the risks that came with expansion, it sought to mitigate these by expanding further (Shoprite 2003:8) – a case of expansion triggering further expansion.

The more Shoprite increased profit margins as a result of its external African operations, the more it believed that the greatest opportunities for expansion lay outside South Africa's borders. The company's vision to derive at least 50% of its operating profits outside of South Africa triggered a further expansion drive (Shoprite, 2001:4). And the more it expanded, the more its domestic competitors, Massmart, Woolworths and Pick n Pay, sought to play catch-up, using the same justification – to access more markets and consumers (Lefifi 2011:3).

In summary, the expansion by South African retail MNCs is the *raison d'être* of their existence. The quest to secure bigger market share and to generate profits justify the expansion of the retail MNCs into the rest of the African continent. But there were differences as there were similarities in the expansion strategies of the retail MNCs.

#### **4.3. Expansion strategies**

South African retail MNCs have employed a combination of modes of entry into the African market: exporting, franchising, joint ventures and wholly-owned subsidiaries. According to Hill (2007), franchising is a specialised form of licensing in which the franchisor not only sells the intangible property (normally a trademark) to the franchisee, but also insists that the franchisee agree to abide by its rules of doing business. A franchisor typically receives a royalty payment which amounts to a percentage of the franchisee's revenue. A joint venture entails establishing a firm that is jointly owned by two or more firms or people. In a wholly-owned subsidiary, the firm owns 100 percent of the stock. Establishing a wholly-owned subsidiary in a foreign market can be done in two ways: the firm can either set up a new operation in that country, often referred to as a Greenfield venture, or it can acquire an established firm in the host nation and use that firm to promote its product (Hill, 2007:490–493).

Although a similar rationale explained the expansion of the four retail MNCs investigated in this study, their expansion strategies varied somewhat, largely due to circumstances they encountered while executing their strategies. Among the factors that contributed to different expansion approaches were logistical difficulties of

setting up operations in new terrains, sourcing of goods and level of investments required. In this respect, Basson of Shoprite once remarked thus in an interview with an online financial news agency *Fin24*:

We can double our African business if we can get rid of all the red tape and all problems of just getting stores and merchandise out there. So, it's really still very, very tough and there is very little help from anybody, be they manufacturers or government from both sides to make the African continent a global trading area like you have in Europe and the Americas (Dakora *et al*, 2010: 751).

This meant Shoprite had to do most of the work on its own. For Massmart chief executive Grant Pattison, processes and systems of expansion were the key to competitive edge and yet varied between retailers (Lunche 2005: 8).

#### **4.3.1. Shoprite's expansion strategy**

Stopford and Strange (1991:69) observed that, for expansion strategies to work, managers must set up costly systems of command and control that can work effectively over large distances and deal with the hazards of markets that differ from their own (home) country. Managers must feel that the gains will outweigh the costs. These costly systems of command and control are essentially the expansion strategies, an integral part of their commercial diplomacy.

After it characterised the South African market as restricted by an over-supply of retail space as well as a lack of investment in property, Shoprite decided to embark on a campaign to maximise the trading densities of the South African stores and increase store development in foreign countries (Shoprite 2001:4). Shoprite's expansion strategy on the African continent - Table 4 shows the vast extent of penetration - is made up of a number of inter-linked elements. These elements are largely dependent on circumstances in the market place. Before Shoprite enters a host market, Basson sets up an appointment with the president of the country for what company chairman Christo Wiese calls "an introduction". For example, before the civil war ended in Angola in 2002, Basson called President José Eduardo dos

Santos, proposing to open operations in that country. Shoprite opened its first Angolan store in 2003 (Planting 2009: 41). Basson's diplomatic engagements were directed at the host government with the aim of enlarging the market for his company.

The Group strategy focused on acquiring existing supermarkets on the African continent made available as a result of liberalisation efforts by host governments, for example, in Zambia and Tanzania. The process of privatisation in Zambia – significantly a year after South Africa became a democracy – led Lusaka to sell state-owned loss-making retail outlets to Shoprite. As part of this privatisation process, the state wholesale stores were sold off in a deal with Shoprite in 1996 (Miller, 2005:127). When Shoprite at a later stage tried to sell its assets to a private equity fund, both workers and shareholders successfully resisted the restructuring. Similarly, the attempt at an economic supply arrangement between Shoprite and local producers in Chipata, Zambia, is not something that the company actively sought out but evidence of its vulnerability to local resistance (Miller *et al*, 2008: 13). All these points out to what Strange (1994b) refers to as “network of bargains”.

Where there were no retail supermarkets, the Shoprite Group sought to duplicate its local strategy of acquisition of properties which it sought to develop into stores (Shoprite, 2000:8) - replicating strategies that had worked well elsewhere. The establishment of suitable infrastructure linked to practical experiences gained in similar environments placed the company in a favourable position for continued expansion (Shoprite 2002: 12). Table 4 shows the extent of Shoprite's expansion into the African continent by 2008.

Table 4: Shoprite's operations (2008)

CORPORATE OUTLETS								
	SHOPRITE	CHECKERS	CHECKERS HYPER	USAVE	OK FURNITURE	OK EXPRESS	HOUSE & HOME	HUNGRY LION
South Africa	339	159	27	204	211	18	47	120
Angola	5			7	2			4
Botswana	5				6			2
DRC	1							1
Ghana	2			1				
Lesotho	4			4	5	1		2
Madagascar	7							
Malawi	2			3				
Mauritius	3							
Mozambique	5			2	2			
Namibia	14	4		15	10		2	7
Nigeria	4							
Swaziland	6			3	3			1
Tanzania	3							
Uganda	3							
Zambia	19			1	1			7
Zimbabwe	1							
<b>TOTAL</b>	<b>423</b>	<b>163</b>	<b>27</b>	<b>240</b>	<b>240</b>	<b>19</b>	<b>49</b>	<b>144</b>

  

FRANCHISE STORES							
	OK FOODS	OK GROCER	OK MINIMARK	OK VALUE	MEGASAVE	SENTRA	ENJOY
South Africa	13	73	27	28	19	56	16
Botswana					1	1	
Namibia	2	9	2	7	10	11	
<b>TOTAL</b>	<b>15</b>	<b>82</b>	<b>29</b>	<b>35</b>	<b>30</b>	<b>68</b>	<b>16</b>

  

FRIENDLY STORES	
South Africa	144
<b>TOTAL</b>	<b>144</b>

  

ANCILLARY SERVICES			
	SHOPRITE LIQUOR	CHECKERS LIQUOR	MEDI-RITE
South Africa	88	62	127
Angola			1
Namibia	2	1	
Swaziland			2
<b>TOTAL</b>	<b>90</b>	<b>63</b>	<b>130</b>

Source: Shoprite, 2012

Planned expansion of the company's Usave division, earmarked for the informal sector, was just one example of replicating a strategy that had succeeded elsewhere. The successful low-cost Usave stores, located in South African townships and providing Shoprite's 700 most popular basic items, were considered ideal for replication on the African continent (Shoprite 2003:8). Its strategy to export and import products from one country to another was tried and tested in Manda Hill in Lusaka, Zambia, providing the company with a learning curve, while building competitive advantage (Shoprite 2002: 10).

The replication of successful strategies also applies to human resource policies; Shoprite replicates the training of employees to other African countries. The company believes that its policy to invest in the training and employment of members of local communities has created a high level of rapport with consumer publics, and a better understanding of their needs and aspirations. The effective transfer of skills is important for the growth of the business; expatriates from South Africa are initially used as local management over a period of two to three years after which trained locals take over responsibilities for their local operations. Staff functions and systems are totally compatible with South African human resource systems and have proved successful (Shoprite 2002:12).

This replication strategy has been extended to listing in host-country stock exchanges, which the company uses to cement its commitment to the African continent. It has described the secondary listing of its shares on the stock exchanges of Namibia and Zambia as a clear demonstration of its commitment to Africa. Shoprite's primary listing remains in South Africa. The secondary listings are considered an important milestone for the group as they enable local communities to participate in the wealth the company creates (Shoprite 2003: 8). In addition to store ownership, the group expanded by increasing its franchise membership (Shoprite 2002: 2).

The company sought to introduce barriers to the entry of potential competitors in a bid to maintain dominance and expand its market share. This it did by investing in infrastructure to accommodate the distribution of products and technology to manage

these facilities and to allow for exchange of information with suppliers and stores (Shoprite 2002: 10). This allowed Shoprite to create what Stopford and Strange (1991: 70) call an “internal market” – a monopolistic system through which Shoprite controls the distribution of a product from the time of manufacture until the time the customer purchases the item from the shelf at an outlet (Shoprite 2002:10).

True to its multinational status, the Shoprite group uses its extensive network of supply chains spanning different countries to exports and imports products (Shoprite, 2002: 12; 2003: 8). For example, the group exports certain products from Ghana, where it has a presence through its upmarket supermarket and lower market Usave, to Nigeria, where it also has a presence (Shoprite, 2008:5). The group also uses Mauritius’ duty-free port as a distribution centre from where it provisions its stores in Mozambique, Madagascar, Uganda and Tanzania with merchandise sourced in countries as divergent as Egypt, Malaysia, China and Argentina (Shoprite 2008: 6). In view of its expansion plans and in an effort to overcome some government import restrictions, Shoprite has encouraged some of its suppliers to establish production units in Nigeria (Shoprite 2008:7-8).

The group has invested in technological innovation, as it sees itself as leading both the retail and distribution industries in systems development in supply-chain management in Africa. As part of guaranteeing supplies to itself to meet customer demands, the group launched a plan called Collaborative Planning Forecasting and Replenishment. This initiative facilitates the sharing of information with Shoprite’s trading partners for the common goal of satisfying customer demands. The technology utilised not only makes the supply chain more transparent, it also assists in enhancing relationships with suppliers (Shoprite 2002:11).

This has developed into a business-to-business strategy through which Shoprite connects with all suppliers, branches and buyers on a range of stock-keeping units processing millions of item orders per month. Stores have been fitted with scanning capabilities. These advances allow Shoprite to trade in any country, in any currency and in any language as a retail and wholesale operation from one location. Its

African expansion is supported by the ability to trade with or without communications networks (Shoprite 2003:13).

Shoprite has also tried to placate its expansion strategies in line with NEPAD. A 2003 Shoprite annual report depicts a map of the African continent emblazoned with an extract from the report which states in part:

In the spirit of NEPAD, African countries are nurturing an AU which will allow Africa to grow to a greater self-sufficiency and economic stability. Shoprite wants to play a meaningful role in building a United States of Africa, dominated not by foreigners but African countries...Apart from offering consumers quality products at lowest prices the respective local economies also benefit from Shoprite's development retail property infrastructure, job creation, upliftment of local producers, continuous skills training and in various social responsibility programmes (Shoprite 2003:2).

