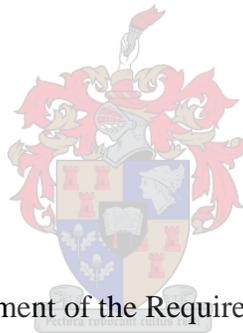


**BEE AND MALAYSIA'S NEP:  
A COMPARATIVE STUDY**

By  
Bulelani Mandla



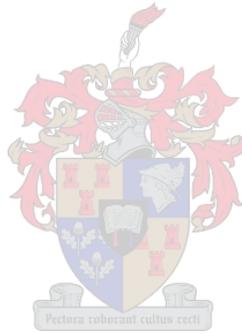
Thesis Presented in Partial Fulfilment of the Requirements for the Degree of Master of  
Arts in (International Studies) at the University of Stellenbosch

Supervisor: Dr Janis van der Westhuizen  
Department of Political Science

December 2006

## DECLARATION

I, the undersigned..... hereby declare that the work contained in this thesis is my own original work and that I have not previously submitted it in its entirety or in part at any university for a degree.



.....  
**Signature**

.....  
**Date**

## **Abstract**

South Africa and Malaysia share a similar history characterised by multi-ethnicity and similar policies in redressing their economic imbalances created by past colonial experiences. In both countries, the decolonization process left economic power with minority ethnic groups, a phenomenon that led to the exclusion of the majority of people from meaningful participation in the mainstream economy. It has been argued that in such instances minority ethnic communities often experience minority domination of the economy in ethnic terms as control of economic levers of economic power. Upon independence, Malaysia and South Africa faced the challenge of redressing the socio-economic and political imbalances.

In South Africa, the government led by the African National Congress (ANC) adopted the Black Economic Empowerment (BEE) programme to create an inclusive economy that can meet the needs of its entire citizen. Unlike Malaysia where the economic restructuring took place in a less globalised period, South Africa's economic restructuring occurs at a time when globalisation is at an advanced stage. This has made it difficult for the South African government to match Malaysia's successes in redressing the economic imbalances. Also, in adopting the BEE programme the ANC government has not given enough attention to education and skills development, two elements that were key to Malaysia's own model of economic empowerment. Strategies to address poverty have so far borne little success thus further condemning the majority of Black people to impoverished conditions.

The outcome of the study suggests that in order for BEE to be successful, the ANC government has to empower the majority of black people with the necessary skills that will make them active participants in the mainstream economy. Also, a broadened empowerment process should see education, skills development and poverty alleviation become aligned to the BEE programme.

## Opsomming

Maleisië en Suid-Afrika deel 'n gelyksoortige ervaring in terme van hulle koloniale geskiedenis, multi-etniese aard en beide lande se aanname van soortgelyke beleid in 'n poging om die ekonomiese wanbalans wat deur die koloniale verlede geskep is aan te spreek. In beide lande het die koloniale bestel die ekonomiese mag in die guns van etniese minderheidsgroepe geswaai en het dit daartoe gelei dat die meerderheid van die bevolking uit die hoofstroom ekonomie uitgesluit is. Sommige waarnemers argumenteer dat in sulke gevalle 'n etniese minderheidsgroep hulle minderheidsdominasie van die ekonomie ervaar in etniese terme as die beheer van ekonomiese magshouers. Beide Maleisië en Suid-Afrika het met onafhanklikheidswording 'n uitdaging in die gesig gestaar van die regstelling van sosio-ekonomiese en politieke wanbalanse geskep deur koloniale beleid.

