Article

Varieties of capitalism in emerging economies[1]

Andreas Nölke and Simone Claar
a.noelke@soz.uni-frankfurt.de; claar@soz.uni-frankfurt.de

Abstract
Our contribution discusses the field of comparative capitalism research and it application to emerging economies. Based on criteria for a critical institutional analysis we review alternative models for the analysis of emerging market capitalisms. In doing so, we identify the model of state-permeated market economies (SMEs) as a suitable reference for emerging economies. Finally, the model of SMEs is discussed in the context of South African capitalism.

1. Introduction
The study of national 'varieties' of capitalism has become an academic growth industry over the last decade. While there is a long comparative political economy tradition of studies on the diversity of capitalism across time and space, more recently, the comparison of nationally conceived institutional systems has become dominant, thereby crowding out alternative approaches such as regulation theory. 'Varieties of Capitalism' (VoC) has become a synonym for distinguishing different national models of capitalism, although the broader field of 'Comparative Capitalism' includes many additional approaches (Jackson and Deeg 2006). Still, the distinction between liberal and coordinated market economies, as devised in the landmark publication by Peter Hall and David Soskice (2001), has become by far the most prominent approach in the study of capitalist diversity.

The VoC-approach was designed in order to cater for the capitalist institutions of the established economies of the West, in particular Germany and the United States. It is rather doubtful that categories developed for these economies can be directly or readily applied in order to enhance our understanding of the mode of capitalism evolving in countries such as South Africa. More recently, however, research inspired by VoC and other approaches within comparative capitalism has been extended to emerging economies. The question thus arises, whether those models that have been developed for the analysis of big emerging economies such as Brazil or India can fruitfully be applied to South Africa as well.

In what follows we will first take stock of the field of comparative capitalism research (section two), as well as of the most important lines of critique regarding this field (the third section). Based on the resulting criteria for a critical institutional analysis we will review models for the analysis of emerging market capitalisms (fourth section), thereby identifying the model of state-permeated market economies as a suitable reference (section five). We compare (section six) the broad outlines of South African capitalism with this model, highlighting various parallels, but also some crucial differences between this model and South Africa. Section seven concludes the article.

2. The field of comparative capitalism research

While some intellectual origins of the comparative capitalism research programme can be traced back to authors such as Polanyi (1944) and Shonfield (1965), the field began to ripen during the late 1990s. While path-breaking work has been undertaken by scholars such as Albert (1993), Hollingsworth and Boyer (1997) as well as Crouch and Streeck (1997) and Dore (2000), the ‘varieties of capitalism’-approach as developed by Peter Hall and David Soskice (2001), however, received by far the most attention. Its basic distinction between liberal market economies, as exemplified by the US, and coordinated market economies, illustrated with Germany, proved to be an extremely parsimonious, yet immediately convincing approach for ordering the diversity of modern capitalism. Moreover, it was highly compatible with the rise of institutionalist approaches within the social sciences during the late 1990s and early 2000s. Finally, the VoC-approach has an obvious normative appeal, by providing an alternative to the extreme abstraction of neo-classical economics, as well as casting considerable doubts on the ‘one best way’-orientation of neo-liberalism.

Over the last years, VoC research has branched out into very diverse directions, such as electoral systems (Cusack et al 2007), comparative public policy (Höpner 2009) or the macro-economy (Amable and Azizi 2011). However, one of the prime fields of expansion were applications of the VoC-approach towards countries outside of the US, Western Europe and Japan, the traditional home turf of the approach (see section four, below). Moreover, some scholars took issue with the very static picture of capitalism transported by the VoC approach and developed concepts for the analysis of institutional change (Streeck and Thelen 2005, Deeg and Jackson 2007). Particularly the latter research effort reminds us that we should not neglect the diversity of comparative capitalism research programmes that is much broader than the specific VoC school. Further comparative capitalism approaches have been developed at the same time, without receiving the same degree of attention, not always for convincing reasons. Bruno Amable (2003), for example, developed a broad-based typology based on concepts derived from regulation theory. Other scholars undertook studies of comparative capitalism from a Marxist perspective (Coates 2000). Separate from comparative political economy, scholars in business studies compared national business systems, in a more empirical than theoretical effort (Whitley 1999).

However, it is remarkable that these approaches from very diverse theoretical backgrounds highlight a number of similar features, even if they disagree about the origins and the importance of these features. Gregory Jackson and Richard Deeg (2006) identified three broad commonalities that all comparative capitalism approaches consider important. First, all comparative capitalism approaches share the notion that economic action is embedded in institutional arrangements that are important for coordinating economic behaviour. Basic social coordination mechanisms such as markets, associations or hierarchies thus have become an important point of departure for studying capitalist systems. Second, the main focus of all comparative capitalism approaches is to associate institutional configurations with certain measures for economic success, such as growth or innovation. Moreover, it is argued that certain institutional settings have comparative advantages for certain outcomes and disadvantages for others. Third, all comparative capitalism approaches identify national economies via a more or less fixed set of institutions. There are slight differences in the selection of institutions, but this selection usually includes corporate finance, corporate governance, labour/industrial relations, education/training, and inter-firm relations; sometimes welfare systems are added. Moreover, the concept of institutional complementarities between certain features of these institutional spheres within a specific national model of capitalism has become a hallmark of the comparative capitalism research effort, by helping to ‘explain why suboptimal organisational arrangements are sustained and how particular institutions are supported, constrained or exist in tension with the presence or absence of other specific institutions’ (Deeg and Jackson 2007:153).