The Shoprite group also invoked the imagery of Rhodes' imperialist mission. It said the advent of democracy in South Africa and the lifting of political constraints to investments in Africa allowed it to follow Rhodes' dream of linking Cape and Cairo. Wiese, the group's chairman, put it thus:

With the advent of South Africa's democracy and the lifting of political constraints, Shoprite started moving steadily into Africa, initially staying fairly close to home but in time moving right up to the Mediterranean, realising Rhodes' dream of linking the Cape to Cairo and blazing a pioneering trail which others have since followed. The pace of expansion quickened (Shoprite 2004:11).

This conflicting symbolism is indicative of Shoprite's management thinking. They appeared to be willing to adopt anything that would signify dominance of the African market. Sometimes the company saw itself as a pan-African company. It has also declared its support for NEPAD which, as discussed in previous chapters, was President Thabo Mbeki's blueprint policy for the continent, especially as it believed it would raise business confidence levels in Africa and encourage desperately needed foreign investment (Shoprite 2002:4).

In summary, Shoprite's expansion strategy entailed shrewd and far-reaching corporate diplomacy at the heart of which was the importance of dominating the African food and merchandise retail market. Through the investment in logistical infrastructure and fostering of cross-border trade, Shoprite has aided integration of African markets while simultaneously contributing to the continent's integration into the global economy. This is indicative of what the pursuit of profit can achieve for a company acting independently in pursuit of profits share beyond its domestic market.

#### **4.3.2. Massmart's expansion strategy**

Massmart first ventured into other African countries in 1997. It divided its expansion plans into two phases. The first phase involved expanding into African markets which were considered better known markets. By its own admission the company found it easier to open new stores within the rand monetary area, followed by former British colonies such as Zambia and Zimbabwe. The legal and operating environment in these countries were considered familiar to South Africa. The second phase involved getting into less familiar territory which included the former Portuguese and French colonies (McNulty 2005: 22, 23; Mawson 2007: 10).

The company pursued its Africa strategy through the acquisition of independent retailers and opening new stores to service the lower income group in the food retail market. This was based on the fact that these companies were normally located around commuter nodes (Reuters 2009: 1). By 2004, Massmart's Africa sales were R1, 47 billion (McNulty 2005: 22).

Its acquisition approach in expansion could be seen as a replication of its domestic strategy. When Massmart acquired Builders Warehouse and Tile Warehouse in 2002, it indicated that it would use the company to explore other markets in Southern Africa (Claasen 2002: 17). In their quest for expansion, South African MNCs which are also competitors had gone to the extent of partnering. Massmart and Shoprite collaborated in opening a shopping centre in Uganda (Lunche 2005: 8). This could be described as collaborative competition.

By the end of 2008, Massmart had become a large company handling billions of transactions, millions of customers and over 200,000 line items through more than 200 stores in 14 African countries (see Table 5). For Massmart chairman, Mark Lamberti, the company regarded its survival through growth as its primary objective. Part of this strategy was the “divine satisfaction” business philosophy learned from David Susman, founder of Massmart’s competitor Woolworths. “Divine satisfaction” is a state of being pleased with progress, but never satisfied. (Massmart, 2008b: 21).

Table 5: Massmart’s operations (2008)

<b>MASSMART</b>				
<b>DIVISION</b>	<b>CHAINS</b>	<b>OUTLETS</b>	<b>COUNTRIES</b>	<b>PRODUCTS</b>
<b>MASSDISCOUNTER</b>	Game	84	South Africa, Botswana, Namibia, Mauritius, Mozambique, Uganda, Zambia, Nigeria, Ghana, Malawi and Tanzania	General merchandise
	Dionwired	6	South Africa	Electrical appliances
<b>MASSWAREHOUSE</b>	Makro	13	South Africa and Zimbabwe	Food, liquor and general merchandise
<b>MASSBUILD</b>	Builders, Builders Express and Trade Depot	68	South Africa	Building material and tools
<b>MASSCASH</b>	CWB, Jumbo and Shield	598	South Africa, Namibia, Botswana, Lesotho and Swaziland	Food, liquor, groceries and ethnic cosmetics

Source: Massmart Holdings annual report, 2008

According to Massmart's annual report (2008), the excellent performance of existing stores in Africa prompted the company's management to revise its earlier policy to limit its African footprint to one store per country. Chief executive Pattison has said it was difficult to operate in African markets outside of South Africa because of difficulties in acquiring property (Massmart, 2009). However, the more difficult it was, largely due to bureaucratic red tape, the more opportunities there were for a good operator (Dakora *et al* 2010:5).

By the end of 2008, as shown in Table 5, three of its four divisions had operations on the African continent:

Massdiscounters consisted of 84-store general merchandise Game and six-store hi-tech retailer Dion Wired. Game traded in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Mauritius, Malawi, Tanzania, Nigeria and Ghana;

Masswarehouse consisted of 13-store Makro warehouses, trading in food, general merchandise and liquor in South Africa. There were two stores in Zimbabwe but, since 2007, the company lost full control of the day-to-day running of the operations due to Zimbabwe's indigenisation policies, through which foreign firms give away controlling stakes to local citizens. Massmart defined control as the 'power to govern the financial and operating policies of the (business) entity so as to obtain benefits from its activities'; and

Masscash consisted of 71 Cash & Carry stores trading in South Africa, Lesotho, Namibia, and Botswana. It also had Shield division, a voluntary buying association (Massmart 2008b: 24, 25, 29).

#### **4.3.3. Woolworths' expansion strategy**

For most of the 1990s Woolworth operations outside South Africa were limited to Southern Africa. This was due to the fact that Marks & Spencer, the United Kingdom retailer partner since 1947, had restricted expansion to Southern Africa. Woolworths' first expansion outside Southern Africa was through the acquisition of Australian retailer Country Road in 1998 (Joubert 2000: 66). Pressure to gain market share eventually saw Woolworths beginning its expansion project in the early 2000s. By

2008 it had expanded into 12 African countries, using the franchise mode of entry – (see Table 6). Through this model, the company worked as a wholesaler, selling to individuals, and left the retailing side to the franchisees (Vallie 2011: 14).

Table 6: Woolworths' operations (2008)

<b>WOOLWORTHS</b>		
<b>COUNTRIES</b>		<b>PRODUCTS</b>
Botswana		Food only, clothing only and full-line ( both food and clothing) stores
Swaziland		Food only, clothing only and full-line stores
Lesotho		Clothing only store
Namibia		Full- line stores
Mozambique		Food only and full-line stores
Zambia		Clothing only store
Tanzania		Clothing only store
Uganda		Clothing only store
Kenya		Clothing only store
Ghana		Full-line and clothing only stores
Nigeria		Clothing only store
Mauritius		Clothing only store

Source: Woolworths press office, 2012

After the period which is the focus of this study, Woolworths announced it would move from the franchise model to joint ventures. This would allow it to supply goods while taking part-ownership in the actual retail side of the business. Joint ventures were to be effected in Tanzania and Uganda, following the success of a joint venture in Zambia. It identified sourcing of products in Africa as a challenge, but indicated its supply chain would focus on reduced prices (Vallie 2011: 14).

From a domestic and international level of analysis perspective, Woolworths seeks to replicate its domestic strategy on the rest of the African continent. Its move from franchise to partnership, its mode of entry into the African continent, was first implemented in South Africa. It had bought back 70 percent of its food franchises in South Africa, clearly moving away from franchise model (Lefifi 2011: 3).

#### 4.3.4. Pick n Pay's expansion strategy

In 1995, Pick n Pay decided to take the franchise route as part of its national footprint rollout. This strategy expanded the Pick n Pay brand into smaller markets where larger and more traditional Pick n Pay stores could not operate profitably. Back then, the franchise trading space represented 10 percent of the group's total space and 17 percent of total stores. This model was replicated in Southern Africa, using the franchise model (Nedbank Capital, 2010: 3, 16). Table 7 shows list of Pick n Pay franchise stores in Southern Africa.

Table 7: Pick n Pay's operations (2008)

		
COUNTRY		FOOD / GROCERY OUTLETS
Namibia		17 stores
Botswana		12 stores
Swaziland		7 stores
Lesotho		1 store
Zimbabwe		56 TM Supermarkets

Source: Nedbank Capital, 2010

Pick n Pay's Africa strategy for the period under consideration has essentially been a Southern Africa strategy. Under the theme "growing new partnerships locally and globally", Pick n Pay (2007:5) stated it would continually evolve its footprint in Southern African and Australia. Pick n Pay chose to expand, albeit on a limited scale, through its low-price format stores and franchising rather than with its high/middle-end supermarkets (Weatherspoon and Reardon 2003b:145).

Unlike Shoprite and Massmart, which report extensively on "Africa" operations to shareholders, Pick n Pay reports on "Southern Africa" operations (Pick n Pay, 2008). It was not until 2010 that Pick n Pay announced its plans to expand to Mozambique, Mauritius, Malawi and Angola through the franchise model. It also had plans to

expand its stake in the 56 TM Supermarkets, a Zimbabwean retailer, from 25 percent to 49 percent (Bleby 2010: 15).

According to Nedbank Capital (May 2010:16), Pick n Pay owns 25 percent of TM supermarkets in Zimbabwe but does not have management control or exert influence over its operation. Until the announcement of expansions in Zambia, Mozambique and Mauritius (in 2010 and 2011), Pick n Pay had been operating in the BLNS Customs Union area. In Namibia, Pick n Pay trades through a franchise arrangement with the Olthaver and List Group, running 17 stores. It has a similar arrangement with other franchisees in Botswana with 12 stores, and Swaziland and Lesotho with a combined eight stores.

In summary, South African retail MNCs have used mainly a combination of franchise and wholly owned corporate stores to expand to other parts of the African continent. The depth of expansion has varied. Shoprite is well advanced than the rest. Pick n Pay, the second oldest after Woolworths, has limited its African operations to Southern Africa. The expansion strategies were pursued to gain market share and increase profits. The replication of domestic strategies in the expansion strategies validates the need to analyse the role of MNCs in terms of the levels of analysis theory. The fact that the liberalisation of exchange controls by the South African government created the propitious environment for the MNCs to pursue their expansion strategies is indicative of the importance of understanding the role of political conditions under which investments cross borders and the appreciation of the difficulty of separating business imperatives from political factors. This does not, however, detract from the fact that the retail MNCs have expanded as independent actors in the international environment.

The mere entry of the retail MNCs from South Africa to other parts of the African continent does not tell the complete story of their expansion. Key to the expansions is the procurement of goods for resale in retail outlets – a factor that is at the heart of their business and which has implications for foreign economic policies of governments, particularly trade and investment policies. The next section analyses the procurement strategies of the retail MNCs.

#### **4.4. The political economy of procurement**

In a survey on retail MNCs across the world, spanning a number of disciplines, Coe and Wrigley (2009a) identified several crucial themes for consideration in studying procurement by retail firms. Procurement is considered an important aspect of globalisation. The first theme relates to the ways retail MNCs are connecting their operations into their global sourcing network. The second relates to the extent to which firms are developing intra-regional sourcing networks to mediate between their global and host market sourcing regimes. The third theme relates to the ways in which retailer sourcing networks are being increasingly conditioned by regimes of ethical sourcing (Coe and Wrigley 2009a: xxix, xxx).

