

# South African economic diplomacy

## Engaging the private sector and parastatals

Catherine Grant Makokera

### Summary

An effective economic-diplomacy policy requires cooperation between the government and the private sector, as has been acknowledged by the South African Department of International Relations and Cooperation (DIRCO) in its White Paper on foreign policy.<sup>1</sup> However, state-business relations in South Africa are characterised by high levels of mistrust and ad hoc engagements. It is recommended therefore that efforts be made to encourage stronger organised-business structures that would enable government to identify key business stakeholders to engage with on peacebuilding initiatives and other more traditional areas of economic diplomacy. South African parastatals (state-owned enterprises) also have the potential to play a bridging role between the public and private sectors to help achieve government's goals of economic diplomacy.

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KISHAN S RANA comprehensively defines economic diplomacy as follows:

Economic diplomacy is the process through which countries tackle the outside world, to maximize their national gain in all the fields of activity, including trade, investment and other forms of economically beneficial exchanges, where they enjoy comparative advantage; it has bilateral, regional and multilateral dimensions, each of which is important.<sup>2</sup>

This definition encompasses aspects of commercial diplomacy (such as trade, investment and tourism promotion), as well as global economic governance (i.e. setting the rules of the game).

As for the South African context, Vickers and Ajulu describe economic diplomacy as 'policies and activities that promote trade, FDI [foreign direct investment], tourism, and technology transfers to South Africa, and positively position the country in the world through imaging, branding, marketing and public diplomacy (domestic and international)'.<sup>3</sup> There are also other elements of economic diplomacy, including financial diplomacy, and migration and consular activities,<sup>4</sup> but these are not considered in detail for the purposes of this paper.

In his analysis of the economic diplomacy of developing countries, Rana notes that 'while almost all countries today recognize the value of economic diplomacy, what varies is their effectiveness

in actions taken.<sup>5</sup> There is no doubt that economic diplomacy has become widely and explicitly adopted as a key component of many countries' foreign policy over the last decade or more. For example, in August 2014 Australia's coalition government launched an economic-diplomacy policy with the aim of ensuring a collaborative approach to bolster trade and investment.<sup>6</sup> During the first term of the Conservative–Liberal Democrat coalition in the UK, then foreign secretary William Hague pronounced that all UK diplomatic missions abroad would be at the front end of promoting commercial diplomacy. Various countries in Asia and Latin America, including Japan, China, Thailand and Brazil, have also actively embraced the concept and are clearly pursuing strategies for economic diplomacy.

South Africa's economic diplomacy has evolved on many levels, but there is still a need for a more specific definition of its objectives and to develop greater interaction between stakeholders

In South Africa economic diplomacy has been made a priority in the DIRCO White Paper,<sup>7</sup> where there is a section dedicated to it, and in the ANC policy paper on international relations.<sup>8</sup> The strong focus on economics in South Africa's international relations has continued since President Mbeki adopted what Landsberg describes as a 'pragmatic and economic-driven foreign policy approach'.<sup>9</sup> Elizabeth Sidiropoulos describes President Zuma's style of foreign policy as having a perceived increase in economic imperatives, a reduced focus on peacebuilding and a more assertive stance on African issues.<sup>10</sup>

To help assess the effectiveness of economic diplomacy in developing countries, Rana<sup>11</sup> has developed a model that takes into account eight factors: external economic management; policy management; the role of non-state actors; recipients of economic aid; donors of economic aid; trade promotion; investment promotion; and the role played by regional diplomacy. This data has been used to classify developing countries as traditional, niche-focused, evolving and innovative in terms of their economic diplomacy. Applying Rana's typology to South Africa, it could be broadly placed in the group of evolving developing countries. South Africa's economic diplomacy has evolved on many levels but there is still a need for a more specific definition of its objectives and to develop greater interaction between stakeholders. These two specific concerns are highlighted by Vickers and Ajulu<sup>12</sup> in their 15-year review of South Africa's foreign policy and they are still relevant today.

Many of the activities that constitute commercial diplomacy are predominantly in the sphere of the private sector and therefore require close cooperation between government and business to achieve national-policy objectives. DIRCO acknowledges this in its White Paper on foreign policy, stating that 'successful economic diplomacy requires a close partnership with government, business and labour'.<sup>13</sup> Applying the Rana typology of economic diplomacy, the interaction between government and the private sector in South Africa could be seen as more 'traditional', in that the interaction is 'episodic, depends on personalities' or at best is 'niche-focused' with 'variable' engagement between stakeholders.<sup>14</sup>

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2010

THE PRESIDENCY  
ANNOUNCED A STRATEGIC  
FRAMEWORK FOR  
ECONOMIC DIPLOMACY

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## South Africa's policy framework for economic diplomacy