3. Critical perspectives on the comparative capitalism research effort

The success of the VoC research programme has been countered by several strands of critique (Jackson and Deeg 2006, Hancké et al 2007). While many of these criticisms are voiced at the specific Hall and Soskice version (eg the over-simplification of the CME-LME-dualism or its focus on stable models), others pertain to the whole institutionalist comparative capitalism research effort. On a very basic level, we can distinguish between internal and external critique (May and Nölke 2013). Internal critique remains in the broad camp of institutionalist comparative capitalism, but highlights certain common shortcomings of recent research efforts, whereas external critique is derived from other research programmes and directed at transcending the institutionalist confines of the comparative capitalism programme. ---

Core issues within the internal critique are the constraints of the established comparative capitalism research programme with regard to the diversity of capitalism in time and space. Nearly all of these models have been developed for the study of economic institutions in the core of the world economy, ie Western Europe, the US and Japan, whereas emerging markets have not been covered. This shortcoming, for example, is relevant for the selection of institutions that are being studied. Based on a common background of studies on (neo-----)corporatism during the 1980s, the traditional focus is exclusively on formal industrial relations, thereby neglected the informal sector that employs a large share of the workforce in the economies of the global South. Another common shortcoming of most institutionalist studies of comparative capitalism is the short time horizon employed. Even those more recent studies of institutional change only look at one or two decades, thereby neglecting the long-term historical evolutions of institutional patterns (notable exception: Yamamura and Streeck 2001) and in particular the timing of the insertion into the global economy.

The rather a-historical perspective of institutionalist comparative capitalism leads us to the external critique, usually articulated by scholars with a Marxist background. From this perspective, proponents of VoC and other related approaches focus too much on the (efficiency) functions that capitalist institutions are fulfilling, thereby neglecting the importance of power and class relations in their evolution. This shortcoming also relates to the normative measure (implicitly) applied: instead of focusing on economic growth and innovations only, the distributional consequences of different versions of capitalism warrant stronger attention.

One option for responding to these criticisms is to discard the institutionalist study of comparative capitalism altogether. The suggestion then is to turn to alternative theories, mainly of Marxist background, and to focus on general characteristics of capitalism (Bruff 2011). However, most of these theories are more focused on the inter-temporal development of capitalism as a whole (eg regulation theory, financialisation), and have less to say for the comparison of capitalist formations in different countries. Other Marxist theories of political economy focus on the more political aspect of class domination (eg, neo-Gramscian and neo-Poulantzian approaches), less on the functioning of the economy. The other option, to be pursued in this contribution, is to extend the comparative study of capitalist institutions in specific countries along the lines of a critical institutional analysis (May and Nölke 2013). This will allow us to pursue cumulative research, and to build on previous concepts of institutionalist comparative capitalism. However, in order to avoid the pitfalls of conventional approaches, we suggest that a critical institutional analysis should also cater for the criteria outlined above, ie by extending the range of institutions studied, looking at the timing of insertion into the capitalist world economy, paying attention to issues of class and power as well as looking at the distributional consequences of specific capitalist formations.

4. Models of capitalism in emerging markets

One major reaction to the critique regarding the too narrow focus of the VoC approach was to extend the study of national capitalist institutions towards countries outside of the traditional VoC-focus on the US, Western Europe and Japan. However, this spatial expansion is not endless, since hardly any scholar extends the framework to poor developing countries. The focus rather is on emerging economies, given the rather sophisticated institutions to be found in these countries. Moreover, an institutionalist analysis of emerging economies is not only interesting for comparative purposes, but also relevant because of the growing weight of these countries within the global economy. In the following, we briefly review the models of capitalism in emerging markets that have been developed over the last few years, with a special emphasis on the criteria for critical institutional analysis highlighted in the previous section. Remarkably, most of these different models have been developed for specific regions (East Asia, Latin America, Central and Eastern Europe), so far excluding African economies.

Among the first to include emerging economies in typologies of comparative capitalism was Bruno Amable (2003). His comprehensive attempt in distinguishing a broad range of capitalist economies based on inductive modelling also included a meso-corporatist Asian model, attributed to South Korea and Japan. However, this model is limited in its wider application to various emerging economies because of the very particular features of these East Asian developmental states, in particular the central role allocated to a rather coherent group of public managers and the importance of collectivist Asian values. Moreover, the ‘snapshot’-approach by Amable potentially limits his observations to the period his data were collected, ie the late 1990s.

A more comprehensive, deductive and historical attempt in mapping capitalist institutions in emerging economies recently has been provided by Uwe Becker (2012). Becker makes the case for clearly distinguishing between Weberian ideal types and empirical cases (eg Brazilian or Indian capitalism). Based on the state/economy and capital/labour relationships he develops five ideal types: liberal, statist, corporatist, meso-corporatist, and patrimonial. An application of his typology to Brazil, China, India and Russia shows that patrimonialism is strong in all of them, although its role has somewhat declined over the last 15-20 years. Statism has also been strongly present, although also slightly declined over the last two decades, whereas liberalism has grown a bit. Generally, all four countries appear to be hybrid cases in his typology, combining patrimonialism, statism and liberalism, as well as a corporatist component in case of Brazil. Whereas Becker’s research effort is impressive both with regard to the theoretical clarity of the models and to the attempt to ground the analysis in quantitative data, it does not attempt to come up with some kind of coherent ‘large emerging market model of capitalism’ that could be used for comparative purposes, although he highlights some parallels between these economies. Moreover, Becker’s approach represents a very clear break with the firm-centric VoC model, thereby strongly limiting its utilisation for a cumulative research programme building upon the existing studies in comparative capitalism.