Die ANC regering het 'n Swart Ekonomiese Bemagtigingsprogram onderneem om hierdie uitdaging aan te spreek. Anders as in Maleisië waar die ekonomiese herstrukturering plaasgevind het in die vroeë stadium van globalisering, het Suid-Afrika hierdie herstrukturering onderneem tydens 'n gevorderde stadium van globalisering. Dit het dit vir Suid-Afrika moeilik gemaak om Maleisië se sukses in die regstelling van etniese ongelykhede in die ekonomie na te volg. Verder het die ANC regering in vergelyking met Maleisië gefaail om die belang van onderrig en armoede verligting te beklemtoon. Onderrig en armoede verligting was sentraal in die Maleise model van ekonomiese bemagtigingstrategie. In die geval van Suid-Afrika was die klem op besigheidseienaarskap, wat in baie gevalle slegs die politiek gekonnekteerde elite bevoordeel het.

Die uitkoms van die studie suggereer dat Swart Ekonomiese Bemagtiging saamhang met die mate waartoe die regering daarin slaag om die meerderheid van swart mense te bemagtig met die vaardighede wat hulle deelnemers maak in die hoofstroom ekonomie. Om dit te bewerkstellig moet Swart Ekonomiese Bemagtigingstrategie belynd word met beide onderrig en armoede verligtingstrategieë.

## Acknowledgements

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Stellenbosch

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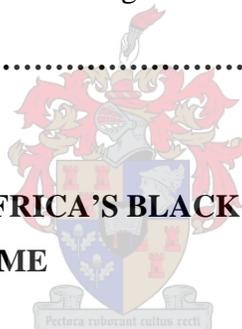
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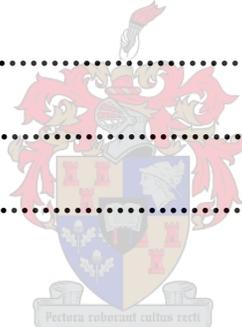
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## List of Abbreviations

**ANC - African National Congress**

**BBC - Black Business Council**

**BEE - Black Economic Empowerment**

**BEECom – Black Economic Empowerment Commission**

**BMF – Black Management Forum**

**BMR – Bureau for Market Research**

**BN – National Front**

**Broad-Based BEE – Broad-Based Black Economic Empowerment**

**CGB – Credit Guarantee Corporation**

**DA – Democratic Alliance**

**DTI – Department of Trade and Industry**

**ERWG – Ethnic Redistribution With Growth**

**FAMA – Food and Marketing Authority**

**FELDA – Federal Land Development Authority**

**GEAR – Growth Employment And Redistribution Strategy**

**GDP – Gross Domestic Product**

**HCI – Hosken Consolidated Investments**

**ICA – Industrial Co-ordination Act**

**IDC – Industrial Development Corporation**

**IMF – International Monetary Fund**

**ISCOR – Iron and Steel Corporation**

**JSE – Johannesburg Stock Exchange**

**LBO – Leverage Buyouts**

**MARA – Peoples Trust Council**

**MARDI – Malaysian Agricultural Research Development Institute**

**MCA – Malaysian Chinese Associates**

**MAJUIKAN – Fisheries Board**

**MAJUTERNAK – Cattle Board**

**MIDF – Malaysian Industrial Development Foundation**

**NAIL – New Africa Investments Limited**

**NEF – National Empowerment Fund**  
**NEP – New Economic Policy**  
**NOR – National Operations Rule**  
**NP – National Party**  
**NSFAS – National Student Financial Aid Scheme**  
**OPEC – Organisation of the Petroleum Exporting Countries**  
**PERNAS – Perbadanan National Corporation**  
**PNB – National Equity Corporation**  
**RAIL – Real Africa Investments Limited**  
**RDP – Reconstruction and Development Programme**  
**RFI – Retail Financial Intermediaries**  
**RISA – Rubber Industry Smallholders Development Authority**  
**SMME – Small Medium Micro Enterprises**  
**SEDC – State Economic Development Corporation**  
**SET – Science, Engineering and Technology**  
**SPV – Special Purpose Vehicle**  
**UDA – Urban Development Authority**  
**WB – World Bank**



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# Chapter 1

## INTRODUCTION AND GENERAL BACKGROUND

### 1.1 Introduction

With the end of colonialism and apartheid in Malaysia and South Africa respectively, where the majority of people were systematically excluded from political and economic participation, these two countries faced the challenge of redressing the socio-economic and political imbalances created by past regimes. During colonialism and apartheid the indigenous peoples who comprised the majority of these countries population were deliberately excluded from taking part in economic activities resulting in them becoming poor and dispossessed of what was originally theirs.