There are a number of policy documents that specifically set out South Africa's economic diplomacy. At the broadest level, though, South Africa's foreign policy as a whole is premised on support for its domestic policy objectives and for the overarching aim of promoting African development, including through regional integration. Chapter 7 of South Africa's National Development Plan refers to 'positioning South Africa in the world'. The emphasis here is on the need for South Africa to gain benefits from its investment in foreign missions.<sup>15</sup> Other relevant documents are parts of the New Growth Path<sup>16</sup> and the Trade Policy and Strategy Framework<sup>17</sup> which deal with aspects of economic diplomacy, including tariff policies and the negotiation of multilateral, regional and bilateral trade agreements. The Department of Trade and Industry (DTI) is developing an Integrated National Export Strategy, which is expected to set out the priorities for South Africa's economic diplomacy in terms of how it relates to the development and promotion of exports. This needs to be accompanied by a strategic investment-promotion framework, which places greater priority on the sectors that are likely to yield greater gains for the economy.

In 2010 the Presidency announced a strategic framework for economic diplomacy, which was intended to bring together the activities of the South African government in a coordinated approach to support commercial interests abroad of private and state-owned South African firms.<sup>18</sup> Some of the key elements of this strategy include:

- Defining South Africa's external engagement in line with the country's domestic development strategy
- Engaging closely with the business community
- Building institutional capacities to engage more effectively on economic-diplomacy activities
- Paying attention to the potential economic gains available in the rest of the continent

### Current approach to implementation

The focus of South Africa's economic diplomacy has been, firstly, trade and investment promotion (i.e. commercial diplomacy), which has generally been coordinated by Trade and Investment South Africa, a department of the DTI, and, secondly, global economic governance. For example, government has made significant efforts to ensure South Africa's active participation in negotiating the rules of the game (setting norms and standards<sup>19</sup>) through organisations such as the World Trade Organization and the G20 – and more recently

through South Africa's membership of the BRICS grouping. Support for multilateralism is a key pillar of South Africa's foreign policy and this is also reflected in its approach to economic diplomacy.

Although the term 'diplomacy' might suggest that this area is the domain of DIRCO, the reality is that numerous government agencies in South Africa are involved at all levels, including provincial governments and local municipalities. The various development-finance institutions, especially the Development Bank of Southern Africa and the Industrial Development Corporation, also have international mandates. The DTI has certain lead responsibilities on some economic-diplomacy activities, including those mentioned above in the field of trade and investment promotion, and the negotiation of international trade agreements. This has resulted in some challenges of coordination as well as the unnecessary overlap of effort and resources.

South Africa's economic-diplomacy initiatives in the rest of Africa face particular challenges and are hampered by the government's concern not to be perceived as an arrogant, hegemonic actor

Some assessments have been made of South Africa's economic diplomacy, usually in the context of a review of broader foreign policy. In their 15-year review, for example, Vickers and Ajulu call for a 'new global economic strategy' for South Africa that reflects stronger cooperation among all stakeholders.<sup>20</sup> Two years later, Qobo echoed the view that more focus and clearly expressed priorities would be beneficial for South Africa's economic-diplomacy agenda.<sup>21</sup> In a 2013 draft of a 20-year review of South Africa's foreign policy, Zondi makes the following observations about certain challenges facing South Africa's economic diplomacy:

While South Africa has proposed to conduct both political and economic diplomacy since 1994, the diplomatic service still does not have adequately and appropriately skilled personnel to do this. Government has not significantly leveraged the availability of economic and commercial expertise in various departments, civil society and in the business sector in order to beef up its economic diplomacy capacity. The introduction of economic diplomacy into diplomatic training programmes is a small, but significant step in the right direction.<sup>22</sup>

South Africa's economic-diplomacy initiatives in the rest of Africa face particular challenges and are hampered by the government's concern not to be perceived as an arrogant, hegemonic actor by the rest of the continent.<sup>23</sup> The ANC has tried to underplay this perception by stating that South Africa has 'deliberately avoided playing a hegemonic role in African institutions and politics'<sup>24</sup> (although this approach may arguably have changed when South African stateswoman Nkosazana Dlamini-Zuma was elected as chairperson of the African Union Commission in 2012). Others are critical of South Africa's approach. For example, South Africa's intervention in the Democratic Republic of the Congo (DRC) in the late 1990s and early 2000s was described as '*vagabondage politique*' (political vagrancy) by Taylor and Williams.<sup>25</sup> These authors go on to suggest that the notion of an African Renaissance was about maximising South Africa's strategic options at the expense of development.<sup>26</sup> Vickers and Ajulu add to this by confirming that there are commonly held perceptions about the South African government facilitating the development of business in the continent through peacebuilding initiatives that have been likened to Western imperialism.<sup>27</sup>

Qobo has tackled this concern head-on, arguing that 'a hegemon can have a good influence as well as a bad one'.<sup>28</sup> He suggests that the hegemonic role (including that of South Africa in the region) can be positive where it entails a consensual platform of values and norms that other countries buy into with the necessary underwriting of certain costs in the areas of security and economic development. On that basis, Qobo<sup>29</sup> emphasises the need for the public and private sectors in South Africa to work together to further develop the country's economic diplomacy. Clearly, there is the potential for both these parties to agree on an approach that supports the continent's economic development while simultaneously protecting the assets of the South African business community.