Much closer to the original VoC approach is the model of Hierarchical Market Economies (HME) as developed by Ben Ross Schneider (2009, Schneider and Soskice 2009). Schneider develops the HME-model as a third basic variety of capitalism, in order to explain the muted economic development in Spanish-speaking Latin America. It highlights the importance of diversified business groups, multinational corporations, low-skilled labour, and atomistic labour relations. According to this model, hierarchies are pervasive not only within business groups and multinational corporations (that are controlling the access to capital, technology and markets), but also in labour market regulation, union representation and employment relations (eg by weakening broad-based labour movements). As a result, the model highlights the importance of a 'low-skill trap', ie low levels of investments in skills and training, based on various negative institutional complementarities. Policy recommendations, therefore, centre on overcoming the HME status, and to move into the direction of a CME or LME. More recently, however, the HME model has been confronted with considerable criticism. Besides the very pessimistic outlook implicated by the HME model and a perceived affinity to traditional modernisation theories, it is argued that the model is too strongly focused on the national institutional context and does not take the strategies of multinational corporations within global markets sufficiently into account (Ebenau 2012, Fishwick 2012). The HME model nevertheless has triggered a lively debate on the character of capitalism in Latin America, and in particular on the explanatory value of this institutionalist approaches for questions of development and underdevelopment. Given that this debate is mainly carried forward by authors from the region (Boschi and Gaitán 2009, Bizberg 2011), we may even speak of an emerging 'Latin American school of comparative capitalism'. While this debate has not (yet) led to the formulation of a specific 'emerging market model of capitalism', it nevertheless highlights some important interim conclusions, such as the important role of a close cooperation between business elites and the state for domestic market-based development policies to overcome the negative complementarities highlighted by the HME model, with Brazil as the positive model in the region. Nattrass and Seekings (2010: 24-27), however, conclude that the HME model does not cover the South African mode of capitalism.

An attempt to develop a third (or fourth) variety of capitalism that shares some of the basic features of the comparative capitalism research program, while also transcending it, is the model of 'dependent market economies' in East Central Europe (Nölke and Vliegenthart 2009). The background of this model is the burgeoning discussion on the nature of capitalism after the transition in Eastern Europe. Whereas most contributors to this debate tried to link features of post-communist capitalism to the CME and LME ideal types (thereby concluding that the Eastern European economies must be hybrids), Nölke and Vliegenthart (2009) argue that a completely different type of capitalism has emerged in the region. By combining institutionalist comparative capitalism with concepts from dependency theory, they call this variety of capitalism ‘dependent market economies’ (DME) and highlight the dominating role of the hierarchies of multinational enterprises based outside of the region for the form of capitalism that has emerged in the Czech Republic, Hungary, Poland and Slovakia. The development of this variety of capitalism became possible due to the particular historical situation after the end of communism, when foreign direct investment and the insertion into global production networks was welcomed by all means, in the absence of a strong domestic capitalist class. While the model has proven to be moderately successful over the last years, its middle to long-term prospects are more meagre, given that the most important economic decisions affecting companies in the region are made abroad and that the strong need to attract foreign direct investments does not allow for the financing of comprehensive education and social security systems. While this model mostly adheres to the criteria for a critical institutional analysis as outlined above, it is hardly suited as a model for the analysis of capitalism in South Africa, given that the Republic rather is the centre of the region, not its periphery, and is not dominated by foreign multinational enterprises, but rather features a domestic capitalist class. More relevant appears to be the model of ‘state-permeated market economies’ that recently has been developed for the analysis of capitalism in China, Brazil and India.

5. State-permeated market economies as an emerging economy variety of capitalism[2]

Similar to the VoC-model as developed by Peter Hall and David Soskice, the model of state-permeated market economies’ (SME) is based on a combination of ideal-typical and empirical reasoning. The ideal-typical element focuses on a model of social coordination, while the empirical reasoning has been developed on the basis of a comparison between Brazil and India; given the extreme internal heterogeneity of these economies, the focus is on their modern sectors. Different to the VoC-model, however, the model of state-permeated market economies also considers the relationship between the formal and informal economy, reflects the relationship with the world economy and the size of domestic markets in the establishment of its basic features, pays attention to the class basis of economic institutions and is not blind regarding its distributional consequences.

Coordination mechanism: In contrast to markets (in case of LMEs), networks (in case of CMEs), and hierarchies (in case of DMEs), clans are featured as a very abstract and simplified model of a coordination mechanism within these economies, with a particular focus on a background of common values (Ouchi 1980: 130f). SMEs are dominated by a particularly close co-operation between public and business actors that is at least indirectly based on informal personal relations – partially even family ties – supported by common values and a shared social background. The importance of the latter also distinguishes clans from networks (in the context of comparative capitalism), given that the latter are not based on common values and social backgrounds, but rather an exchange based upon rational gains, also involving cooperation between very different social classes (eg between employer associations and labour unions). A close co-operation between public authorities and companies can also be found within other modes of capitalism, but in no case is this equally predominant, and strongly based on personal relations and common values. While these features prove to be a fairly effective basis for state-business-collaboration and for fairly coherent economic strategies, they also contribute to the highly unequal character of these societies, by severely limiting social mobility.

Class basis: In marked contrast to DMEs, these political economies are rather dominated by national capitalists, not those of the centre. The focus is on the role of the state, as already described by Peter Evans (1979) – a state that is cooperating closely with national elites and does not have to give in to the demands of multinational enterprises, but is able to impose certain conditions onto the latter. State permeation does not entail the existence of a 'strong', centralised state, a dominance of public enterprises and centralised economic planning, but rather an omnipresence of public authorities that may also follow their particular concerns, as fragmented parts of a state class (Elsenhans 1996). At the same time, these authorities – and their cooperating companies that are tempted to pursue rent-seeking activities – are largely kept in balance by a relatively autonomous role of private capital and by competing state-business alliances, thereby preventing the comprehensive capture of public policies by private interests as witnessed in patrimonial regimes (although this capture clearly is not completely absent in SMEs, as witnessed in Brazil, China and India). More importantly, however, dominance by domestic capital makes it easier to develop fairly coherent national development strategies, given that co-ordination is eased and domestic capital is supposed to develop a long-term interest into the well-being of its domestic investments, whereas transnational capital is more mobile and focused on rather short-term investments.