With regard to the first two trends on procurement, there are further observations by Reardon and Hopkins (2006), who noted that at the heart of the changes are “price wars”. The “price war” is an important point of conflict between supermarkets (including multinational retailers) and traditional retailers in developing countries. Lower prices based on lower costs from procurement modernisation and economies of scale are an object of tension with small traditional retailers who cannot match those economies of scale except through rare buying clubs or via franchise arrangements which then bring the small shops into the formal, and thus modern, retail sector. Supermarket chains tend towards charging lower prices than traditional retailers. This trend is correlated with the stage of diffusion of supermarkets, the type of products and degree of modernisation of the chain’s procurement system, aimed at driving down costs. The main elements of that procurement system modernisation include:

- The centralisation of procurement via distribution centres. This tends to increase the geographical market-shed of procurement first to the country, then the region, then globally. It tends to reduce coordination costs;

- Purchasing at mass scale, giving retailers stronger bargaining power with suppliers and reduction per unit fixed costs of transaction; and

A shift from spot-market procurement in traditional wholesale markets gradually towards procurement via specialised dedicated wholesalers, and direct purchase from suppliers. This increases efficiency in the supply chain (Reardon & Hopkins 2006: 526, 527).

The consideration of these global trends provides an indication of the economic and political significance of procurement in international retailing. For South African retail MNCs, procurement has become a key factor in linking production of consumer goods – and by extension the manufacturing sector of the economy – and the continental market. It also has a bearing on trade between South Africa and the African continent on the one hand, and between the African continent and the rest of the world on the other.

As pointed out earlier in the study, South African retail MNCs provide a logistical infrastructure that facilitates the distribution of South African-manufactured consumer products throughout the continent. Seen from this perspective, they stimulate trade in favour of South Africa and boost industrialisation at the domestic level. Exports of South African processed food products and other well known brands are brought into competition with locally produced products (Hartzenberg & Mathe 2005:12, 13). Apart from this, the role of foreign firms in the domestic economy is not only a consideration for efficiency reasons, but also for the development of business linkages with domestic manufacturing or other economic activities (Hartzenberg & Mathe 2005: 20).

The sourcing of products for re-sale in the South African retail outlets across the continent is as controversial as the issue of trade imbalances. Owing to the relatively developed production structure, as evidenced by the stronger manufacturing of finished and semi-finished products, the sourcing of products is biased towards South African producers. While South Africa has not been successful in its struggle to become a significant exporter of manufactured products in the multilateral international markets, other African countries constitute the main markets for its manufactured products (Makgetlaneng 2003: 89).

According to the DTI, South Africa had a positive balance of trade totalling R25, 4 billion in 2008 in relation to Africa. This is partly facilitated by the country's own retail MNCs in a variety of ways through their sourcing and distribution models. A study of the impact of South African supermarkets on agriculture and industrial development in the SADC region has found that 80 percent of all processed products sold in supermarkets and local shops in Botswana, Namibia and Zambia were sourced from South Africa (Emongor 2008:vii).

South African companies operating in the SADC region have admitted that they sourced less than 10 percent of their goods in the local market. They point out that local procurement opportunities are limited owing to the inferior quality and high cost of goods because of inadequate and inconsistent supply linked to low volumes. Their import dependency, combined with the capital-intensive nature and knowledge specificity of their businesses, has led to limited linkages with the local manufacturing sector. Instead, the South African business presence has led not only to domination of local businesses, but has also placed local manufacturing capacity under pressure. South African investment has thus brought both gains and losses to the African continent (Grobelaar 2004b: 98).

The Shoprite (2008) case illustrates moves by retail MNCs to expand their sourcing footprint globally (2008: 6). And this is not unique to South African retail MNCs. It is a global phenomenon in international business. As Kogut (1998:158) observed, one of the most important, and controversial, sequential sources of advantage for a retail MNC is its ability to arbitrage internationally, which means profiting from the differences in costs and prices across borders.

Once the South African retail corporations had gained access to African markets, their investments transcended the economical and became political. In the case of Shoprite, for example, the governments of Tanzania and Zambia – which allowed the company entry into the local economy – found themselves in a position where they had to indirectly defend the investments in cases where local citizens had become critical of the foreign investor. A dynamic emerged whereby internal contestations between the host governments and the domestic citizenry shaped the terms of

engagement between South African investment and the host countries/economies (Schroeder 2008:30; Miller et al 2008:12).

At the heart of some of these contestations is the politics of procurement – the tension between global and home country procurement on the one hand, and sourcing from the host country on the other. Each South African retail MNC has a procurement strategy or what Thomas Friedman (2006) call supply-chaining. Explaining the significance of procurement, Friedman (2006: 152) put it thus:

To appreciate how supply-chaining has become a source of competitive advantage and profit in a flat world, think about this one fact: Wal-Mart today is the biggest retail company in the world, and it does not make a single thing. All it 'makes' is a hyperefficient supply chain.

Something similar can be said of Shoprite, Massmart, Woolworths and Pick n Pay during the focus period of this study. They “make” efficient supply chains. They have relied strongly on locational advantages. They have coordinated their supply chains from the South African base and relied heavily on imports from South Africa and established sourcing network to expand outwards into new markets (Goldstein & Prichard 2009: 269).

#### **4.4.1. Shoprite's procurement strategy**

The domestic and international linkages that underpin Shoprite's expansion business strategy are complex. They combine manufacturing, procurement, trade, distribution networks, company-government relations, retail sales and the creation of barriers for potential competitors.

The company's successful central procurement model emerged in 1995 when it acquired Sentra, a central buying organisation used by 550 retail members in South Africa and neighbouring states, to co-ordinate procurement of various merchandise products (Planting 2009: 34, 35, 36). Through its subsidiary Freshmark, Shoprite has several hundred African farmers in about nine countries on its books to produce for

its supermarkets. Local sourcing extends to items such as sugar, flour, cooking oil, pasta, fruit juices, coffee, tea and bottled water (Games 2009: 13).

Procurement capacity was the foundation for the supermarket and convenience store franchising operation Shoprite launched in the second half of the 1990s that allowed the expansion of its franchisees into former homelands in South Africa and into poor, rural towns (Weatherspoon & Reardon 2003: 338, 339).

This procurement model would later be developed and replicated externally into a sophisticated customer-centric supply chain management strategy which was perfected over time. Through this strategy, the groups invested heavily in technology and infrastructure. By 2002, Shoprite boasted control of the distribution of products from the time of manufacture until the time the customer – in South Africa and in other African outlets – purchases the item. This was made possible by the adoption of the Collaborative Planning Forecasting and Replenishment initiative, which facilitates the sharing of information with trading partners, thus enhancing relationships with suppliers (Shoprite 2002:11).

This signalled Shoprite's move away from the inefficient direct-to-store delivery mechanism used by competitors (Shoprite 2002: 10). The group effectively 'controls' its supply chain (Shoprite 2003: 13). As part of this strategy, Shoprite built its biggest distribution centres in Gauteng and the Western Cape, from where it services a number of its outlets in the domestic market and on the African continent. The investment in infrastructure not only supports the supply of the company's South African operations; it also forms the backbone of supply to Shoprite stores on the rest of the African continent (Shoprite 2002: 10).

Shoprite's expansion coincided with economic growth in many host countries. Between 1998 and 2000, the group generated exports of more than R380 million and created 1,900 job opportunities in 56 outlets outside South Africa (Shoprite 2000: 5).

Shoprite's penetration of the continent paid off handsomely, not only for Shoprite's own shareholders but also for South African manufacturers, for whom it has created

many new markets. In the 2000 financial year, the Shoprite group reported in excess of R429 million-worth of merchandise exported to its non-RSA stores in the previous year (Shoprite 2002: 3).

In 2002, the retail value of South African products passing through the pay points of Shoprite's foreign stores exceeded R2 billion (Shoprite 2003: 18). Through this, the group has not only earned valuable foreign exchange but also provided a large number of jobs in the manufacturing and food industry in South Africa (Shoprite 2002: 3). But this depended on the cost effectiveness of exporting South African products to the African continent. Shoprite's import bill for manufactured goods from South Africa into foreign markets was considered too high as fewer of these were produced in markets outside South Africa and the high cost of production in other African markets meant it could still be cheaper to import many goods from the home base (Games 2009: 13). This explains Basson's remark in 2011 that Shoprite will support South African manufacturing until it can't afford to (Thomas 2011: 61).

Shoprite exports South African-manufactured products by road, rail, air and sea to several countries, with each country's own language, import regulations and lead-time, adding to the complexity of supply (Shoprite, 2002:10). The group believes that exporting products from South Africa to other parts of the African continent yields three advantages. First, it helps to provide a wider choice of quality products to consumers. Second, it assists local (host) manufacturing industries to upgrade their product range to international standards. Third, it helps to secure new markets for South African manufacturers (Shoprite 2002: 12).

On the flipside of Shoprite's argument is the reality that the exports it and other retailers generate through their vertically integrated retailing contribute to the skewed trade imbalance between South Africa and many African countries. At the same time, they are competing directly with local producers and retailers (Miller *et al* 2008: 5).

In addition to contributing to the skewed trade, Shoprite has been accused of failing to procure goods produced from the local economy of Tanzania, where it operates

supermarkets. It is said that the company has imported fresh produce like tomatoes that could be produced domestically. However, the accusation of failing to develop the local economy through domestic sourcing is balanced by the liberal view that what matters is what consumers want, rather than where it is produced (Schroeder 2008:28. 29).

Shoprite has not entirely favoured South African products at the expense of those from other African countries where it operates. The company also sources products for its Africa division from countries in South America, Europe, the Far East, India and other African countries. In Angola, for example, Shoprite's meat was imported from Brazil (Lunche 2005: 8). In this way, Shoprite also puts South African products in competition with products sourced from other parts of the world and thereby makes itself a melting-pot of global competition. And the low-price strategy driven by the company's management throughout the continent means that the company is on the lookout for low-priced products all over the world.

The company's expansion entails conducting diplomatic relations with state entities in order to ease its operational requirements across borders. Shoprite became the first commercial company to communicate electronically with customs authorities. This "learning curve" in managing exports, together with infrastructure, provides the company with competitive advantage. Investments in technology and infrastructure allow the group to meet customer demands even in the most remote locations in Africa (Shoprite 2002:10).

By 2002, the group boasted about 1,000 outlets, with more than 65,000 employees, a turnover of R22 billion and a total number of 33 million transactions; Shoprite had become the largest supermarket group on the African continent (Shoprite, 2002: 4).

With the dramatic increase of the value of goods traded came the increase of job opportunities. Local communities have also benefited substantially, for not only are a great many additional products sourced from local suppliers but some 8,000 jobs have been created in stores outside South Africa (Shoprite 2003: 8).

In brief, Shoprite's procurement strategy entailed sourcing products internationally and re-selling them to different countries where it has operations. It has played the classic role of a trade facilitator in search for profits. In this way, it has helped promote intra-African trade, linked South African economy with the rest of the African continent and subjected South African products to international competition.