### State-business relations in South Africa<sup>30</sup>

State-business relations have the potential to influence matters of governance, power, politics, and economic growth and development. The relationship between a country's government and its business community is often a complex one that reflects many factors, including history, race and class dynamics, politics, ideology, and specific sectoral concerns. It is difficult to generalise, as these relationships vary from country to country and depend on the nature of the issue under consideration. State-business relations may be structured in an ad hoc way to address a specific issue or sustained over a longer period in a process of ongoing broad-based consultation. Either way, through interactions between government and the private sector, as well as with other entities, there is the potential to create greater levels of understanding of policy processes and to make a positive contribution in terms of trust building.

Kunal Sen and Dirk Willem te Velde<sup>31</sup> define the relationship between state and business as a 'set of interactions between states and the business sector whether through formal channels such as official meetings of bureaucrats with business associations, or through more informal channels, such as phone conversations and dinner parties'. Sylvia Maxfield and Ben Schneider<sup>32</sup> explore effective state-business relations in detail and identify three key characteristics – transparency, reciprocity and credibility. Sen and Te Velde<sup>33</sup> build on this work to link state-business relations to economic policy. They outline three main functions of the relationship:

- Facilitating information exchange
- Performing checks and balances on government policies
- Reducing policy uncertainty

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1995

THE NATIONAL ECONOMIC DEVELOPMENT AND LABOUR COUNCIL WAS ESTABLISHED

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Harriss<sup>34</sup> identifies a fourth factor – the role of state–business relations in establishing high levels of trust between the stakeholders.

There are different players involved in this relationship and one of the most common challenges voiced by policymakers is, who exactly is the private sector? Government officials often bemoan the difficulties prevalent in identifying the relevant representatives of the private sector. There is no doubt that the business community is wide, diverse and can mean different things to different people.<sup>35</sup> Some of the most common points of differentiation relate to formal versus informal businesses; corporate versus small and medium-sized enterprises (SMEs); and foreign versus locally owned firms.

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The way firms interact with government also varies greatly. Some, probably the vast majority, simply pay taxes and demand in return a basic level of local services and infrastructure. Other firms have dedicated resources to manage their interactions with government on both commercial matters and in the development of policy. Because of this range in the level of engagement, understanding who business is, is a question that is open to interpretation and can be manipulated by the state to suit different needs. One way to address this problem is through strong business organisations that can provide a coordinated voice for the private sector and engage on various policy issues.

The South African government has acknowledged the need to encourage the private sector and government to work together to ensure the country's development. In the State of the Nation address delivered on 14 February 2013, President Zuma noted that: 'We will engage business, labour and other social partners in pursuit of solutions. No single force acting individually can achieve the objectives we have set for ourselves.'<sup>36</sup> This is echoed in almost all economic-policy documents and plans. For example, the DTI highlights the importance of building strategic relationships between government and business to create competitive advantage.<sup>37</sup>

To accompany this strong rhetorical commitment, South Africa has a number of mechanisms in place to achieve the main functions of state-business relations. The National Economic Development and Labour Council (NEDLAC) is the principal formal mechanism to facilitate interaction between government and business, together with various other constituencies representing organised labour and civil society. (Box 1 provides a detailed description of NEDLAC and its structures.) Raymond

Parsons<sup>38</sup> explains that NEDLAC was designed to 'inaugurate a new era of inclusive consensus-seeking and ultimately decision-making in the economic and social arenas'. It facilitated the discussion of national social and economic policy, and legislation, and South Africa's re-entry into international organisations, such as the International Labour Organisation.<sup>39</sup> In the state-business relations environment, NEDLAC contributes to the sharing of information on socio-economic issues. Through regular interactions of government and the private sector, together with other constituencies, there is a possibility to create greater levels of understanding of policy processes and to make a positive contribution in terms of trust building.