Historical insertion into the world economy: Foreign direct investments (and selective acts of privatisation) are welcomed as modernising factors within this neo-mercantilist model, as long as they do not undermine the general preponderance of national capital. Moreover, it is not coincidental that the SME model emerged within the big economies outside of the triad with their large domestic markets – and that this model differs somewhat from the strongly export-oriented model of the East Asian tiger states. The rise of the SME model was based on several inter-related developments. On the one side, it coincided with the re-orientation of (North-South) foreign investments during the 1980s and early 1990s that shifted from a focus on access to raw materials and cheap labour towards the search for profitable investments and access to the internal markets of the (semi-) periphery – the latter requires a fairly close cooperation with national capital and contributes to the modernisation of the latter (Abu-El-Haj 2007: 96). At the same time, national capital depended for its expansion on foreign direct investments – sometimes even entailing wholesale privatisation – for the modernisation of those economic sectors that are providing basic economic services (eg telecommunication and other public utilities). However, privatisation and liberalisation do not go as far as to offer a comprehensive ‘sell-out’ of domestic companies to foreign investors, as in case of dependent market economies, they rather are based on selective strategies developed by co-ordination of factions of the state and domestic capital.

Spheres and institutional complementarities: The notion of ‘clans’ as mechanism for social coordination, the symbiosis of national capital and public authorities and the selective modernisation via foreign direct investments enables us to describe the central elements of the SME-variety, addressing the five typical elements of Comparative Capitalism. The focus is on the interrelationships between corporate governance and the other four institutional domains, in line with the usual approach towards western capitalism (eg Hall and Gingerich 2004, Höpner 2005). (1) In contrast to minority shareholders (LME), institutional block-holders (CME) or control by multinational corporations (DME), major SME companies usually are either dominated by families or by the state, in any case organised by national capital. These ownership structures lead to obvious complementarities with corporate finance (2), as far as they make SME companies fairly independent from short-term fluctuations on global capital markets as well as from profit expectations of international investors. Moreover, control by national capital or even public ownership frequently allows SME companies to tap into public support (eg subsidised credit by state banks). A close cooperation between major companies and public authorities is also helpful with regard to industrial relations (3), given that public regulations (and their selective implementation) may serve as a key contribution to keeping labour costs low, an important ingredient to the competition strategy of companies from these countries, particularly if combined with a large informal sector that allows the payment of very low wages by providing inexpensive goods and services. The same is true for education and training (4) that is geared towards those sectors where national companies are most active. In addition, the class background is an important factor for the transformation of educational capital into labour market success, thereby contributing to the reproduction of class structures. Finally, public interventions also assist with the transfer of innovations and competition policy (5). Soft protection of intellectual property rights allow for reverse engineering that is an important ingredient for technological catch-up. This is a precondition for the development of indigenous innovations. At the same time, competition policies are geared towards the temporary protection of individual companies, eg to enable expansion into other markets based on monopoly profits earned on the internal market.

All in all, these complementarities enable companies from emerging markets to be competitive in particular on a medium level of technology and in the procession of raw goods, based on rather low labour costs. Within this context, specialisations differ between the procession of raw materials (mainly Brazil) or labour-intensive services (mainly India). This observation points towards a general difference between these large emerging markets and other less successful (smaller) countries of the semi-periphery: SMEs are not limited to the export of raw materials, but show fairly successful attempts to move up on the value chain in certain sectors, combined with fairly large internal markets predominantly serviced by domestic companies. Still, these advantages are somewhat ambivalent, given that the state-permeated economies are shaped by a strong role for public authorities and very rich families, with a very limited role for organised labour and huge parts of the population living under highly problematic conditions. These countries are hardly democratic and highly unequal, although the SME variety of capitalism has also proven to be sufficiently dynamic to lift hundreds of millions of people out of absolute poverty.

6. South Africa as a state-permeated market economy?

In order to make the rather broad and abstract SME model more operational, this section illustrates how the categories outlined above can be applied to South Africa. While subsequent chapters will provide more detailed studies of South African history (see Hart and Padayachee, and Freund, in this volume) and institutions, the SME model provides some suggestions on how to make sense of the specific form of capitalism that has evolved in the Republic. As we shall see, there are considerable parallels between South Africa and the model emerging in other major emerging economies as described above – but also a few striking differences.

Clans as central state-business coordination mechanism – but stronger factionalism

On a superficial level, South Africa shares the central coordination mechanism of the SME model, a close cooperation between public authorities and major business, based on informal personal relations – partially even family ties – supported by common values and a shared social background. Already during apartheid, the business elite had a close relationship with the state and this continued in contemporary South Africa. Nowadays, South African capitalism has been described as crony or clubby capitalism (Reed 2006, Alexander 2007: 97, Bond 2008, Leon 2010: 10) based on the common values of a tightly-knit Anglo-Saxon elite. While clubby capitalism inhibits social mobility, it helps in co-ordinating economic decision-making. However, South African capitalists historically were not a completely coherent group, but rather divided into factions, eg between 'a more internationalist "English" or imperial capital … and Afrikaner "nationalist" interests' (Padayachee 2008: 60, Clarke 1978: 34-35). Moreover, the affirmative action and Black Economic Empowerment (BEE) policies implemented by the ANC government can be interpreted as a strategy of co-option of the new political leaders into the existing structures, in order to avoid major nationalisation and redistribution projects after the end of apartheid (Padayachee 2008: 67). These policies gave the government the opportunity to provide a platform to create new black elites in South Africa. Black people should have the possibility for ownership and management as well to take part in businesses of corporations who are listed at the Johannesburg Stock Exchange (Southall 2006). However, these policies did not lead to a broad-based participation in economic assets. Nowadays, South Africa features – besides the former white capitalist elite – a 'small emerging black super-rich class' (Hirsch 2005:

7), which is also based on the clan-like structures mentioned above. Again, the members of this class often have a tight connection to parts of the state apparatuses – if the person concerned does not itself have a double function in the business and state apparatus, it is likely that a relative is involved in a public authority. Correspondingly, '… the beneficiaries of BEE are a small elite, closely linked to the ruling ANC and the trade unions' (Padayachee 2008: 60). To conclude, the co-option of black elites into national capital has contributed to preventing major economic ruptures after the end of apartheid. Close networks between white capital and public authorities have been complemented by close networks between black capital and public authorities. Indeed, the mode of interaction differs: white capital rather holds back in its relation to the state while black capital has strong ties to state managers (Plaut and Holden 2012: 350-1). However, whereas these clan-like structures are used as a fairly effective coordination in the SME-model, they appear to be far less coherent in case of South Africa. The emergence of new black capitalist elites may have intensified the coordination problem that traditionally had been posed by rivalling factions. Indeed, conflict between competing factions and the corresponding abrupt changes in economic policies seems to be one of the factors where South Africa deviates from the SME model and has been quoted as a major reason inhibiting a coherent long-term development strategy (Schwank 2008).

Class basis: national capital – but increasingly with a short-term perspective

Similar to the postulations of the SME model, the South African economy is dominated by (various factions of) domestic capital, in close collaboration with (various factions of) the state. This is a major advantage vis-à-vis the dominance of international capital (eg subsidiaries of multinational companies, affiliates of global banks) in the dependent market economies in Central Eastern Europe or parts of Latin America. However, recent developments have made it easier for domestic capital to avoid long-term commitment, and to choose an exit strategy. Parts of black capital have quickly sold off its shares acquired in the context of BEE (Padayachee 2008: 67). More importantly, the increasing financialisation of the South African economy (see Fine and Ashman in this volume) has enabled domestic capital to sell off its holdings to global financial investors via private equity companies or via listings on the London and New York stock exchanges (also Padayachee 2008: 64-66, 69-70, Fine 2009). Emblematic for this development was the changeover from Johannesburg to the London Stock Exchange by

Anglo American and many other major companies in the late twentieth century (Armstrong et al 2005: 23, Terreblanche 2002: 122-4). Both the rent-seeking behaviour by BEE black elite as well as the search for short-term profits in the context of financialisation contributes to decreasing the inclination for long-term investments and close co-ordination for domestic development strategies. Thus, South Africa may miss a very important ingredient of the SME-model, the ability and willingness of domestic public and private elites to invest some effort into a common national development strategy.

Historical insertion in world economy: close cooperation between the state and business – but dominance of big export interests

South African capital did not acquire its international outlook over the last few years; this rather is an established feature of the South African economy. Whereas South African capitalism has witnessed several phases of opening towards world markets as well as tendencies towards isolation, the continued dominance of what Ben Fine and Zavareh Rustomjee (1996) and Ben Fine (2009) have dubbed the Mineral Energy Complex (MEC) still is remarkable. Since the late nineteenth century and in spite of various changes in holding structures, the MEC companies together with the associated financing houses are still dominating large parts of the South African economy, although they have diversified more recently (Padayachee 2008: 55-62, McDonald 2011: 68). While the close cooperation between major companies and the state – energy and infrastructure companies such as Eskom or Transnet frequently are (partially) state-owned – fits well with the SME model, the dominance of major export interests in the South African political economy tends to inhibit the development of a strong domestic market, a key to the economic dynamism found in other emerging markets and an important factor for compensating fluctuations in global prices for raw goods. Moreover, the small size of the South African domestic market, due to a much smaller population than in other major emerging economies, but also to a continuation of extreme inequality, made it less attractive during the foreign direct investment boom of the 1990s/2000s, with its focus on access to major domestic markets in the global semi-periphery. Correspondingly, South Africa benefited less from foreign direct investments for the modernisation of those crucial economic sectors that are providing basic economic services (eg telecommunication and other public utilities) than other emerging economies, while also foregoing the international expansion of previously small and medium-scale companies that started with serving these domestic markets (with the notable exception of Miller South African Breweries).

The parallels and differences between South Africa and the SME model can also be traced with regard to individual institutional spheres and complementarities. *Corporate governance* (see more on corporate governance in Padayachee in this volume) in South Africa looks very progressive on paper (in the King Reports) – companies are treated as social entities that are not only an asset of their owners, but social needs and responsibilities as well as a balance between shareholders and the whole society is necessary to address South Africa's socio-economic environment. According to Andreasson, the King Reports are 'notable examples of how an emerging market can devise its own solutions to aligning corporate governance with international best practice while also addressing corporate social responsibility and needs for broad-based development' (Andreasson 2011: 656). In practice, however, we may still identify a movement towards a LME/shareholder-oriented model of corporate governance, while BEE so far has failed to change the white and male dominance in major companies (Padayachee 2008: 69-71). However, in contrast to the ideal-typical LME model, South African corporate governance still shows a greater role of family control similar to other SMEs, even if the concentration of corporate ownership has been considerably diluted after 1994 (Habbard 2010). While the latter potentially allows South African companies to focus on medium- and long-term strategies in the field of *corporate finance*, the growing financialisation of the economy increasingly brings short-term capital markets perspectives to bear (Claar and Müller 2010, Fine 2009). While South Africa shares with other emerging economies the availability of state-sponsored development finance institutions such as the Industrial Development Corporation, the Development Bank of South Africa or (at provincial level) Ithala, those institutions are geared to the demands of the MEC and do not cater for the longer-term financing need and access to finance of small- and medium-scale companies (Padayachee 2008: 61-63, Olawale and Garwe 2010: 731). Similarly, the system of *industrial relations* is (more in Webster in this volume) still dominated by the stakeholders of the major export-oriented mining and automobile companies, although the end of apartheid changed some features. South African capitalism was based on a racial cheap migrant labour system during apartheid: 'For the Afrikaner capitalist class, African labour-power could be maintained as cheap labour-power by repression; for the White worker, this also guaranteed their own position as a "labour-aristocracy"' (Wolpe 1972: 446). Many of these institutional settings are still in place or changed only superficially, like the transformation from a racial-based capitalism to a class-based one (Bond 2004). Moreover, the labour-aristocracy was co-opted into the new system, based on close linkages to the ANC, illustrated by the focus of trade unions on trying to secure existing jobs, instead of addressing the needs of the unemployed or the informal economy (Calland 2006: 139-43). While South Africa thus shares with the SME model the ‘comparative advantage’ of cheap labour power ‘based on neoliberal prescriptions of labour flexibility, externalisation of labour contracts, informalisation and increased labour segmentation’ (Gentle 2006: 132), it also suffers from its disadvantages – extreme inequality and lack of domestic demand. Similarly, *education/training* in the South African context is still strongly segregated with regard to urban/rural and rich/poor, as indicated by low basic education levels and restricted access to universities and technikons, due to tuition fees and sometimes language requirements (Seekings and Nattrass 2006: 313, Van der Berg 2004). Individual firm-based training is not common (iMove 2010:19) and faces specific South African problems like the need to train two or three workers for one position because it is likely that one might die because of HIV/AIDS (Butler 2005). Finally, technological innovation is also hampered by the absence of an effective *competition policy* and a policy on *intellectual property rights* that are specifically targeted at the creation of national champions in internationally competitive industries. Correspondingly, the technological knowhow of large firms is hardly used and FDI as well as technology transfer are lower in comparison to other emerging economies (Kruss and Lorentzen 2009).