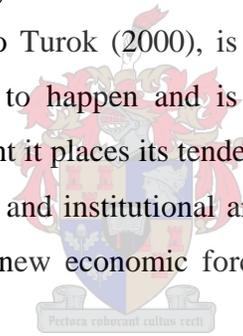
In such situations, as argued by Esman (1987: 395), minority domination of the economy is often experienced in ethnic terms as control of economic levers of economic power by a minority ethnic community. In Malaysia, a few people of the Chinese descent controlled the economy excluding the Malay majority. The same applied in South Africa where a white minority population continues to control the economy to the exclusion of the black majority. South Africa experienced the twin scourges of colonialism and apartheid and as a result now faces the challenge of integrating the vast majority of its population, which is black, in particular Africans, into the mainstream of the economy.

Decades of apartheid and racial capitalism effectively disempowered the black majority politically, socially and economically. This led to massive poverty and poor living conditions. Economic exclusion was coupled with an inadequate educational system and the lack of opportunities for the advancement of senior leadership in private and public business organisations. The restructuring of the South African economy would be incomplete if it did not succeed in rectifying the above situation (Terreblanche, 1991: 8).

While, in 1994, the locus of political control shifted to the ANC, the locus of economic control remains firmly with the private sector, which is controlled largely by the white minority. In its attempt to redress economic inequality the ANC government introduced

the BEE programme with the aim of integrating the black majority into the mainstream economy. In its inception, the aim of BEE was to create a black bourgeoisie that would become the custodian of capital for the black masses. Then BEE's main focus was in favour of black empowerment through the corporate sector, which means the transfer of share ownership from a white corporation to a BEE group or consortia, with the hope that the creation of a black bourgeoisie would trickle down to the masses.

In legitimising the aspirations to enter the capitalist class as act of liberation the ANC argued that, "the rising black bourgeoisie and middle strata are objectively motive forces of transformation whose interests coincide with at least the immediate interests of the majority...they are part of the motive forces of fundamental change" (Iheduru, 2002: 56). A few black elite moved into entrepreneurial activities, others ventured into both private and public sectors. Many occupy the economic class positions of the former white bourgeoisie and this, according to Turok (2000), is not an unintended consequence of government actions. It is meant to happen and is proceeding apace and apart from exercising influence on government it places its tenders, contracts etc, there is little effort at exercising power through legal and institutional arrangements over these new forces. They are behaving as any other new economic force, driven by their own needs and aspirations (Turok, 2000: 6).



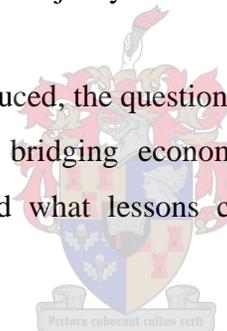
Black businesses have always been active in the Small Micro and Medium Enterprises (SMMEs). The existing majority of black entrepreneurs are more concentrated in the (SMMEs), such as bottle stores owners, butcheries, general dealers, taxi owners, and supermarket owners. There are success stories that predate some of the big JSE deals of recent years for an example, Herman Mashaba's Black Like Me hair products and Richard Maponya's chain of supermarkets. Even though the government has set up a number of business support agencies and state lending institutions to help SMME's development, BEE has remained elusive to the majority of black people and has not yet overcome the inequalities created by the past. Too much attention is on large corporations and most empowerment deals are struck in the sectors of the economy that require skilled people, for example in telecommunications, media, entertainment, and financial services.

Malaysia underwent a similar process of economic restructuring aimed at benefiting the Malay majority. Their experience has shown that investment in education is key in creating employment for the people.