### NEDLAC's structures

**NEDLAC is a statutory body that was established in 1995 to provide a platform for social dialogue in South Africa on a range of economic policies and legislation. Government, labour, business and community are all represented in NEDLAC, which has four chambers dealing with monetary policy, labour, development, and trade and industry. There is a specific subcommittee of the Trade and Industry Chamber, known as the Technical Sectoral Liaison Committee (TESELICO), which focuses on trade. It is here that the DTI consults with organised labour and business on trade-policy matters, and on the positions to be adopted in trade negotiations involving South Africa. TESELICO is mirrored by the Agricultural Trade Forum (ATF), which concerns itself with agricultural-sector trade.**

**NEDLAC is a formal structure that requires monthly meetings of its bodies. The work of the chambers is supported by a small secretariat. A wide range of policy issues feature on the NEDLAC agenda. The government also submits draft legislation to NEDLAC for discussion by the constituencies before it is finalised. A NEDLAC report will be sent to Parliament with the relevant bills and often includes line-by-line suggestions on amendments to be made to the draft considered by NEDLAC.**

**The private sector is represented in NEDLAC via Business Unity South Africa (BUSA) and more recently by the Black Business Chamber (BBC). BUSA and the BBC are required to nominate representatives for each of the NEDLAC bodies. BUSA presents mandated positions in NEDLAC that are developed through its standing committees. For example, the Standing Committee on Trade Policy at BUSA will consider all the matters on the NEDLAC agenda, and canvass the views of the membership before presenting matters for discussion with government and labour. This process tends to focus on the industrial sectors of the South African economy, as agriculture has its own forum (as mentioned, the ATF). BUSA does, however, attempt to coordinate positions in both NEDLAC and the ATF to achieve an overall picture on trade policy matters.**

Source: Adapted and updated from the African Development Bank (2011).<sup>40</sup>

In 2010 Nattrass and Seekings, in their analysis of NEDLAC, found that ‘state-business relations remain fragile and highly fragmented’<sup>41</sup> in South Africa. They attribute this to the legacy of apartheid and the racialised, personal nature of the engagements between government and the private sector in South Africa. In 2011 Grant contended that ‘the relationship between the government and private sector in South Africa has not always been particularly close’.<sup>42</sup> She goes on to explain that:

... the formation of the National Economic Development and Labour Council (NEDLAC) in 1995 provided a formal platform for engagement on a wide range of economic issues between government, business and labour. NEDLAC has achieved mixed results, which has often depended on the commitment of the relevant government department to engage on policy matters.<sup>43</sup>

### NEDLAC was recently described in a South African newspaper editorial as ‘irrelevant’

The various NEDLAC constituencies face their own internal challenges and there is not necessarily the willingness to come together, as was demonstrated in the 1990s. NEDLAC was recently described in a South African newspaper editorial as ‘irrelevant’,<sup>44</sup> and a call was made for NEDLAC to be reformed with a negotiated accord between the government, business and labour at its heart.

The relationship between government and business could be characterised as in a sorry state, given the high levels of mistrust that appear to exist on both sides. South African political commentator Aubrey Matshiqi has described this relationship of mistrust of having ‘mutated into a crisis of confidence’.<sup>45</sup> There may be a rhetorical commitment from the highest levels of the South African government (as seen in the president’s 2013 State of the Nation speech, quoted earlier) to cooperate and interact with the private sector. But this is much more difficult to implement than appears and, in reality, the relationship is bedevilled by perceptions, procedural challenges and, in some instances, ideological differences. For example, the South African government and the alliance partners of the ANC have made it clear that there is a widely held perception that the private sector does not share government’s objectives with regard to development and is only concerned with the bottom line.

Under former president Thabo Mbeki, dedicated working groups between government and business supplemented the engagement role played by NEDLAC. The most high profile of these was the Big Business Working Group, as discussed by Qobo.<sup>46</sup> There were also working groups that included black-owned business, the agriculture sector and foreign investors, all of which contributed to regular interactions between government and the private sector at the highest level. President Zuma’s administration chose not to retain the working-group approach developed under Mbeki.<sup>47</sup> The regular meetings were discontinued and replaced with ad hoc interactions that often included other NEDLAC constituencies. For example, Zuma has hosted a number of consultations on South Africa’s response to the global financial crisis since 2009 and has consulted with business to discuss the National Development Plan.

The two parties are both responsible for the current lack of effective state-business relations in South Africa. The situation has certainly not been helped by the ongoing struggle in the business community to coordinate its interactions with government,



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including through various umbrella private-sector organisations – although some progress had been made with the formation of BUSA in 2004. For a number of years, government and the private sector widely acknowledged BUSA as the leading voice on policy issues, partly because of its coordination of the business constituency in NEDLAC. Then, in 2011 organised business in South Africa suffered a major setback, resulting in a split along racial lines. The BBC had been one of the founding members of BUSA and had effectively merged into the umbrella body. But, following an acrimonious debate over BUSA's leadership, particularly the positions of the president and chief executive officer, the BBC pulled out of BUSA and re-established itself as an apex business body. It was recognised by the government as being on a similar footing to BUSA, as is evidenced by the fact that BUSA and BBC representatives have participated in meetings with Zuma and in organisations such as the BRICS Business Council.