7. Conclusion

Studies in comparative capitalism have become a highly diversified research programme over the last two decades. This research programme has highlighted that economic action is embedded in institutional arrangements that are important for coordinating economic behaviour. Moreover, it associates institutional configurations with certain measures for economic success and has identified some crucial economic institutions as well as their (potential) complementarities. Still, established research in the field suffers from various shortcomings, such as a very limited reflection of the breadth of capitalist diversity of capitalism across time and space, a neglected reflection of the importance of power and class relations in the evolution of capitalist institutions and a one-sided focus on economic growth and innovations, without sufficient consideration for the distributional consequences of different versions of capitalism.

In order to compensate for these shortcomings, we have made the case for a critical institutional analysis in the field of comparative capitalism. More specifically, we have reviewed alternative theoretical models for the varieties of capitalism in emerging markets and selected the model of state-permeated market economies as most appropriate for an analysis of South Africa. Different to the standard VoC-approach, the model of state-permeated market economies considers the relationship between the formal and informal economy, reflects the relationship with the world economy in the establishment of its basic features, pays attention to the class basis of economic institutions and is not blind regarding its distributional consequences. According to this model, the version of capitalism that has evolved in the big emerging economies is dominated by a particularly close co-operation between national public and business actors that is at least indirectly based on informal personal relations – partially even family ties – supported by common values and a shared social background. This type of social coordination – dubbed as 'clans', in contrast to markets, hierarchies and associations – potentially allows for the implementation of fairly coherent national development strategies. Foreign direct investments (and selective acts of privatisation) are welcome as modernising factors within this neo-mercantilist model, as long as they do not undermine the general preponderance of national capital

Our subsequent analysis of South African capitalism through the lens of this model demonstrated that it appears to share some similarities with the model of state-permeated market economies, including most notably a close relationship between big business and the state. After the end of apartheid, this practice has been continued, eg by using Black Economic Empowerment (BEE) policies as a strategy for co-option of the new political leaders. Thus, the South African economy is still dominated by national capital, allowing companies potentially to follow long-term strategies. Moreover, South Africa shares with the SME model the 'comparative advantage' of abundant cheap (unskilled) labour, maintained after the end of apartheid, although by slightly different means: migrant workers are not racially forced to live in a specific area, but – due to their economic situation – most are living in the informal shack settlements on the outskirts of South African cities (Victor 2009: 56). However, in contrast to other SMEs with much larger population numbers, the high degree of inequality inhibits the development of a strong domestic market, a key to the economic dynamism found in other emerging markets and an important factor for compensating fluctuations in global prices for raw goods. The second major difference that is separating South Africa from other major emerging economies is the limited – and apparently further declining – ability for agreeing on a coherent national development strategy. The emergence of new black capitalist elites has intensified the coordination problem that traditionally already had been posed by rivalling factions within the white capitalist class. Both the rent-seeking behaviour by the BEE black elite as well as the search for short-term profits in the context of increasing financialisation contribute to a decreasing inclination for long-term investments and close co-ordination for domestic development. Thus, South African capitalism foregoes the most valuable advantages of the SME model while sharing its disadvantages, most notably extreme inequality, as will be demonstrated by the subsequent contributions.

Notes

1. This article is a result of the project 'BICS Variety of Capitalism? The Emergence of State-permeated Market Economies in large Emerging Countries'. It is funded by the German Research Foundation (DFG, GZ: NO 855/3-1).
2. For earlier, more detailed versions of the argument in this section see Nölke 2010 (on Brazil) and Nölke 2012 (on parallels between Brazil and India).

References

Abu-el-Haj, J (2007) 'From interdependence to neo-mercantilism: Brazilian capitalism in the age of globalization', *Latin American Perspectives* 34(5).

Albert, M (1993) *Capitalism Against Capitalism.* London: Whurr Publishers.

Alexander, N (2007) 'Affirmative action and the perpetuation of racial identities in post-apartheid South Africa', *Transformation* 63.

Amable, B (2003) *The Diversity of Modern Capitalism*. Oxford: Oxford University Press.

Amable, B and K Azizi (2011) 'Varieties of capitalism and varieties of macroeconomic policy: are some economies more procyclical than others'. MPIfG discussion paper 06/11. Cologne: Max Planck Institute for the Study of Societies.