## **1.2 Problem statement**

This study argues that since its inception BEE has failed to empower the majority of black people, in particular Africans. So far it seemed to only benefit a few elite who appears to be connected to the ruling party. In order to demonstrate this, a comparison will be drawn to Malaysia's model of empowering the Bumiputeras through education, employment, and ownership. Education, employment and poverty alleviation are not central concerns in BEE, as was the case with Malaysia's empowerment programme. Therefore, this study will examine how education, employment, and ownership can be used as a means of empowering the majority of black people of South Africa.

Eleven years after BEE was introduced, the question to be asked is, to what extent has the ANC government succeeded in bridging economic inequalities between the white minority and black majority, and what lessons can be learned from the Malaysian experience?



## **1.3 Conceptualisation**

In order to examine the state of BEE, the concept of empowerment will be conceptualised according to Friedman's (1992) definition. According to Friedman (1992) empowerment has come to mean different things to different people. In his book, as quoted in Khosa (2001: 3), *Empowerment: The Politics of Alternative Development*, Friedman (1992) defines alternative development as

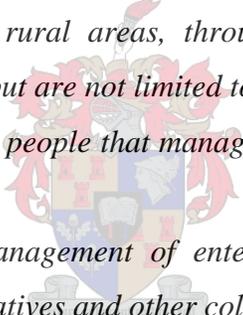
“... a process of social and political empowerment whose long term objective is to re-balance the structure of power in society by making state action more accountable, strengthening the powers of civil society in the management of its own affairs, and making corporate business more socially responsive”.

Empowerment, as asserted by Friedman (1996), places the emphasis on autonomy in the decision making of territorially organised communities, local self-reliance and experiential social learning.

The Department of Trade and Industry, as quoted in the F W de Klerk Foundation (2005: 1) , defines “Black Economic Empowerment” as follows:

*“BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country’s economy, as well as significant decreases in income inequality.”*

*Broad-based black economic empowerment (Broad-Based BEE) means “the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies, that include, but are not limited to:*

- 
- a) increasing the number of black people that manage, own and control enterprises and productive assets;*
  - b) facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises;*
  - c) human resource and skills development;*
  - d) achieving equitable representation in all occupational categories and levels in the workforce;*
  - e) preferential procurement; and*
  - f) investment in enterprises that are owned or managed by black people.”*

Therefore, empowerment is a process or a programme through which black people assert their humanity and dignity, and acquire, build and increase their participation in the ownership, management, employment, control and deployment of the economic, political and social resources of our country (Ramano, 2003: 7)

BEE, as mentioned in New Agenda (2001: 56) has been a consistent theme in ANC policy from at least the time of the Freedom Charter. Two of the Charter's main demands were: "The people shall share in the country's wealth" and "The land shall be shared among those work it". The goal of BEE has therefore been a central pillar of the democratic government's strategy for economic transformation.

According to the F W de Klerk Foundation (2005: 2) the political and constitutional transformation of South Africa in April 1994 represented only a part of the overall goal of the ANC's National Democratic Revolution (NDR). The ANC's 1969 Strategy and Tactics, as quoted in F W de Klerk Foundation (2005, emphasised that:

*"In our country – more than any other part of the oppressed world – it is inconceivable for liberation to have meaning without a return of wealth and land to the people as a whole. It is therefore a fundamental feature of our strategy that victory must embrace more than formal political democracy. To allow the existing economic forces to retain their interests intact is to feed the root of racial supremacy and does not represent even a shadow of liberation".*

The ANC Policy Guidelines of (1992) gave details of policies required to fundamentally transform the South African political and economic landscape. The Policy Guidelines stated that: "management of both the public and private sectors will have to be deracialised so that they rapidly and progressively come to reflect the skills of the entire population. Equity ownership will have to be extended so that people from all sectors of the population have a stake in the economy and power to influence economic decisions."

In its policy framework, Reconstruction and Development Programme (RDP), the ANC government set out the key development challenges among others creation of jobs; human resource development; provision of infrastructure; changes in ownership patterns and the reduction of inequality in society. The ANC government insisted that the central objective of RDP would be to deracialise business ownership and control completely through focused policies of Black Economic Empowerment" (RDP, 1994).