#### **4.4.2. Massmart's procurement strategy**

International trade underpinned Massmart's expansion in Africa. Most of the products sold in its Game stores across Africa, for example, were imported from Asia, though they may be brought through South Africa (Lunche 2005: 8). As part of its global procurement strategy, Massmart (2008) indicated that it had hosted workshops with suppliers in China (Xiaman, Hong Kong, Shenzhen) and Taiwan (Taipei) to improve supply efficiency (Massmart 2008b:4).

In this way, Massmart subjected South African products to global competition. The international procurement strategy has triggered accusations that retailers like Massmart facilitated the dumping of goods from all over the world into South Africa which, in turn, are dumped throughout the African continent via retail outlets. This trend has exacerbated tensions in SADC (Grobbelaar 2004:101). Massmart explained its procurement model thus:

Massmart provides its suppliers with a reliable low-cost route to South African and African food, liquor, home improvement and general merchandise mass markets. We achieve this through the focused pursuit of procurement and supply chain efficiencies that enable Massmart to maintain amongst the lowest gross margins in the industry. Our procurement function is therefore one of the key drivers of our sustainability and profitability as a business. This implies that we rely on highly competent buyers who collaborate closely with suppliers.

Our supplier relationships are inevitably characterised by constructive commercial tension, which is indicative of our goal to deliver high quality merchandise to our customers at competitive prices. We recognise that such commercial tension must be channelled and managed in a way that does not undermine the integrity of either the relationship or the people who are part of it. Massmart is therefore committed to entering into supplier relationships that

are characterised by professionalism and founded on the highest principles of ethical conduct (Massmart 2005: 54).

This global procurement strategy has brought the company trouble in, for example, Zambia, where it was accused of breaching regulations by harming domestic suppliers in the manner in which it sought to procure goods. A case in Zambia brought to the Competition Commission by Ngwerere Farms Limited in 2002 raised important issues for South African business operations on the African continent, and also for the host countries as regards domestic market governance. It was alleged that Massmart (Game Stores) had used unfair trading terms which made it impossible for Zambian suppliers to do business with it – thus effectively giving imports an advantage over local supplies. The trading conditions were not uncommon in the competitive retail sector in South Africa, where there is an interesting balance of power between retail chains and producers – and on both sides there is significant market concentration. In Zambia, however, where producers are generally much smaller, and the newcomer retail firms have much more bargaining power, the asymmetry of the relationship presents a different trading environment. The Zambian Competition Commission decided that, indeed, Game Stores had adopted trading conditions that constituted a restrictive practice (Hartzenberg & Mathe 2005:12).

In summary, like Shoprite, Massmart entailed negotiating deals with international suppliers that enable it to resell for a profit margin. Contrary to Shoprite, though, Massmart has admitted to difficulties of the business-to-business diplomacy that it has to conduct, describing it as “constructive commercial tension”.

#### **4.4.3. Woolworths’ procurement strategy**

Woolworths’ supply chain operates a centralised distribution strategy covering all inbound logistics, central distribution centres, transport operations, as well as deliveries to stores. The strategy is at the heart of Woolworths’ growth. It provides a competitive advantage – simplifying distribution for suppliers (a single drop or pick up), simplifying deliveries to stores (a single drop), lowering the costs to operate and

improving the company's control of key aspects of logistics with the aim of ultimately ensuring that it has control of the product quality. The strategy enables Woolworths to deliver and sustain cost-effective availability of a wider product range in different stores across broad geographic locations. The group has central distribution capacities in South Africa (Midrand, Durban and Cape Town) to support its growth (Woolworths 2006b: 44).

Like Shoprite and Massmart, Woolworths too sources products in South Africa and internationally including from China (Woolworths 2007: 28). When the South African government implemented quotas on goods from China in January 2007 in a bid to restrict cheaper imports, Woolworths moved swiftly to identify alternative sources of supply (Woolworths, 2007: 18). But Woolworths was so determined to source Chinese goods that when the South African government began to impose restrictions, the group didn't shy away from expressing concerns, saying this could have a negative bearing on inflation in the South African economy. In addition, the group stated that while it sourced as much of its clothing products from South Africa, the prices and technology of South African-produced goods were not commensurate with those of the rest of the world (Hall 2006: 15).

Like Shoprite and Massmart, Woolworths has also been a vehicle providing retailing infrastructure for the exporting of South African-manufactured goods into the African continent, where it has operations. Woolworths' franchise system during the period under consideration was an example of how local market players on the African continent could be displaced and absorbed. Its local franchisees paid in foreign currency for licensing rights and standard branding fixtures. They were also compelled to purchase the bulk of retail stock directly from Woolworths' South African inventory catalogue. In this way, risk was transferred into the region and South African supply chains were privileged (Miller 2008: 4).

These concerns notwithstanding, the company claims that its procurement strategy has an ethical component. Said Woolworths in its Sustainability Report (2006):

All Woolworths suppliers, both local and international, are bound by the Supplier code of Business Principles which requires conformance to the highest legal and ethical standards and environmental practices. Our business partners are also required to ensure that this code is applied in respect of sub-contracting or secondary supplier arrangements and compliance with the code is monitored through a formal auditing process. The code covers child labour; forced labour; health and safety; wages, hours of work and entitlements; discrimination; freedom of association and the rights to collective bargaining; harsh or cruel treatment, and environment (Woolworths 2006a: 8, 9).

In brief, international procurement of goods for resale underpinned Woolworths strategy. This was similar to the strategies followed by Shoprite and Massmart, which differed in scale.

#### **4.4.4. Pick n Pay's procurement strategy**

Pick n Pay's franchise-based expansion model did not allow the company to run an efficient internal market like its competitor Shoprite and, to a certain extent, Woolworths. In the Pick n Pay franchise model, unlike in Woolworths' case, the store operator is not compelled to purchase either fresh produce or meat and related products through the company's network. In many cases, these products are sourced independently for a variety of reasons, such as third-party availability being in closer proximity and/or at better prices relative to the price acceptable to individual stores' target markets. In addition, given that the store is independently owned, all rewards associated with high-margin categories such as fresh and prepared foods, bakeries and other value-added products/services accrue to the operator, with Pick n Pay capturing only the rebates attributable to dry groceries purchased through Pick n Pay's system (Nedbank Capital 2010: 4).

But even sourcing of products from the Pick n Pay system has been limited by the distribution methods used. Since its establishment, Pick n Pay has elected to operate its distribution through the direct store delivery method, where no stocks are held at central locations such as distribution centres and suppliers are required to deliver at appropriate frequency to all the group's stores, both corporate and franchise outlets. Under this system, stockrooms at individual stores are used to hold

sufficient merchandise to prevent outages. Distribution costs are generally borne by suppliers; built into pricing mechanisms for each supplier. However, internationally, the movement of merchandise has shifted to the centralised platform. In South Africa, Shoprite, Spar and Woolworths all operate centralised distribution platforms (Nedbank Capital 2007: 4).

However, Pick n Pay (2007) was eager to play catch up. It launched – albeit belatedly - a new supply chain model which it planned to roll out in four years. This would ensure that 60 percent of the group's merchandise was distributed centrally, rather than direct to store. This was meant to improve on-shelf availability, save costs and to ensure the lowering of prices (Pick n Pay 2007: 19).

In 2008, Pick n Pay stressed the importance of introducing centralised distribution. It began to expand its storage facility in Johannesburg (Nedbank Capital 2010: 5). Pick n Pay began centralised distribution in July 2010 when it completed its first distribution depot for stores in the Gauteng and beyond South Africa's borders. In this regard, it was trailing rivals Shoprite and Woolworths (Bleby 2010:15).

In summary, Pick n Pay did not have a command business structure – unlike Shoprite, Massmart and Woolworths. Added to this was Pick n Pay's limited penetration of the African market as it has focused mainly on Southern Africa. This means its distribution network was not vast relative to competitors.

#### **4.5. An assessment of the expansion and procurement strategies of the retail multinational corporations**

There are similarities in the strategies employed by the retail firms Shoprite, Massmart, Woolworths and Pick n Pay to expand on the continent. All of them were motivated by desire to increase market share and profits. They replicated some of their domestic strategies. Shoprite and Massmart were much more aggressive. They employed a strategy which entailed direct ownership of the outlets beyond South Africa. Woolworths and Pick n Pay, on the other hand, used franchise strategy to expand. With the exception of Pick n Pay all four had some form of centralised

procurement that enabled them to source goods from all over the world for resale at a profit. They have therefore played the role of exporters and importers of goods across borders. This required a huge logistical infrastructure and compliance with various rules applicable in each country in which they trade and have invested.

There are differences, largely related to the scale, pace and intensity of the expansion. Shoprite's strategies fit in neatly with the "triangular diplomacy" conceived by Stopford and Strange (1991). Expansion factors such as the desire to take risks for profits were largely determined by the business philosophies of the management of these companies and how they interpreted the business opportunities that opened up as a result of government's liberalisation measures. The post-apartheid liberalisation measures had culminated from the negotiations between established business and the emergent democratic state. Coupled with this was the extent of the benefits of the expansion. The rewards of expansion reflected the extent of the expansion, and the bigger the better for profits. Shoprite has been the biggest of them all as its expansion was quick and vast.

Though the expansion of Massmart was not swift and vast compared to Shoprite, it was nonetheless aggressive. The success of Shoprite and Massmart could be attributed to the early adoption of the international procurement strategy as discussed in the preceding section. In, for example, Shoprite's 2008 annual report, the group's chairman Christo Wiese reported that there had been growth of 38 percent in turnover from operations outside South Africa with a concurrent rise in trading profit (Shoprite 2008: 9). According to Massmart (2008), the company recorded total sales of R39, 8 billion by 2008. At least 98, 8 percent of these were cash sales, 7 percent of which were recorded from African stores.

On the other hand, Shoprite's domestic competitor, Pick n Pay, opted to limit its Africa's division to mainly Southern Africa. According to Pick n Pay's 2008 Annual Report, the Group recorded a turnover of R45, 4 billion, a growth of 14, 4 percent compared to the previous year. This growth comprised 15, 2 percent from the Southern Africa segment (Pick n Pay 2008: 14). Woolworths and Pick n Pay were willing to play a catch-up game.

The analysis of the expansion and procurement of the South African retail MNCs has revealed several insights in relation to the framework of analysis for this study – a combination of triangular diplomacy, theory of embeddedness and levels of analysis approach in Chapter 2. The analysis has shown South African retail MNCs have been instrumental pushing for their own corporate diplomacy, validating the study's approach to analyse them as actors in their own right.

The diplomatic activities pursued by the MNCs included interacting with governments as well as suppliers. Their South African embeddedness – both politically and commercially – could be said to have weakened somewhat in relation to the domestic economy because of their ability to source products from all over the world while their emergence from a white-dominated South African production structure and limited B-BBEE in ownership meant they were not embedded to the politics of the ruling party. This is an issue which the study did not explore in nitty-gritty. However, in relative terms, the MNCs could be said to be economically more embedded to the South African economy than they are politically.