Andreasson, S (2011) 'Understanding corporate governance reform in South Africa: Anglo-American divergence, the King Reports, and hybridization', *Business & Society* 50(4).

Armstrong, P, N Segal and B Davis (2005) 'Corporate governance: South Africa, a pioneer in Africa', *Global Best Practice Report No.1*. Johannesburg: The South African Institute of International Affairs.

Becker, Uwe (2012) 'Making intelligible changing capitalist varieties: theoretical considerations, and illustrations from advanced and emerging political economies'.

Paper presented to the workshop 'Comparison, Analysis, Critique – Critical Perspectives on the Diversity of Contemporary Capitalisms', February, Wiesbaden.

Bizberg, I (2011) 'The global economic crisis as disclosure of different types of capitalism in Latin America'. *Swiss Journal of Sociology*, 37(2)..

Bond, P (2004) 'From racial to class apartheid: South Africa's frustrating decade of freedom', *Monthly Review* 55(10), www.monthlyreview.org/0304bond.htm.

——— (2008) 'South Africa's "developmental state" distraction', *Mediations* 24(1).

Boschi, R and F Gaitán (2009) 'Politics and development: lessons from Latin America', *Brazilian Political Science Review* 3(2).

Bruff, I (2011) 'What about the elephant in the room? Varieties of capitalism, varieties in capitalism', *New Political Economy* 16(4).

Butler, A (2005) 'South Africa's HIV/AIDS policy, 1994-2004: how it can be explained?' *African Affairs* 104(417).

Calland, R (2006) *Anatomy of South Africa: who holds the power?* Cape Town: Zebrapress.

Claar, S and F Müller (2010) 'Spätfolgen mit Langzeitwirkung – Die Auswirkungen der Weltwirtschaftskrise auf Südafrika', *Iz3w* 315.

Clarke, S (1978) 'Capital, fractions of capital and the state. "neo-Marxist" analysis of the South African state', *Capital and Class* 5.

Coates, R (2000) *Models of Capitalism: growth and stagnation in the modern era*. Cambridge: Polity Press.

Crouch, C and W Streeck (eds) (1997) *Political Economy of Modern Capitalism: mapping convergence and diversity*. London: Sage.

Cusack, TR, T Iversen T and D Soskice (2007) 'Economic interests and the origins of electoral systems', *American Political Science Review* 101(3).

Deeg, R and G Jackson (2007) 'Towards a more dynamic theory of capitalist variety', *Socio-Economic Review* 5.

Dore, R (2000) *Stock Market Capitalism, Welfare Capitalism: Japan and Germany versus the Anglo-Saxons*. Oxford: Oxford University Press.

Ebenau, M (2012) 'Pushing the boundaries of comparative capitalisms research: VoC and the long shadow of Eurocentrism'. Conference paper prepared for 'Comparison, Analysis, Critique: Critical Perspectives on the Diversity of Contemporary Capitalism', February, Wiesbaden.

Elsenhans, H (1996) *State Class and Development*. New Delhi: Radiant Books.

Evans, P (1979) *Dependent Development: the alliance of multinational, state and local capital in Brazil*. Princeton: Princeton University Press.

Fine, B (2009) 'Neo-liberalism in retrospect? – it's financialisation, stupid'. Prepared for Conference on 'Developmental Politics in the Neo-Liberal Era and Beyond', 2009, Centre for Social Sciences, Seoul National University. http://eprints.soas.ac.uk/7993/1/seoulart.pdf.

Fine, B and Z Rustomjee (1996) *The Political Economy of South Africa: from minerals-energy complex to industrialisation*. London: Westview Press.

Fishwick, A (2012) 'Beyond and beneath the hierarchical market economy: global production and working class conflict in Argentina's automobile industry'. Conference paper prepared for 'Comparison, Analysis, Critique: Critical Perspectives on the Diversity of Contemporary Capitalism', February, Wiesbaden.

Gentle, L (2006) 'Black economic empowerment and the South African social formation', in P Bond, H Chitonge and A Hopfmann (eds) *The Accumulation of Capital in Southern Africa*. Rosa Luxemburg political education seminar. Durban: Centre for Civil Society, University of KwaZulu-Natal. http://ccs.ukzn.ac.za/files/RL%20Capital-africa.pdf.

Habbard, P (2010) *Corporate Governance in South Africa*. Paris: Hans-Böckler-Foundation and Trade Union Advisory Committee to the OECD.

Hall, P and DW Gingerich (2004) 'Varieties of capitalism and institutional complementarities in the macroeconomy: an empirical analysis'. MPIfG discussion paper 04/05. Cologne: Max Planck Institute for the Study of Societies.

Hall, P and D Soskice (2001) 'An introduction to varieties of capitalism', in P Hall and D Soskice (eds) *Varieties of Capitalism: the institutional foundations of comparative advantage*. Oxford: Oxford University Press.

Hancké, B, M Rhodes and M Thatcher (2007) 'Introduction: beyond varieties of capitalism', in B Hancké, M Rhodes and M Thatcher (eds) *Beyond Varieties of Capitalism: conflict, contradictions, and complementarities in the European economy*. Oxford: Oxford University Press.

Hirsch, A (2005) *Season of Hope: economic reform under Mandela and Mbeki*. Pietermaritzburg: University of KwaZulu-Natal Press; Ottawa: IDRC.

Hollingsworth, J and R Boyer (1997) *Contemporary Capitalism: the embeddedness of institutions*. Cambridge: Cambridge University Press.

Höpner, M (2005) 'What connects industrial relations and corporate governance? Explaining institutional complementarily', *Socio-Economic Review* 3.