The fragmentation in South African organised business and the ad hoc nature of its engagements with government means there is little follow-through on issues discussed. The meetings tend to be one-off events that have little impact on the policy debate. Platforms of this nature representing state-business relations are also at risk of being manipulated to the ends of certain vested interests and give more room for the government to engage just with business representatives of its choice. In the area of international relations, it is also unclear who is responsible for interactions with partners in the private sector in other countries, including which entities should be coordinate bilateral business councils.

It is not necessary for the private sector and government to agree on everything, but a platform for collaboration on economic issues is required

There is no single model for effective consultation mechanisms between government and business. Each country usually deploys both informal and formal structures that can be used to deal with a wide range of issues where cooperation is required. It is not necessary for the private sector and government to agree on everything, but a platform for collaboration on economic issues is required. This was the spirit in which NEDLAC was established in South Africa and in which initiatives such as the Presidential Business Working Groups were used. For all these reasons, there are challenges in the current South African government–business environment that prompt a rethinking of these structures.

### Engaging the private sector in economic diplomacy

Foreign policy traditionally tends to suffer from numerous challenges when it comes to involving diverse stakeholders. Smith and Tadesse explain that in the area of foreign policy, 'the perception of government as being distant, and guided by unknown and misunderstood interests, creates divisions which undermine the potential for partnership and the development of complementary strategies towards a common goal'.<sup>48</sup> In the past, diplomacy was seen as the sole preserve of the state and characterised by activities that were often done with a veil of secrecy that precluded the involvement, and even understanding, of the wider community.

Over time the concepts of multi-track diplomacy<sup>49</sup> and multi-layered diplomacy<sup>50</sup> have become more popular worldwide and have been embraced by governments,



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including South Africa's. These approaches to diplomacy recognise that there is a role for business and many other stakeholders in the design and implementation of foreign policy. For example, as noted above, the DIRCO White Paper acknowledges that 'successful economic diplomacy requires a close partnership with government, business and labour'.<sup>51</sup> DIRCO has also adopted a policy of ubuntu diplomacy that seeks to communicate more effectively with the public, including business, on its work.

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In reality, however, there are few mechanisms available for the South African government to engage with the private sector on foreign policy, including areas such as peacebuilding, which is dealt with in more detail below. DIRCO has not been a regular participant in NEDLAC processes, and has had only occasional interactions with some of the chambers when there are specific requests from constituencies. The DTI has tended to be the main government agency dealing with economic-diplomacy issues on the NEDLAC agenda, such as trade negotiations and regional economic integration. DIRCO does invite business to participate in consultations on specific issues (the recent meeting with the South African private sector on the African Union Agenda 2063 is one example) and in some activities, such as presidential state visits. But, again, these arrangements are ad hoc in nature and therefore face problems of sustainability and long-term impact.

Economic diplomacy is also affected by the broader challenges arising from South Africa's poor state-business relations. It is beleaguered by the perceived ideological differences between the parties involved: government and the private sector are viewed as having few developmental values or norms in common.<sup>52</sup> The current weaknesses in organised-business structures mean that there is little capacity in the business community to engage in economic diplomacy at a broad policy level. In practical terms, there is a lack of key systems by which economic diplomacy could be jointly developed and implemented by government and business. These include an up-to-date database of South African companies and their international interests; shared country briefs; and staff exchange programmes to increase capacity and understanding.

### Role of the private sector in peacebuilding

Peacebuilding is a critical component of promoting Africa's economic development<sup>53</sup> and is therefore a key pillar in South Africa's engagement with the rest of the continent. By the end of its first decade of democracy, South Africa had become a respected middle power – partly on the back of its 'peacemaking and democratization role in Africa'.<sup>54</sup> Qobo agrees that its 'African orientation has earned South Africa legitimacy and stature in the global community',<sup>55</sup> especially as peacebuilding is usually pursued through partnerships and with deference to the role of African institutions<sup>56</sup> Peacebuilding gets one mention in the DIRCO White Paper in the section on Africa: 'South Africa will therefore continue to play a leading role in conflict prevention, peacekeeping, peacebuilding, and post-conflict reconstruction.'<sup>57</sup>

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AGENDA  
2063  
IS AN EXAMPLE OF  
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SPECIFIC ISSUES