The extent to which they have, through trade, aided the production structure by providing the logistical infrastructure to export South African products is instructive. This has not distracted the MNCs from subjecting the local production structure, to which they are primarily linked, to competition by sourcing products locally and internationally for resale on the African continent. True to their pursuance of strategies as independent actors, they have, to a varying degree, curved linkages with domestic production structures in the host countries. Shoprite is a classic example.

In short, the loyalties of the MNCs are split between the South Africa's domestic political economy, where they are headquartered and from which they source a bulk of their products for resale; their international suppliers and the host countries in which they have nestled and from which they have reported increasing profits.

#### **4.6. Summary**

It has become apparent that the expansion of South Africa's retail MNCs is motivated by the urge to secure market share and increase profits. They have no qualms about this. Pursuant to this motivational thrust, they have adopted business strategies at the centre of which are largely global-oriented procurement strategies.

Through this internationalisation of procurement, they have been able to play suppliers against each other in a globally competitive environment. In this environment, they are driven by better margins. They might be operating predominantly in Africa, but they source globally, making them global players.

As to which products are sourced and from which supplier, when they are sourced and at what price are questions decided on commercial considerations. Massmart, Woolworths and Shoprite, for example, have made it clear that they source some of their products from China – a country whose products are cheaper partly because of cheap labour. This is China's comparative advantage. Hence, Woolworths' (2006) concerns that Chinese import quotas that the South African government had planned to impose could be inflationary in the South African economy.

The nature of the business of retail MNCs allowed them to bargain for best deals using commercial diplomatic strategies through which South African products were put in direct competition with products from all over the world. South Africa and the rest of the African continent have been the sites for this competition.

The commercial strategies employed by the corporations involved negotiating with state agencies to gain entry into local economies, secure land for business and negotiate with customs officials to ease the importation of goods. They saw their operations on the African continent as beneficial to the respective host countries as they were able to lower prices and formalise trade and where possible. Shoprite has gone further to encourage development of local suppliers in some cases and allowed citizens of host countries where it has listed to trade in its shares.

Whether or not there had been coalescences or divergences between the expansion strategies of South African retail companies and the foreign economic policies of the South African government on the continent – the main question of the study - is a subject for analysis in Chapter 5.

## Chapter 5

### South Africa's foreign policy: Divergence or coalescence?

#### 5.1. Introduction

When the ANC resolved at its 2007 conference to develop a code of good business practice that would guide the operations of South African MNCs on the African continent, it could be safely assumed the party had noted a disjuncture between the foreign economic policies of its government and the behaviour of South Africa's MNCs. The same assumption was the basis of the government's observation that there was a need to ensure South African MNCs operating on the continent needed to espouse the ethos of the South African constitution.

In laying the basis of testing the assumptions, Chapter 2 of the study deduced and tabulated several foreign economic policy principles on the African continent during the Thabo Mbeki's administration. These principles are to be juxtaposed with the corporate diplomatic acts of the retail MNCs discussed in Chapter 4. In the process of juxtaposition, account is taken of the structural power dynamics discussed in Chapter 3.

Juxtaposing the foreign policy principles with the strategies of the retail MNCs will result in the determination of whether or not the strategies pursued by the retail MNCs coalesced or diverged with the foreign policies of the government. This approach will also serve as a test on whether or not the assumptions on which the ANC-led government based its decision to initiate a policy process made sense from scholarly and policy perspectives. An analysis will, thereafter, follow to determine the implications for the study of International Politics more broadly and for South African foreign economic policies specifically.

This chapter re-assesses the government's key foreign economic policy articulations and positions discussed in Chapter 3. It deals with the manner in which the government has, for the period covered by the study, articulated its foreign policy

positions on the continent. The combination of the rhetoric (interest articulation) by policy-makers and actual behaviour exhibited should constitute the government's overall positions on the African continent. These are juxtaposed with the retail MNCs expansion strategies discussed in Chapter 4.

## **5.2. Foreign policy and corporate expansion strategies: coalescences and divergences**

For the purposes of this study coalescences between the South African government's foreign economic policies and expansion strategies of the South African retail MNCs refers to the articulation, behaviour or positions that illustrate a broad sense of commonality. The opposite is true of divergences. What follows is the list of the foreign economic policy principles followed by a brief critique on whether there exist divergences and/or coalescences when juxtaposed with strategies pursued by the retail MNCs.

### **5.2.1. Partnership or unilateral strategies?**

Through his vision of the African Renaissance, Mbeki set forth the importance of partnership in the exploitation of African resources. Although ambiguous on whether the envisaged partnership was to be between foreign investors and Africa-owned firms, or between foreign investor and the host government, or home government, it would be safe to assume it meant all aspects of partnership.

In the analysis of the expansion strategies of South African retail MNCs, there is no evidence to suggest that the four MNCs surveyed had unilaterally entered those countries in which they operate. They have ventured their operations in those markets largely because of a combination pull (attractive investment opportunities) and push factors (intense domestic competition).

Some of the pull factors, as in the case of Zambia and Tanzania, had to do with the host government's liberalisation policies, which allowed FDIs. They, therefore, invested in those countries because the host governments welcomed their investments. While there might be no direct partnership *per se*, both home and host

governments have given approval through policies that allowed the expansion of these companies.

There was, on this score, some level of partnership between the host governments and the retail MNCs in that the investments were not unilateral. As Rostow and Ball (1975:5) discovered in their analysis of the genesis of transnational business, the activities of an MNC are confined – more or less – effectively to the powers granted to it by the state. It is for this reason that instead of uncertainty about what the home government is planning in policy areas relevant to business, corporate managers of MNCs have to cope with similar uncertainties about the intentions of government in all the countries in which they operate (Strange 1999: 14).

However, on the whole, host African governments have voluntarily allowed the investors from South Africa who were seeing to expand their market share. There was, therefore, broad commonality of interest articulation between the need for partnerships expressed by Mbeki and how retail South African MNCs invested on the African continent.

### **5.2.2. Altruistic investments or imperialism?**

The Mbeki administration articulated the principle of African development explicitly devoid of annexation of foreign markets through imperial physical force. This meant that the Mbeki administration was not prepared to engage in an imperialistic mission akin to Cecil John Rhodes and the colonial governments of the time. To the extent that South African retail MNCs pursued their strategies outside a political mandate of any kind from the home government suggest that their ultimate aim were not imperialistic. In any event, it would be illogical and impractical for a black-led country that was shackled under apartheid to suddenly pursue an imperialist project in African countries that have long attained independence from colonial conquest.

In its Africa expansion project, Shoprite invoked the imagery of Rhodes, the ruthless entrepreneur-cum-imperialist who had a mission to annex and conquer Africa, linking it through a railway stretching from Cape to Cairo. Invoking Rhodes' ill-fated mission was done ostensibly to illustrate, in graphic terms, Shoprite's intention to expand its

market dominance on the African continent. Nevertheless, it was not meant in a practical sense to replicate Rhodes' imperialist missions long after Africa obtained its independence.

As Renier van Rooyen, the former chairman of Pep Store, the company that bought Shoprite in 1997, said of Whitey Basson:

We are strong Afro-optimists. We are real *boere* in that sense (Planting 2009: 36).<sup>23</sup>

This does not detract from the fact that given Africa's colonial history, and South Africa's apartheid past which informed the evolution of the South African economy from which Shoprite emerged, it is easy for such imageries to immediately strike a wrong chord and become politically controversial. It could, if taken seriously, get ingrained into the retailer's staff and management as some kind of a business philosophy. That it was articulated by its chairman gives it more weight as some kind of business philosophy.

Yet, for a Pan-African MNC ironically driven largely by white South Africans, it is, indeed, undiplomatic imagery. Such connotations might according to Simon (2001: 383), seem unfortunate under the circumstances. And yet they suggest that although the times may have changed, very old attitudes remain strong in some business quarters; and that this could very well explain what has been described as loathsome and uncaring labour practices, and racist interpersonal skills by some entrepreneurs (Gumede 2005: 204).

From this point of view, a divergence of attitudes towards Africa could be discerned between the government's African Renaissance mission post-independence and post-apartheid, and the Rhodes' imperialist undertones invoked by Shoprite.

However, Shoprite has also declared support for NEPAD, even going further to support the so-called United States of Africa (Shoprite 2003: 2). From this perspective, there is a coalescence of ideals with Mbeki's approach that sought to achieve an economically integrated continent.

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<sup>23</sup> Although the Afrikaans word *Boere* specifically refers to farmers, it is used in this case as general reference to Afrikaners or Afrikaans speaking white South Africans.

Far from being imperialistic, Shoprite, Massmart, Woolworths and Pick n Pay have, in fact, contributed to economic development by facilitating cross-border trade, creating new markets for products, formalising retail trade, paying taxes to the host governments and helping consumers access a variety of products procured from diverse sources, including locally sourced products, in some cases. From this point of view there has been coalescence between the role played by the retail multinational corporations and the government's stated policy to promote trade and investment on the African continent.

This does not mean that the picture is entirely rosy. Miller (2005: 118) points out that, while regional observers contemplated stronger economic links between South Africa and Africa as one outcome of the new [integrated] region, the "predatory urge" (for example, the displacement of local businesses) by South African capital into Africa has been an unanticipated outcome. Despite the negatives inherent in the "creative destruction" process of capitalism so well articulated by Austrian economist Joseph Schumpeter (2009: 43), South African retail firms are a pioneer of the modern landscape wherever they have invested on the African continent (Miller 2005: 118).<sup>24</sup>

### **5.2.3. Development or under-development?**

There was in Mbeki's foreign economic policy the principle of achieving development through investments.

There is no evidence to suggest that investments by South Africa's retail MNCs did not encourage development. Although some aspects of the investments are challenged, there is no question about the fact that many African governments are hungry for more investments to create jobs and develop their economies. As Games (2004:45) observed, through paying taxes, value added tax and duties, as well as creating jobs, retail companies are contributing to the development of host economies.

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<sup>24</sup> Schumpeter (2009) argued that the opening of new markets, foreign or domestic, illustrate the process of industrial mutation (innovation) that incessantly revolutionalises economic structure, incessantly destroying the old one, incessantly creating a new one. This process of "creative destruction" is the essential fact about capitalism.

In the case of Shoprite, for example, the creation of new retail markets has helped encourage the development of local producers and manufacturers beyond South African borders (Shoprite, 2000:8). Shoprite has steadily increased local production of fresh goods was now self-sufficient in vegetables. Through its sourcing subsidiary, Freshmark, Shoprite has several hundred African farmers on the African continent on its books (Games 2009: 13).

It is true that the South African retail MNCs have displaced many informal retailers on the African continent. They have also acquired a number of operators in various countries. But the other side of the equation is that, in so doing, the retailers have also introduced new discipline in the pricing structure of goods. South African investment has led to an increase in consumer choice, to a consistent and reliable supply of goods to local consumers, in turn resulting in greater price stability. This is particularly important within the context of a market dominated by the informal sector, as is the case in Africa. Historically, both formal and informal traders could charge whatever they wished, especially in cases where stock was obtained through smuggling. This discipline has introduced more transparency to the market and has resulted in growing consumer awareness amongst the population (although this is still in its infancy) in countries where South African companies have invested (Grobbelaar 2004b: 99).