#### 1.4 Literature review

There is a limited in-depth scholarly literature written in terms of comparing South Africa's post 1994 economic restructuring to that of Malaysia. Esman (1987) addresses the development of the Afrikaner nation after 1948, in comparison to the development of Bumiputeras by looking at education, employment, and the advancement of Afrikaner entrepreneurship. Van der Westhuizen (2001) compares different strategies for Ethnic (or Racial) Redistribution With Growth (ERWG), as a model used by Esman (1987) to further look at how this strategy unfolds in those societies attempting either to continue, or pursue it amidst globalisation in both South Africa and Malaysia, at slightly different time periods, amidst the constraining features of a globalizing world order.

Hart (1994) acknowledges the fact that economic restructuring of Malaysia and South Africa occurred at very different moments in the history of the global economy. However he states that both case studies illustrate that under certain conditions, a heavily interventionist state can effect redistribution along ethnic/racial lines within the context of existing structures.

Southhall (1997) looks at the use of party dominance, in the case of Malaysia (UMNO) when it attained its independence from Britain, and South Africa (ANC), for development. Southhall's (1997) findings are that: the ANC appears far less in control of the possibilities for growth than was UMNO at the time it launched the New Economic Policy (NEP). On one hand, it must contain or meet majority impatience for redistribution and on the other hand, the increasing pressures of globalisation, which link growth to an opening of the economy, threaten to dilute its political sovereignty.

Given the similarities between South Africa and Malaysia in areas such as multi-ethnicity and preferential policies used to overcome socio-economic inequalities, it is important to do a comparative study between South Africa's BEE and Malaysia's economic empowerment model that look at the fundamentals such as education, employment, and business ownership, as to ensure broad based black economic empowerment.

## 1.5 Aims and significance

With its long colonial and apartheid history, South Africa's population has always been polarised with one relatively small, rich, powerful and mainly white minority, and a large, powerless, and mainly black majority. Since the advent of democratic dispensation in 1994, the country continues to face the challenge of transforming the economy, to ensure that it absorb the greatest number of South African majority is mainly controlled by a white minority, to benefit the black majority. Eleven years on, many sectors of the economy have not been fully transformed to reflect the demographics of the country's population. The government's BEE programme needs to be examined to determine to what extent it has benefited the majority of black people, as it was aimed.

In conducting this examination, the study compares South Africa's BEE to Malaysia's model of economic empowerment, which succeeded in empowering the majority of the Malay population through massive education and training, government employment, and business ownership. In detail this study will look at:

- (i) Higher education as a way of developing skills for the previously disadvantaged to ensure their active participation in the economy
- (ii) Employment equity as a way of creating opportunities for the majority of the population, and
- (iii) Increased black participation in the economy by means of business ownership.

Previous studies have shown a link between increased massive spending on education and training, government employment and business ownership can ensure the participation of the majority of people in the mainstream economy. Malaysia started its economic empowerment of the Bumiputeras after 1969 and it lasted for two decades. It is therefore important to look at what lessons and pitfalls can be drawn from Malaysia's experience. By doing so South Africa could be able to come up with a strategy that will ensure black economic empowerment benefits the majority of its population.

The central objective of this study is to evaluate the success of BEE in South Africa from 1994-2003, in the light of Malaysia's New Economic Policy (NEP) 1970 to 1990. BEE is

a broad subject, however, for the purpose of this study the focus will be on education, employment and black business ownership, as mentioned earlier on.

## **1.6 Methodology**

This study takes a qualitative approach to research. In doing literature review, different sources will be utilised. A comparative review of existing literature will be pursued. These include journal articles, books, magazines and newspaper articles, and electronic sources.