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South Africa's policy framework makes no explicit link between peacebuilding and economic diplomacy. This is in part a reflection of government's general failure to link the various aspects of foreign policy,<sup>58</sup> but also derives from the fact that economic and institutional peacebuilding is largely a function of track-one diplomacy (i.e. controlled by the official or government sphere)<sup>59</sup> rather than being of wider interest. There is no doubt that it is not easy to involve the private sector in peacebuilding initiatives, as it can have both negative and positive impacts, which need to be balanced.<sup>60</sup> Business has been recognised by Rettberg as a 'crucial source of resources, know-how, and institutional capacity for building peace'.<sup>61</sup> But, at the same time, the South African government remains rightly concerned about not wishing to be seen to favour specific firms or promote commercial interests through its peacebuilding activities.

There is a fine line between engaging with the private sector as a useful player in peacebuilding initiatives and ensuring that these efforts are not perceived as being for commercial gain. Traditionally, there have been few direct linkages between South African investment initiatives and government's international-relations activities – except in the case of state-owned enterprises, or parastatals, such as the South African power utility, Eskom.<sup>62</sup> More recently, however, this issue has come into question. For example, the South African media reported that the presence of South African troops in the Central African Republic was linked to ANC business interests in the diamond-mining industry there.<sup>63</sup> And in September 2014, the South African government and business leaders were accused of meddling in the 2010 elections in Guinea so it could secure mining interests in that country.<sup>64</sup> These claims have the potential to undermine the good work done by South Africa as a peacemaker on the continent and there is no doubt that they further complicate its interactions with the private sector in the area of peacebuilding.

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The government has had a small number of ad hoc interactions with business organisations in the DRC and South Sudan. These have tended to take place in the run-up to state visits or events promoting trade and investment. For example, Cheryl Hendricks and Amanda Lucey<sup>65</sup> look at the case study of Burundi and South Africa, identifying five memoranda of

understanding and an implementation commission that resulted from a state visit. They recommended that if there is to be any further progress in the relationship between the two countries with a view to the reconstruction of Burundi, then 'South Africa "should increase coordination between government departments, business and NGOs in order to maximize impact, access commercial opportunities and provide sustainable post post-conflict development and peacebuilding assistance"'.<sup>66</sup>

From the perspective of the private sector, there are a number of factors and risks that should be taken into account when doing business in a post-conflict environment. Rettberg<sup>67</sup> outlines certain risks that might influence the decision of a firm to become involved in peacebuilding. These include lack of trust of governments involved, high costs, operational barriers, free-riding and opportunism. How relevant these factors are will vary from company to company, but, either way, it may not be a straightforward case that there are economic incentives for the private sector in peacebuilding contexts, as Joras<sup>68</sup> explains using case studies in the tourism sector.

It is not clear whether the South African government fully understands precisely what factors influence potential business partners when deciding whether to operate in peacebuilding contexts. It is clear, however, that there is more scope to address the particular needs of post-conflict states through South African economic diplomacy – for example, by tailoring trade-and-investment promotion activities to take account of the unique business climate of such contexts.

## Role of South African parastatals in economic diplomacy

State-owned companies have been at the forefront of economic diplomacy for centuries, since these organisations were used for such purposes by the colonial powers like England and France. More recently, emerging nations, including China and Brazil, have used public corporations and development-finance institutions as key players in their foreign-policy engagements, particularly in Africa. South Africa is no exception, even though the role of parastatals is not overtly acknowledged in its economic-diplomacy strategy and there has been little research published in this area. Broadly, the role played by parastatals in the relationship between South African investment in the rest of the continent and government actions has been noted by Alden and Soko.<sup>69</sup> The same authors also observe that there are rarely such connections involving other South African private-sector entities.

The South African Department of Public Enterprises has prepared a strategy for Africa, which aims to coordinate the investment activities of state-owned companies in the

continent and promote regional development. A number of South Africa's state-owned companies have an international mandate or are directly involved in activities that are encompassed by the concept of economic diplomacy. These include Eskom, Transnet, South African Airways and Denel, as well as development-finance institutions the Development Bank of Southern Africa and the Industrial Development Corporation.

### State-owned companies could provide an important bridge between state and business interests

An example of cooperation between a parastatal and the private sector that contributes to South Africa's economic-diplomacy endeavours is the role played by Transnet in the New Partnership for Africa's Development (NEPAD) Business Foundation. Transnet, a transport infrastructure entity, is an active supporter of the Africa Infrastructure Desk, which was set up by the NEPAD Business Foundation to support the AU's Programme for Infrastructure Development in Africa. The Africa Infrastructure Desk works with South African firms operating in various infrastructure industries (e.g. construction, engineering, finance) to identify and overcome barriers to the commercial development of projects in the areas of rail networks, ports and pipelines. This cooperation is a clear demonstration of the possibilities that exist for mutually supportive engagement between government and business with the aim of contributing to economic development in the continent.