Shoprite's venture into property development in Africa has not only aided other South African retailers to piggy-back, but local entrepreneurs in African host countries have also made use of the rental space (Games 2004a: 47), thus boosting the formalisation of the economies in which the retailer has operations. Shoprite is encouraging some of its suppliers to establish production units in Nigeria due to the host government's import restrictions (Shoprite 2008: 8).

In a small but significant way this has proved there are indeed possibilities that South African companies could play the role of catalysts for investment. Countries with less advanced product structures could assume simple manufacturing and services activities to service the supply chains of more advanced regional partners (South

Africa, in this instance) and move towards more sophisticated manufacturing and services over time (Grobbelaar 2004a:102). In this respect, there are commonalities of articulated interests.

#### **5.2.4. Ethical investments**

There was an ethical component that was expected of both the government and South African MNCs in their external behaviour. The signing of the Organisation of Economic Cooperation and Development's Convention on Bribery of Foreign Officials and International Business Transactions meant that South Africa's business dealings on the African continent ought to be above-board, even though some of the African countries in which the South African MNCs operate were not signatories to the convention.

South Africa's retail MNCs operate on the basis of laws and ethical guidelines applicable in the host countries. For the period under consideration, there were no known cases of a host government that failed to apply its laws in relation to ethically questionable conduct by South African retail MNCs. These retail firms have invested in countries with specific rules regulating FDI.

The OECD (2010:18) has urged the South African government to ensure that its foreign diplomatic representatives establish and maintain contact with South African businesses operating abroad, disseminate information on the corruption risks in the country of operation and the legal consequences of foreign bribery under South African law and, finally, encourage businesses to report suspected instances of bribery.

On competition policies, Massmart was once found guilty by Zambian competition authorities for implementing a procurement strategy that sought to restrict local suppliers from accessing the retailer's outlets (Hartzenberg and Mathe, 2005:12). Globally, multinational corporations are facing increasingly intense regulatory challenges in many of the host economies they have entered (Coe and Wrigley, 2009a: xxxi).

There have been instances where the host country regulations were not entirely propitious for retail investments, leading to failures. For example, Pick n Pay, partly attributed its failure to sustain its operations in Tanzania – where it pulled out in November 2002 – to the host government’s failure to curb widespread smuggling of goods by competitors (Honey 2003: 27).

Based on the above observations there are no known instances of unethical behaviour shown by South African companies which the host governments that allowed the investments could not handle or punish in line with relevant laws. But this does not mean that the retail investments were always left unchallenged by local communities. According to Miller (1995), regional and continental contestations around retail and other expansions abound, ranging from Nigerian local farmers who once threatened to burn down Shoprite stores, to Egypt retailers who eschewed a company that would not play Arabic prayers during Friday prayer time, to the Shoprite workers who claimed equal status with their South African counterparts (Schroeder 2008: 36).

Labour’s disaffection with capital, however, is a phenomenon not only affecting South African retail MNCs external investments. It also affects these companies domestically. It could, therefore, be concluded that with regard to ethical issues, the retail MNCs and the South African government did not pursue a contradictory strategies.

### **5.2.5. African economic integration**

A broad principle could be discerned that the Mbeki administration sought to achieve the integration of markets and diversification of African economies.

South African retail MNCs did not expand to the African continent with the intention of integrating markets. But that is what they have done through extensive cross-border IT and transport logistical networks they have created. They have done this in pursuit of market-share and profits. However, in the process, they have helped develop linkages between disparate African markets. The existence of retail MNCs

as outlets for consumer goods across the continent should serve as an incentive for African economies to develop their production structure.

The procurement strategies pursued by the retail MNCs, especially their capacity to source products anywhere in the world, show that they are at the centre of converging global markets. In this way, they don't only integrate African markets – ahead of African governments' long-planned integration – but also insert them within the broader global economy. In this regard, there is a coalescence of foreign economic policy and corporate diplomacy pursued by the retail MNCs.

The role of South African MNCs in African integration – functional integration to be precise - triggered the *Financial Mail* to conclude thus:

Never mind the rhetoric about NEPAD, the African Union, the pan-African Parliament and other institutions designed to create greater political and economic integration on the continent; the real action is happening at the corporate coalface (Lunche 2005: 8).

According to Mattli (1999: 22) functional integration stresses the importance of cross-border economic and social factors over political factors. Indeed, the retail MNCs have spearheaded functional integration of markets on the continent through cross border trade, procurement and resale of products. This must be understood in the context of the states as enablers of such integration. However, Tsie (1996) offered a trenchant criticism of African states, particularly SADC, for abdicating their developmental responsibilities by leaving capital to drive regional integration.

#### **5.2.6. Exporting South African value systems**

There was an intention by the South African government to extend the domestic value system through South African MNCs operating on the African continent.

It can be argued that this view is based on a dangerous superiority complex assumption. It also wrongly suggests South African companies have invested in environments characterised by a lacuna of values. The assertion by the South African government's discussion paper *Towards a Fifteen Year Review* (South Africa, The Presidency, 2008) that there was a need to continually improve the

conduct of South African companies on the continent, “in line with the values of our constitution and ethos” was not something that would have lent itself to practical articulation by the government beyond a grand, wishful thinking.

Certainly, wherever they have invested, the retail MNCs did not find a vacuum. They found existing laws in terms of which investments were allowed in and the conduct of business regulated. The Ghanaian government has, for example, introduced an investment policy which provides for attractive incentive schemes to lure South African and other foreign businesses to invest in Ghana. These include low-equity requirements, full ownership, low corporate taxes, tax holidays, tax rebates offered as incentives to establish companies in certain locations, exemptions from customs duty on certain import items, and governmental investment guarantees that profits and dividends are transferable out of the country (Besada, 2005: 16).

Another example is Kenya. In 2004, Kenya passed an Investment Promotion Act which established state institutions to regulate FDIs, including relations between foreign corporations and the public. The Kenya Investment Authority is responsible for issuing investment certificates to private companies undertaking to pursue, among other things, investments that would benefit Kenya. The criteria in this category of investments are the creation of employment for Kenyans, the transfer of new skills or technology to Kenyans, and the prospect that the investment will make a substantial contribution to government revenues (Hudson, 2007: 68).

For illustrative purposes, it is worth citing another example (unrelated to this study) of a host government putting its foot down. The South African government’s diplomatic efforts failed to convince the Indian government to lift the ban on state-owned arms manufacturer Denel. The Indian government insisted that the matter was between it and Denel. Denel was blacklisted from exporting weapons to India after Indian authorities discovered that it had paid certain officials commissions perceived as bribes. Since the scandal broke in 2005, it cost Denel a market of R2 billion (Mkhabela 2009: 13). This was an indication that host governments are willing to deal with companies individually and in terms negotiated with those companies.

The different host environments also trigger different commercial strategies by the retail MNCs. For example, when Zimbabwe's economy deteriorated in 1997, it had a severe impact on Pick n Pay's balance sheet. Foreign currency auctions were no longer held by the Zimbabwe Reserve Bank. Therefore, with no official auction rate, profits were translated at a rate of R1: Z\$1 900 in February 2007. This rapid deterioration of the exchange rate, together with worsening economic conditions and lack of foreign exchange in Zimbabwe, necessitated impairment of the group's investment in TM supermarkets (Pick n Pay 2007: 65).

For its part, Massmart conceded loss of control of its operations in Zimbabwe (Massmart, 2008: 29). It is within this context that Shoprite had, in response to a mooted external code of conduct by the South African government and the ruling party, said it was committed to abiding by the laws and corporate governance regulations of all the countries in which it trades (Mkhabela 2007a:19).

Interestingly, the South African government has drafted regulations for inward foreign direct investment – an acknowledgement of the importance of the host country's policies of managing its own economy in line with its interests. The regulations are aimed at enhancing certainty for foreign investors and domestic companies while also providing transparent mechanism for state intervention to protect public interests where warranted. The approach is based on the principle that most forms of FDI are expected to have net economic benefits for South Africa and that, across most sectors of the economy, a non-discrimination approach to regulation should apply (South Africa, National Treasury, 2011).

Retail MNCs have had to bargain with host country state agencies and suppliers. As Stopford and Strange (1991: 211) observed, among the basic premises of the international political economy is that host country government officials were increasingly becoming aware of what they were dealing with when it came to MNCs. By wooing MNCs to their territory, they are learning that the firms demand more than simple accommodation within the existing policy framework, and that framework often needs major adjustments if the benefits of the investments are to be fully captured.

Under the circumstances, the South African government would not have been in a position to dictate policy prescripts, let alone value systems, for South African companies operating on the African continent. In terms of the new dimension of diplomacy (Strange 1994a: 107), governments are responsible for wooing investments to their territories and, in the process, negotiating with investors the terms and conditions of the respective investments.

Foreign investments by South African MNCs also trigger reactions in host countries. As Schroeder (2008:30) and Miller *et al* (2008: 12) have observed, there was a dynamic whereby internal contestations between the host governments and the domestic citizenry shaped the terms of the engagement between South African investment and the host countries/economies. There is no doubt, therefore, about the primacy of the host government in regulating their own investments in line with expectations they have on the investments, depending on the bargaining outcomes with investors – regardless of their origins. It is, therefore, impossible for the South African government to define and institute what, in Dlamini's (2010) view, is called "appropriate regulatory institutions" to check and balance the instincts of business and its tendency to place profit above all else. Indeed, what the South Africa government could consider appropriate may not necessarily be so for the host governments.

Any meaningful attempt to regulate the conduct of South African MNCs on the African continent would have to be sufficiently extensive to cover their global suppliers. In a globally competitive world, where part of the competitive advantage includes cheap labour (as is the case with China), such a move would be inconsistent with South Africa's own cordial foreign policy towards China, for example, and other countries that do not have labour relations regime similar to South Africa.

If the South African government were to take the policy proposal of instituting a code of good business practice to its logical conclusion, it would have to significantly curtail Chinese imports, which find their way via the retail MNCs, on the basis that they are produced in factories which do not apply the labour rights regime applicable in South Africa. Such a strategy is unimaginable given Chinese economic might in

the global economy. Already, South Africa has a good relationship with China notwithstanding its non-democratic values which are in direct contrast to the constitutional democratic dispensation enshrined in the South African constitution. The relations are cemented in business. As Matjila (2007) noted by 2005, Chinese FDI into South Africa amounted to US\$400 million and South Africa's FDI into China US\$ billion. Exports to China stood at R17, 67 while imports stood at R39, 5 billion.

South African retail MNCs are operating within a global economy and their business strategies are based on bargaining with suppliers in South Africa, Africa, and globally to get better deals. The deals allow them to secure profit margins. This has rewarded them handsomely in a manner that does not seem to have diverged from government's policy towards those countries where the retailers source their products.