## **1.7 Chapters Outline**

*Chapter 2* gives a historical overview of Malaysia's political economy from 1957-1969 when it attained its independence from Britain to the outbreak of racial conflict, which led to a review of the Malay empowerment strategy through the implementation of the New Economic Policy from 1970 to 1990. This will be done by looking at poverty eradication and the restructuring of society.

*Chapter 3* will look at South Africa's programme of Black Economic Empowerment through its different waves in comparison to the implementation of the New Economic Policy as a mechanism to redress past, and argue that four areas that are of significance for broad-based empowerment are not central to current BEE policy positions.

*Chapter 4* will conclude chapter this study, assessing lessons and pitfalls that South Africa could draw from the Malaysian experience in seeking to strengthen the impact of BEE.

## Chapter 2

### Overview of Malaysia's Political Economy 1957-1990

#### 2.1 Introduction

This chapter contends that Malaysia used the NEP strategy to redress the imbalances created by British colonial rule. The NEP's aim was to eliminate the identification of race as an economic function, and specifically a target was set to have 30 per cent of share ownership in the hands of the Bumiputeras within 20 years. This chapter also looks at how education and employment were used as ways of advancing the Bumiputeras participation in the mainstream economy. The final part of this chapter looks at whether the NEP met the set goals and what were its consequences.

After Malaysia attained its independence from Britain in 1957 it faced the challenge of redressing economic inequalities between the Malays and Chinese. The Malays who formed the majority of the country's population were disadvantaged by previous policies, which mainly favoured the Chinese. The previous system favoured the Chinese minority at the expense of Malay majority by providing them with opportunities to enter the mainstream economy. The Malays were denied such opportunities and as a result they were locked outside the mainstream of the economy. This translated into huge inequalities between the Chinese and the Malays in areas such as education, employment and entrepreneurship.

After ten years of independence, Malaysia was still haunted by the problems of inequalities between racial groups, which were the result of past injustices. This led to the frustration of the Malays who blamed their backwardness on the Chinese, which eventually led to the 1969 violence committed against the Chinese. The challenge for the Malaysian government was to produce competent, capable and strong business leadership that largely focused on the development of Malay entrepreneurship and this was to be achieved through the New Economic Policy (Abdullah, 2001: 2). The NEP was aimed at uprooting the colonial legacy of inequality.

## 2.2 Background

Formerly, a British colony, Malaysia was under British rule that had a monopoly of lucrative international trade in Malaysia, and was the owners of major plantations and tin mines. The population of the country was divided into 3 visible groups namely: the politically ascendant Malays (49.8% of the population), the economically dominant Chinese (37.2%) and the ambiguously located Indians (11.3%) (Southall, 1997: 3). The ethnic differences almost automatically implied linguistic, religious, educational, social and economic differences, which in turn contributed to perceptual differences and differences in worldly orientations and ideal expectations. These factors provided great potential for ethnic conflicts of various dimensions with possible alarming consequences (Abdullah, 1997: 192).

British control over Malaysia lasted from the late eighteenth century to 1957. During this period, the British excluded the Malay people from the mainstream of commercial and industrial life. They further sought to preserve the Malay culture and customs along with the rural basis of the Malay economy, through the nurturing of the Malay elite drawn from the traditional aristocracy. When the British first set their foot in Malaysia, they recognised the usefulness of the Chinese and Indians. The Chinese who had immigrated during the later years of the nineteenth century to work in tin mines, had come to dominate local commerce, whilst the Indians had been imported, as civil servants technicians and labourers for the rubber estate. The Malays were pushed further away from the towns and urban centres. In the process, their political and economic status deteriorated in step with the ascendancy and economic power of the Chinese (Faaland et al, 1990: 9).