There is potential to strengthen South Africa's economic diplomacy by developing a greater understanding of the role of parastatals and devising strategies for their engagement. For example, state-owned companies could provide an important bridge between state and business interests. They have a potentially better understanding of the policy objectives of government while at the same time operating from a commercial perspective in terms of decision making and risk analysis. Parastatals could therefore be a means of pursuing commonly held developmental goals between business and state, such as greater infrastructure investment on the continent, in the case of Transnet and others, and the need to improve transport connectivity between African countries, in the case of South African Airways.

Another option South Africa might consider when designing its economic-diplomacy interventions is to use parastatals as anchors of trade and investment promotion, perhaps together with development-finance institutions and banks. If state-owned companies were to lead in these activities it might encourage SMEs operating in the South African market to look at how they could also work as part of a team on projects in other countries. This could be particularly useful in the reconstruction of post-conflict countries and other fragile states.

But the scope for greater involvement of parastatals in South Africa's economic diplomacy will need to be weighed up carefully against domestic priorities. For instance, a number of the parastatals face internal challenges (South African Airways is a case in point) and already have significant demands at home (e.g. Eskom). Economic-diplomacy strategies involving parastatals would be best determined on a case-by-case basis that takes into account the interests of the corporations and their capacity to engage in other markets.



THE SCOPE FOR GREATER INVOLVEMENT OF PARASTATALS IN SOUTH AFRICA'S ECONOMIC DIPLOMACY WILL NEED TO BE WEIGHED UP CAREFULLY AGAINST DOMESTIC PRIORITIES

## Recommendations for enhanced engagement and further research

A comprehensive economic-diplomacy strategy should be framed by domestic norms, development priorities, and the nature of interaction between the state and market institutions in the economy. It cannot be seen as separate from either national economic priorities or the articulation of foreign policy more broadly, especially given that economic relations are as important as political relations in today's world of diplomacy. As South Africa refines its foreign policy, economic diplomacy needs to develop as a core component of the overall approach, and not as a separate strategy. Interaction with business and civil society can help provide the foundations for such an approach.

At the heart of strengthening the role played by the private sector in South Africa's economic diplomacy is the need to improve state-business relations at the highest levels and to develop mutual trust among the key stakeholders. Unfortunately, NEDLAC has not proved to be a suitable platform for South African stakeholders to engage effectively on the country's socio-economic challenges. It has not resulted in the necessary level of coherence in South Africa's economic-policy trajectory, which is needed to provide reassurance to the business community, and encourage greater participation in the transformation and development of South Africa and the region. And NEDLAC has not been influential in the area of foreign policy, where ad hoc and limited interactions tend to prevail.

At the heart of strengthening the role played by the private sector in South Africa's economic diplomacy is the need to improve state-business relations at the highest levels

The following are recommendations for more effectively engaging the private sector in South Africa's economic diplomacy. Although a number of these recommendations concern domestic engagement, if there is a positive framework for cooperation on addressing national challenges then it will make it easier for business and government to collaborate on external strategies as well.

- **Establish regular platforms where state and business can engage.** The main challenge in the relationship between the public and private sectors in South Africa is their high level of mistrust. This is unlikely to be resolved in the near term, but initiatives can be made to improve communication between state and business to help build mutual confidence. The government needs to be encouraged to think of business as one of the catalysts for providing a solution to the economic challenges facing South Africa. For example, the system of business working groups and advisory councils that was used by President Mbeki<sup>70</sup> could be reconsidered and something similar put in place to supplement the consultations at NEDLAC. The focus of these engagements could be high level and fashioned as an advisory function for the president on the major issues facing the economy. They could be complemented by more detailed engagements with the relevant government departments, such as the DTI, the Economic Development Department and the National Treasury, involving not only organised business, but also executives of individual firms.



INITIATIVES CAN BE MADE TO IMPROVE COMMUNICATION BETWEEN STATE AND BUSINESS, TO BUILD MUTUAL CONFIDENCE

- **Strengthen organised-business structures.** Organised-business structures in South Africa have suffered a number of setbacks in recent years, which has meant there is a gap at the policy level. There is a need to help strengthen those business chambers and organisations that can contribute to the broad-based representation of the views of the private sector as a whole and also provide a much-needed role in sharing information.
- **Develop a comprehensive strategy on global economic engagements that reflects a commonly held vision between government and business.** As discussed above, economic diplomacy in South Africa has tended to focus on the tools required for trade-and-investment promotion (which is more related to commercial diplomacy) and multilateral negotiations, rather than developing a shared policy vision among key stakeholders. Vickers and Ajulu<sup>71</sup> have called for a 'new global economic strategy' to help provide better coordination of South Africa's political and economic diplomacy, particularly in Africa. Similarly, Qobo<sup>72</sup> advocates greater focus and distinctly expressed priorities in the area of economic diplomacy. It is therefore recommended that South Africa develop a comprehensive strategy for its global economic engagements through a consultative process that involves both the public and private sectors.