———— (2009) '"Spielarten des Kapitalismus" als Schule der vergleichenden Staatstätigkeitsforschung'. *Zeitschrift für Vergleichende Politikwissenschaft* 3(2).

iMove (ed) (2010) 'Marktstudie Südafrika: für den Export beruflicher Aus- und

Weiterbildung'. Bonn: Bundesinstitut fur Berufsbildung (BIBB). http://www.imove-germany.de/cps/rde/xbcr/imove_projekt_de/d_iMOVE-Marktstudie_Suedafrika_2010.pdf.

Jackson, G and R Deeg (2006) 'How many varieties of capitalism? Comparing the comparative institutional analyses of capitalist diversity'. MPIfG Discussion Paper 06/02. Cologne: Max Planck Institute for the Study of Societies.

Kruss, G and J Lorentzen (2009) 'The South African innovation policies: potential and constraint', in Joseì Eduardo Cassiolato, Virginia Vitorino and Bengt-Ake Lundvall (eds) *BRICS and Development Alternatives: innovation systems and policies*. London: Anthem Press.

Leon, P (2010) 'Quo vadis the South African mining industry?' Address to 'Miners from the Frontiers' Conference Macquarie Connections – Macquarie Capital (Europe) Ltd, London. http://www.moneyweb.co.za/mw/action/media/downloadFile?media_fileid=8821.

May, C and A Nölke (2012) 'Kritischer Institutionalismus in der Vergleichenden Kapitalismusforschung: Konzeptionelle Überlegungen und Forschungsprogramm', in Ian Bruff, Matthias Ebenau, Christian May and Andreas Nölke (eds). *Vergleichende Kapitalismusforschung: Stand, Perspektiven, Kritik*. Münster: Westfälisches Dampfboot.

McDonald, D (2011) 'Electricity and the minerals-energy complex in South Africa', *Africa Review* 3(1).

Nattrass, N and J Seekings (2010) 'State, business and growth in post-apartheid South Africa', *IPPG Discussion Paper* 34.

Nölke, A (2010) 'A "BRIC"-variety of capitalism and social inequality: the case of Brazil', *Revista de Estudos e Pesquisas sobre as Américas* 4(1).

———— (2012) 'The rise of the "B(R)IC-variety of capitalism": toward a new phase of organized capitalism', H Overbeek and B van Apeldoorn (eds) *Neoliberalism in Crisis*. London: Palgrave Macmillan.

Nölke, A and A Vliegenthart (2009) 'Enlarging the varieties of capitalism: the emergence of dependent market economies in East Central Europe', *World Politics* 61(4).

Olawale, F and D Garwe (2010) 'Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach', *African Journal of Business Management* 4(5).

Ouchi, WG (1980) 'Markets, bureaucracies and clans', *Administrative Science Quarterly* 25.

Padayachee, V (2008) 'Capitalism of a special type? South African capitalism before and after 1994', *Journal für Entwicklungspolitik* 24(4).

Plaut, M and P Holden (2012) *Who rules South Africa? Pulling the strings in the battle for power*. Johannesburg/Cape Town: Jonathan Ball Publishers.

Polanyi, K (1944/1978) *The Great Transformation: Politische und ökonomische Ursprünge von Gesellschaften und Wirtschaftssystemen*. Frankfurt: Suhrkamp.

Reed, J (2006) 'Cronyism threatens to sour the South African dream', *Financial Times*, April 17. http://www.ft.com/cms/s/1/2ec34764-ce3a-11da-a032-0000779e2340.html#axzz1rAGERxkm.

Schneider, BR (2009) *Hierarchical Market Economies and Varieties of Capitalism in Latin America*. Boston: Massachusetts Institute of Technology.

Schneider, BR and D Soskice (2009) 'Inequality in developed countries and Latin America: coordinated, liberal and hierarchical systems, *Economy and Society* 30(1).

Schwank, O (2008) 'Limits to a developmental regime in South Africa – Industrial policy revisited', *Journal für Entwicklungspolitik* 24(2).

Seekings, J and N Nattrass (2006) *Class, Race, and Inequality in South Africa*. Pietermaritzburg: University of KwaZulu-Natal Press.

Shonfield, A (1965) *Modern Capitalism*. New York: Oxford University Press.

Southall, R (2006) 'Black economic empowerment and present limits to a more democratic capitalism in South Africa', in S Buhlungu, J Daniel and J Lutchman (eds) *State of the Nation: South Africa. 2005-2006.* Cape Town: HSRC Press.

Streeck, W and K Thelen (2005) *Beyond Continuity: institutional change in advanced political economies*. Oxford: Oxford University Press.

Terreblanche, S (2002) *A History of Inequality in South Africa 1652-2002*. Pietermaritzburg: University of KwaZulu-Natal Press.

Van der Berg, S (2004) 'Education: the crisis in schooling', in S Brown and A Fölscher (eds) *Taking Power in the Economy: gains and directions. Economic transformation audit 2004*. Cape Town: Institute for Justice and Reconciliation.

Victor, T (2009) 'The challenges of eradicating informal settlements in South Africa by 2014: the case of Seraleng sustainable human settlement'. Rustenburg Local Municipality, North West Province. Phd Thesis: Johannesburg. http://wiredspace.wits.ac.za/bitstream/handle/10539/8319/the_challengers_of_eradicating_i nformal_ settlements_in_ SA_by_2014.pdf?sequence=1.

Whitley, R (1999) *Divergent Capitalisms: the social structuring and change of business systems*. Oxford: Oxford University Press.

Wolpe, Harold (1972) 'Capitalism and cheap labour –power in South Africa: from segregation to apartheid', *Economy and Society* 1(4).

Yamamura, K and W Streeck (eds) (2001) *The Origins of Nonliberal Capitalism: Germany and Japan in comparison*. Ithaca/New York: Cornell University Press.

Correction: This version of the article (3 December 2013) is a corrected version of one distributed in August 2013. The original incorrectly named the research project in footnote 1 as the 'BRICS Variety of Capitalism' and it now correctly names the project as 'BICS Variety of Capitalism'.