What Coe and Wrigley (2009a: xxx) refer to as "ethical sourcing" (perhaps, added to this, ethical labour and competition policies) that may apply to retailers and suppliers, could best be dealt with within respective countries' FDI policies. As Reardon and Hopkins (2006) put it, the entrance of FDI, plus competitive investments by domestic chains in response to competitors, become the central policy and business strategy response that impact on the retail sector. The policies that regulate competition and behaviour within the retail sector are then simply structures built on that basic policy edifice of FDI liberalisation. Retail policy becomes foreign policy, and vice versa (Reardon & Hopkins 2006: 538).

The idea of exporting South Africa's values as contained in its constitution to other parts of the continent may, in fact, constitute divergence with the country's own policy of respecting the sovereignty of other nations. It might be tantamount to extending foreign policy ideals through MNCs. The subordination of a host economy and its economy to the interests and values of the home country or government is considered among the negative aspects of FDI (Sauve & Schwanen 1996: 42).

Viewed from this perspective, there is no need to draw up a divergence/coalescence conclusion between the value aspect of government's articulation and the strategies employed by the retail MNCs. At the level of articulation there appears to be

divergences between the South African government and the strategies of the retail MNCs. But the real divergence, ironically, is embedded within the government's own articulations: while it sought partnerships in the integration of African economies, the express intention to unilaterally export domestic values to other countries through South African MNCs runs counter to the idea.

### **5.2.7. Expanding South Africa's export market in Africa**

The government sought to expand exports. But it has raised concerns over the trade imbalance in favour of South Africa in relation to other African countries. The extent to which there are coalescences and divergences between South African retail MNCs and the government on this score could be assessed in two ways.

First, because South Africa's retail MNCs have provided logistical infrastructure for South Africa's exports on the African continent (Hartzenberg & Mathe 2005: 13), this aspect of foreign policy articulation is significant in that it provides for a crucial coalescence. The coalescence exists at the level of material interests between the domestic manufacturing sector and the strategies pursued by the retail MNCs insofar as the latter serve as distribution agents which carve out markets for South African products.

The government had sought to expand exports. The retail MNCs have aided this – although the full extent of their contribution in this regard is not known. Shoprite in the main, and, to a lesser extent, Woolworths, Massmart and Pick n Pay, could best be described as the best implementer of the government's foreign economic policy desires insofar as trade is concerned – only if there was an agreement for the facilitation of exports to happen. As Shoprite chief executive Whitey Basson puts it:

We will support SA manufacturers until we can't afford to (Thomas 2011: 61).

Table 8 shows the positive trade balance South Africa enjoyed with Africa in 2008/9 relative to the negative trade balance with Asia and Europe. But there was no agreement with the government between the retail MNCs to support South African manufacturers to export into the Africa. Instead, what has emerged is what one can term inadvertent coalescence between foreign economic policy objectives of the

South African government to expand trade, liberalisation of trade and the procurement strategies employed by the South African retail multinational corporations. This compels South African manufacturers to be competitive as Shoprite is driven by profit margins: the company was prepared to look elsewhere if local manufacturers were unable to supply it with its house brands in sufficient volumes (Thomas 2011: 61).

The benefits which accrued to the South African economy as a result of retail MNCs procurement strategies were the logical, albeit unintended, offshoot of their search for market share and profits on the African continent. Over the years, the retailers exported multi-million rands-worth of South African-originated merchandise to the African continent.

Second, and in contrast to the preceding observation, exports to the rest of the African continent has caused a trade imbalance in favour of South Africa – a situation of which the government did not seem to approve. In this regard, the role played by South African retail MNCs on the African continent could be seen as counter-productive. By 2007, exports to the rest of the African continent had totalled R68 billion and imports about R40 billion. This huge trade imbalance was identified as a factor that could undermine the benefits of economic relations with Africa, or inhibit growth (South Africa, The Presidency, 2008: 63).

Yet, as discussed in Chapter 3, the trade imbalance is a function of the structural power of the South African economy relative to the rest of the African continent. Table 8 demonstrates this graphically: South Africa imported more goods from Europe and Asia than it exported to these regions. The opposite is true in relation to Africa. Rhetorically, the government appeared concerned. But because the retail MNCs did not set out to contribute to the trade imbalance (all they were doing was pursuing profits), they can't be said to have deliberately facilitated trade to the detriment of the host countries in which they operate. Nevertheless, no government would aspire to have a negative trade balance as this often reflects the weakness of an economy that imports goods to meet domestic consumption which cannot be met by domestic producers. Dunning (1981) cited a balance-of-payment deficit as an example of negative effects that some FDIs could have on a national economy. A

host country could develop a macro approach to evaluate the costs and benefits of FDI (Dunning 1981: 381).

Table 8: South African trade by continent (ZAR '000)

<b>EXPORT</b>		
CONTINENTS	2008	2009
TOTAL ASIA	190,889,348	162,036,473
TOTAL EUROPE	208,563,006	148,019,467
TOTAL AFRICA	99,016,216	86,328,583
<b>GRAND TOTAL</b>	<b>498,468,570</b>	<b>396,384,523</b>

<b>IMPORT</b>		
CONTINENTS	2008	2009
TOTAL ASIA	314,219,866	231,540,844
TOTAL EUROPE	244,835,362	186,442,979
TOTAL AFRICA	73,549,591	40,378,117
<b>GRAND TOTAL</b>	<b>632,604,819</b>	<b>458,361,940</b>

<b>TRADE BALANCE</b>		
CONTINENTS	2008	2009
TOTAL AFRICA	25,466,625	45,950,466
TOTAL EUROPE	-36,272,356	-38,423,512
TOTAL ASIA	-123,330,519	-69,504,371
<b>GRAND TOTAL</b>	<b>-134,136,250</b>	<b>-61,977,417</b>

Source: The DTI, 2009b

There was little that the South African government could do to alter this, unless it was keen on curtailing its own commercial interests by slowing down the economy, while praying that its African trading partners would play catch-up – an unrealistic and inconceivable moral hazard in the international political economy. In SADC the

failure to catch-up could be blamed partly on the failure of the regional bloc to develop regional industrial and competition and policies, taking into account the comparative advantage of the member countries (Mkhabela 2007b: 25).

The trade imbalance is a reflection of the constraints imposed by dispositional dimension on a government's intentional behaviour. As Carlsnaes (2002: 343) pointed out, intentional behaviour – even if altruistic - is never pursued outside the crucible of structural dimension. While the government under Mbeki had its own political tools to formulate policy, the structural dimension of the South African economy, owing to South Africa's history, was in favour of capital.

The structural dimension, depicting a relatively strong and robust South Africa business sector, paradoxically has also become a source of envy and distrust, especially in the immediate neighbourhood of Southern Africa and then, increasingly, elsewhere in Africa (Le Pere and Van Nieuwkerk, 2006: 299).

Most local manufacturers and traders do not have the resources to compete against well-capitalised, established South African chains and their quality goods. This has caused local companies to go out of business, which has resulted in hostility towards South Africans (Games 2004:5). However, Michael Porter, an expert on international competitiveness, has observed that where FDI takes the form of production facilities or acquisition of domestic firms that are transformed into marketing arms, this is a sign that foreign firms possess competitive advantage in the industry. The foreign investment will raise national productivity by stimulating improvements by domestic firms and supplanting the less efficient rivals (Porter 1990: 670).

It is safe to conclude that there has been a coalescence of interests between the government and the South African retail multinational corporations at a material level and a divergence of interests at a normative and unrealistic level.

### **5.2.8. Multilateralism as foreign policy anchor**

The South African government's foreign policies are anchored on multilateralism. In terms of this approach, international disputes ought to be resolved through multilateral institutions.

There was divergence between two foreign policy positions of the South African government. While it stressed the need for resolution of transnational issues through multilateral institutions, it nevertheless mooted a unilateral approach to possible regulation of South African companies operating on the African continent. Cross-border investments are an international phenomenon and regulations impacting on them would require multilateral instruments.

Despite the historical emergence of multilateral avenues to regulate cross-border investment – the International Trade Organisation, the OECD guidelines for multinational enterprises, the United Nations Conference on Trade and Development – (Sauve and Schwanen, 1996; Hudson 2007: 145, 147), the South African government did not explore these avenues to discipline MNCs. This is notwithstanding the fact that in 1999, the same year in which Mbeki assumed power and when the South African government made multilateralism the anchor of its foreign policy, the United Nations initiated a discussion about a Global Compact between itself, large corporations, national governments and parts of civil society. Such a compact is based on values derived from international labour, corporate conduct and human rights law. There was also some suggestion that the UN would encourage a sharing of the responsibility for protection and promotion of certain values and customs between public (national governments) and private organisations (transnational corporations) (Dunning 2006: 191).

The UN's role in attempting to broker a universally acceptable behaviour of MNCs dates back to 1972 when it commissioned a group of eminent persons to study the role of MNCs in international relations and development. The group recommended the creation of the UN Commission on MNCs which would work out a code of conduct. It also recommended technical assistance designed to strengthen

bargaining positions of less development countries (Nye & Rubin, 1975: 123-124). Despite this background, the ANC resolved to formulate a code of good business practice for South African MNCs. The South African government took the matter up and it became part of policy discourse. There was no suggestion that the ANC or the government would table the matter for discussion in multilateral forums.

Even in bilateral investment instruments, such as the one South Africa signed with Zimbabwe, there is no reference to South Africa dictating the terms of how home companies which have investments there should conduct themselves. The instrument was meant to protect South Africa's investment under threat of being nationalised under Zimbabwe's policy of indigenisation. The Bilateral Agreement for the Protection and Reciprocal Protection of Investments (2009) was signed between South Africa and Zimbabwe on 27 November 2009.

The South African government was caught in economic governance policy dilemma. But it is not the only one. Many governments seeking control of a larger share of the global economy have similar challenges.

As Jeffrey Sachs (1998: 108 – 9) put it:

At the end of the twentieth century, the national market is being increasingly displaced by the international market. After decades of experimentation, almost all countries have realised that the national market is simply too small to permit an efficient level of production in most areas of industry and even in many areas of services.

Efficient production must be geared instead towards world markets. Moreover, globalisation has proved a catalyst for international agreed-up rules of behaviour in trade, finance, taxation, and many other areas, thus prompting the rise of the World Trade Organisation and other international institutions as bulwarks of the emerging international system. At the same time, communities, local governments, and regions within nations are increasingly asserting their cultural and political autonomy....

We are therefore in a midst of a startling, yet early, tug of war between polities at all levels. Where will the future of decision making, tax powers, and regulatory authorities reside: with localities, subnational regions, nation-states, or multilateral institutions (both within geographic regions such as the European Union and at the international level?

The South African government and the ANC have shown signs of confusion about the difficult choices for economic governance. The government's plan to unilaterally seek to regulate the multinational investments (for that's what it actually means to instigate a legislated code of good business practice) goes against its foreign policy principles anchored on multilateralism.

### **5.3. Summary**

There have been substantive divergences and coalescences between South Africa's foreign policies/articulations and the strategies pursued by the retail multinational corporations. On the foreign economic policy goals of forging partnership between the continent's private sector and the governments, there is no doubt that the significant investments by the retailers somewhat aided the goal. There has been no annexation of markets by physical force.