It is recommended that South Africa develop a comprehensive strategy for its global economic engagements through a consultative process

- **Develop strategic engagement on economic diplomacy with a critical mass of firms.** Another suggestion is for the South African government to use the approach suggested by Rettberg,<sup>73</sup> whereby strategic engagement and consultation start with a 'critical mass' of firms. This group could then be expanded in a later phase. The idea is that rather than seeking extensive inclusion of the private sector in economic-diplomacy initiatives, including in the rest of Africa, the starting point is a core group of companies that are already active in the relevant space (e.g. target market) or have a potential interest. For example, in post-conflict countries like the DRC and South Sudan, Hendricks and Lucey have identified a number of South African firms<sup>74</sup> that could form part of this critical-mass approach (e.g. Vodacom, MTN, Standard Bank and Shoprite in the DRC;<sup>75</sup> and SAB Miller and Denel in South Sudan<sup>76</sup>).
- **Finalise guidelines for South African companies operating in the rest of Africa.** In their work on South Africa's role in the DRC, Hendricks and Lucey suggest drawing up guidelines on 'ethics for the conduct of business' by South African companies.<sup>77</sup> This echoes a proposal that was put forward by the ANC for a code of conduct. In 2012 the ANC<sup>78</sup> noted that some work had already been done on this but it had not been implemented. It is understood that a set of guidelines were prepared and discussed with some private-sector representatives. These have not been finalised, which might be explained by a number of factors, including a possible lack of interest on the part of South African firms. It is recommended therefore that further discussions take place between the public and private sectors in South Africa against this backdrop, with a view to identifying if the guidelines for South African companies would add any value. Even if this process does not result in agreed guidelines, it would at least be useful to allay some of the concerns harboured by

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THE ANC NOTED THAT SOME WORK ON A CODE OF CONDUCT HAD BEEN DONE, BUT NOT YET IMPLEMENTED

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government about how South African business might harm the country's image in Africa.<sup>79</sup>

- **Tailor economic-diplomacy tools by gaining a better understanding of private-sector players.** There is considerable scope for South Africa to develop more specific economic-diplomacy tools and activities that take advantage of the strengths of the private sector, and the value it could add through know-how and resources. This needs to begin by gaining a better understanding of South African businesses involved in trade and investment, including in post-conflict states. Engaging with firms would help identify the type of support government needs to provide for the private sector and the contribution that business could make to South Africa's economic-diplomacy activities.
- **Encourage further research on state-business relations and the roles that might be played by parastatals and the media.** Research on state-business relations in South Africa is very limited and has tended to focus on NEDLAC. Research is now dated, as is some of the work on South Africa's economic diplomacy, which would also benefit from a renewed focus. Two areas for consideration are the roles of parastatals and the media. Such research might identify the specific contributions to be made to economic-diplomacy objectives by South Africa's state-owned enterprises and the improved coordination between the activities of parastatals and other South African firms. It could also explore more effective ways to leverage the media to promote South Africa's economic-diplomacy goals.

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### About the author

Catherine Grant Makokera is a research associate at the South African Institute of International Affairs and the Trade Law Centre. She served as a diplomat for New Zealand and has worked for organised business in southern Africa. She has conducted research on global economic governance, regional integration, trade and state-business relations in Africa.

### About the ISS

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### ISS Pretoria

Block C, Brooklyn Court  
361 Veale Street  
New Muckleneuk  
Pretoria, South Africa  
Tel: +27 12 346 9500  
Fax: +27 12 460 0998  
pretoria@issafrica.org

### ISS Addis Ababa

5th Floor, Get House  
Building, Africa Avenue  
Addis Ababa, Ethiopia  
Tel: +251 11 515 6320  
Fax: +251 11 515 6449  
addisababa@issafrica.org

### ISS Dakar

4th Floor, Immeuble Atryum  
Route de Ouakam  
Dakar, Senegal  
Tel: +221 33 860 3304/42  
Fax: +221 33 860 3343  
dakar@issafrica.org

### ISS Nairobi

Braeside Gardens  
off Muthangari Road  
Lavington, Nairobi, Kenya  
Cell: +254 72 860 7642  
Cell: +254 73 565 0300  
nairobi@issafrica.org

[www.issafrica.org](http://www.issafrica.org)