On the government's aspiration to extend South Africa's value system, there is clearly a divergence. But the divergence is also to be found within government's own policy articulations, thus making it difficult to find a line from which to distinguish between actual coalescence and divergence between government's foreign policies and the strategies pursued by South Africa's retail MNCs.

The uniqueness of respective countries' investment environments makes it illogical for South Africa to aspire to extend its values via MNCs. The same applies to the problem of trade imbalances. South Africa's production structure is aided by the country's retailers, which find domestic and external markets for locally produced goods. In this way, they help facilitate domestic manufacturing, and thus growth. From this point of view, the coalescence is undeniable.

The government's concern about trade imbalance seems irrational. The retailers have also contributed to economic development, though they have, through their global procurement strategies, brought competition to the African continent by sourcing products from all over the world. This is because they are an integral part of

the globalisation of the world economy. To a varying degree, South African retail MNCs are contributing and benefitting from globalisation.

## **Chapter 6**

### **Findings and conclusion**

#### **6.1. Introduction**

The aim of the study was to establish whether there were coalescences or divergences between the foreign (economic) policies pursued by the administration of South African President Thabo Mbeki and the expansion strategies of South African retail MNCs. The study also sought to analyse the nature of the coalescences and divergences. This was necessitated by debates about South African companies not subscribing to domestic ethos in relation to their commercial activities on the African continent.

The debates about the establishment of a code of good business practice applicable to South African companies operating on the African continent intensified after the ANC held its 52<sup>nd</sup> national conference in 2007 when the crafting of such a code was mooted. The government had committed itself to a foreign policy that was an expression of the domestic constitutional ethos of reconstruction and development through the African Renaissance and its implementation blue-print NEPAD.

The key findings and recommendations are summarised hereunder after a brief assessment of the analytical framework.

#### **6.2. Analytical and theoretical framework of the study**

This study is significant in that it used an analytical framework hitherto not applied to analyse the diplomacy of South African MNCs and South Africa's foreign economic policies towards Africa. Apart from its modest contribution in enriching the field of International Politics, the study has practical implications as it could add an important dimension in the discussion of South Africa's foreign economic policy towards Africa.

The study used a qualitative approach that combines the “levels of analysis” theory as developed by Underhill (2000), and as complemented by Sally’s (1996) theory of “national embeddedness”, Rosenau’s (1970) “linkage theory”, and Stopford and Strange’s (1991) “triangular diplomacy”. The most important aspect of the theoretical framework used was that it treated the South African retail MNCs as actors with the ability to devise and execute their own strategies: commercial diplomacy. Carlsnaes’ (2002) tripartite approach to foreign policy analysis enabled the study to analyse the evolution of South Africa’s foreign economic policies under during Mbeki’s tenure.

A combination of these approaches ultimately made it possible to juxtapose the foreign economic policies of the South African government and the strategies of the retail MNCs without neglecting other factors such as the production structure of the South African economy.

The South Africa retail MNCs were given the same status as the South African government. Both are actors in their own right in the international political economy. This made it possible for the study to explore the strategies of the firms as self-interested actors. Their expansion strategies – global procurement, bargaining with host governments and suppliers – vindicate the approach adopted.

A similar treatment was accorded to the South African government. This unique comparative analysis was done without losing sight of the importance of other variables such as the South African economy’s production structure. This made it possible to draw conclusions about coalescences and divergences of the foreign economic policies of the South African government in Africa and the expansion strategies of South African retail MNCs on the continent.

This theoretical framework enabled the study to be focused and backed by illustrative evidence. It was, therefore, not bogged down by broad and imprecise findings as is the case with some of the studies briefly surveyed in Chapter 1.

### **6.3. Assessment of the findings of the study**

The study made findings beyond the coalescences and divergences discussed in Chapter 5.

First, South Africa's economic interests are not properly aligned with its political interests. Its external trade and investment policies are not in line with the altruistic/normative foreign policy rhetoric. While the retail MNCs have helped to boost South Africa's manufacturing sector by carving out markets for South Africa's products on the continent, there have been concerns about how this seeks to decimate supplier industries in host countries, thus leading to trade imbalance. Yet, in the competition for market share, partly aided by the government's liberalisation of trade and investment, it is to be expected that some firms, regardless of their country of origin, will gain better market share than others. In pursuing their strategies the retail MNCs made it very clear that theirs were profit-driven endeavours from which they have benefited handsomely. But these strategies have inadvertently and inevitably benefited the South African manufacturing sector and helped develop formal markets on the African continent.

Second, divergences and coalescence were not only apparent when juxtaposing the strategies of firms and the foreign policies of the South African government. There had also been divergences and coalescences within the government itself. For example, the government had expressed concerns about the positive balance of trade South Africa had in relation to the rest of the African continent. However, the positive balance of trade is indicative of a healthy and dominant economy of a country in relation to its trading partners. At a material level, the government and the retail MNCs benefitted from the expansions. This explains why there has been no attempt on the part of the government to stop the expansion or to roll back the government's investment and trade liberalisation policies that made it possible for the expansion strategies to be pursued successfully.

Thus, from a rhetoric-government perspective versus actual strategies of retail MNCs - which facilitate exports of South African products - there is a divergence. But

looking at it from the perspective of government's liberal trade policies and the need to boost domestic manufacturing, there is a clear coalescence of interests between the government and the retail MNCs' strategies. This is notwithstanding the fact that such common interests may not have been openly discussed.

Third, related to the above is the attempt by the South Africa's ruling party to craft a unilateral code of good business practice to guide the operations of South African companies on the continent without due regard to available multilateral institutions where such issues could best be discussed in line with government's own policy of fostering multilateralism. As this study has shown, the expansion of the retail MNCs is an international phenomenon. It's part of the process of globalisation. Attempt to regulate this phenomenon, as hinted by South Africa's governing party, would necessarily have to be dealt with in an international context as the policy prescript of multilateralism dictate.

Fourth, while the retail MNCs have provided a logistics infrastructure for South African goods to be reach African markets. They have, through their procurement strategies, brought goods into South Africa, thus stimulating competition. In a small but significant way, they have proven themselves to be agents at the heart of globalisation, ensuring South Africa's economy was integrated in the world economy. Their strategies involved hunting for products all over the globe, trading these products across African countries to satisfy their respective markets.

Fifth, the extent of expansion among retail MNCs companies has varied over time. Expansion strategies of these MNCs were largely based on their domestic strategies. They replicated on the African continent what had largely proved successful in the domestic market. The aggressive expansion through acquisition and green field investments in the domestic market found expression on many parts of the continent. The ultimate aim was to gain market share and increase profits.

Sixth, the retail MNCs have carved their own diplomatic relationships with host government, independent of the home government. This is an important development in the global economy. It goes to show that South African capital is not

different from other firms which seek location in South Africa and are required to bargain with the government on the terms and conditions of such investments. It is in this context that South Africa has continuously been looking at ways to enhance its ability to attract such investments: from reviewing bilateral trade agreements through the DTI and DFA, and more recently, drafting of draft regulations on incoming FDIs.

Seventh, it has been proved through illustrative evidence that South Africa's domestic political and economic realities are intimately linked. The domestic dynamics between the two realms had a bearing on the external foreign policies of the Mbeki administration as they did in the expansion strategies of retail MNCs. The Mbeki administration sought to extend its domestic policies to the African continent, seeing its foreign policy as an extension of domestic policy. The retail MNCs have also sought to replicate their own domestic strategies for expansion purposes on the African continent.

Eighth, domestic conflict between the government and the private sector in general (attributed in part to the historical and structural factors that gave rise to South Africa's production structure) tended to reflect in the divergences of strategies or articulations towards the external environment.

Ninth, through their expansion, the retail MNCs have developed markets and in the process subjected existing retail firms to intense competition. While this might signify dominance, it has helped local consumers to access a wide range of products sourced from all over the globe. In some cases, certain products are sourced from the host country.

#### **6.4. The future of South Africa's foreign economic policy**

It is apparent from the findings of the study that there was no common *South African* foreign economic policy between the South African government and MNCs. The perception that South African MNCs were exporting unwelcome practices to the rest of the African continent is a function of unresolved problems in the transformation of the domestic political economy. The government's policy of B-BBEE was meant to

address the racially skewed ownership and management of the South African economy caused by the apartheid past. It is clear from the preceding analysis that B-BBEE was very much at its infancy during the period under consideration and its impact on South Africa's production structure and influence in corporate expansion strategies are yet to emerge.

The extent to which there might be certain unwelcome practices displayed by South African companies in their continental expansion strategies is an indication of the environment from which they have emerged. Due to the history of the South African economy, the companies that had the skills and the corporate wherewithal to mount a profitable expansion were largely white-owned and white-run. In addition, the domestic transformation policies were heavily contested.

The study has proved that South African government's foreign economic policies in relation to Africa have been confused, with divergences and coalescences emerging within the government itself. The corporate sector's expansion aims, on the other hand, were much clearer: increase market share and profits.

### **6.5. Practical implications for the study**

The findings of the study could be used as a basis to review the South African government interests through its foreign policies and their articulation. It could also be used as a starting point to further explore the respective roles of the corporate sector and the government. In the past the functions of the two were intertwined as a matter of practical necessity for the strengthening of the colonial and apartheid governments. The new global environment, in which states fight to ensure generation of wealth within their borders and where threats of colonialism are largely absent, makes it difficult for consistent collaboration at an international level. This, therefore, necessitates new policy arrangements – and by extension new ways to study them.

## **6.6. Contribution of the study**

The study has added to the body of existing literature on South African foreign policy. In addition to enriching policy formulation, the study will no doubt assist in broadening the understanding of relations between business and government on foreign policy issues. Attempting, as the study has done, to draw commonalities and differences of strategies between governments and home companies in the external environment adds to the ongoing discourse about the role of MNCs in international politics. However, the study is neither exhaustive nor comprehensive. And it makes no such claims. But, it has laid the basis for possible development of a theory or model for analysing divergences and coalescences of strategies and policies between two important actors in international politics: home governments and MNCs.

## **6.7. Recommendation for future research**

Emerging from this study are several pointers for future research. The effect of internal decision-making processes within retail MNCs on their external strategies requires an in-depth study. This process could provide clues to a corporation's response to domestic and external challenges. The effect of B-BBEE on the expansion strategies of South African MNCs is another area that requires careful analysis in future. To what extent do the B-BBEE credentials of companies influence Africa expansion strategies? Can the level of empowerment of a firm influence the way a company goes about searching for market share and profit? Does B-BBEE help to deal with the concerns about South African capital being white and being driven by imperialist interests on the African continent?

What also need in-depth interrogation are the investment and economic policies of host governments. As competition for foreign direct investments gets tough, what kinds of policies are African governments adopting to lure such investments? And to what extent are these aligned to multilateral investment regimes? Are there divergences and coalescences between the policies of those governments and those of the South African government? Although this study briefly touched on some of these issues, a detailed study focusing exclusively on these questions is necessary.

It might also be important for future research to replicate the combined analytical framework employed here in sectors other than the retail sector.

These research questions show how this study has, in a way, expanded possibilities for future research in International Politics and International Political Economy.

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