Malay nationalism emerged in the early twentieth century, and according to Abdullah (1997: 191) was the result of “a society which became increasingly politicised, either as a result of a nationalist movement against colonialism or as a by-product of electoral activity, which jealousy and discontent would exacerbate into a feeling or sense of unfairness and injustice”. It surfaced dramatically in 1946 when, after a short Japanese

interlude (1941-45), Britain attempted to introduce a Malayan Union which would be extended to all irrespective of race or origin, and where all citizens would have equal rights. Sovereignty was to be transferred from the Malay rulers to the British crown (Funston, 2001: 74). When the Malayan Union was announced by the restored colonial administration the usually quiescent Malay community was angered, not only by the actual provisions, but also by the overbearing manner in which the new constitutional reform had been introduced (Gribb, 2002: 724). It deprived the sultans of their sovereignty and the Malays of their privileges. They also objected to the Union's goal of providing citizenship with equal political rights to all the Malaysians irrespective of race. Malay opposition was brought together in a new political force, UMNO, with the primary purpose of opposing the Union. UMNO's key role in contesting the Malayan Union made the party the leading force in Malaya, with its support base in rural areas.

On the road to independence, the British adopted a deliberate policy of transferring power to the Malay political elite, one that would protect and perhaps prevent Chinese encroachment on its vast economic interests in the country. It was UMNO that headed the independence struggle with the cooperation of the Malaysian Chinese Association (MCA), which became known as the Alliance in 1954. This was expanded by incorporating the Malayan Indian Congress (MIC) in 1955. It lived on in an expanded form as the National Front (*Barisan Nasional or BN*) established in 1974, and which has since remained in power (Singh, 2001: 47).

### **2.3 The Independence of Malaya**

According to Van der Westhuizen (2001: 74), the constitutional package deal of the early post-independence period assumed that: i) an ethnic balance of power and ii) a high rate of growth would be able to deliver on two policy goals simultaneously. In evaluating this constitutional package he argues that "firstly, it would maintain the equilibrium between the Malay aspirations for progress towards parity with other communities as well as non-Malay desires to protect and enhance their living standards. Secondly, on the former being achieved, it would secure continued Malay and non-Malay endorsement of the

‘Great Bargain’ and thereby lay the political foundation upon which both the state and market could interact with stability. However, during the first decade of independence the state's relatively restrained role in the economy produced few changes and Malays remained poorly represented in most sectors of the economy. What was initially created as a package deal to address the inequalities created by the past failed to address Malays’ economic insecurities” (Van der Westhuizen, 2001: 74).

The Malays aspirations to improve their economic status did not materialize as expected. They believed that the beneficiaries of growth were the Chinese and that growth was not rapid enough to curb unemployment. Economic growth was largely confined to the modern sector, which bypassed the traditional sector where most Malays were employed (agricultural sector). This is what Eyre (1997) refers to as ‘uneven development’, which occurs when ethnic groups within the same political unit do not have equal access to political, economic and social sectors, an element with a potential to ignite ethnic tensions. People with limited access to economic opportunities tried to gain recognition, and those that have control strive to maintain their position. In such a situation identity becomes important – the ethnic group an individual associates with, or is perceived to be associated with - and may determine their access to certain positions within society. As each group defends or tries to improve its position in society, lines are drawn between different ethnic groups, which will be maintained or strengthened (Eyre, 1997: 125).

However, resentment was perhaps deepest in the Malay community who felt alienated from the mainstream economy. This growing resentment came to a dramatic head following the general elections in May 1969. During those elections, a counter electoral-pact by the predominantly non-Malay opposition parties saw the Alliance secure a parliamentary majority, yet the UMNO and the MCA lose a substantial number of seats. Race riots broke out in Kuala Lumpur after the general elections, in which Chinese and opposition parties appeared to have made significant electoral gains at the expense of the Malay dominated governing coalition. Officially, 196 deaths were reported over a period of two and a half years, which some believe to be an understatement. The ratio of non-

Malay deaths to Malay deaths was about six to one. There were, officially, 409 reported injuries (Milne& Mauzy, 1999: 21). Bowie (1994: 170) argues that, the violence of this response to the apparent electoral ascendancy of opposition Chinese ethnic parties reflected deeper insecurity within Malaysian society. To restore order, the constitution was suspended and a national emergency declared. Parliament was reconvened after twenty-one months of National Operations Rule (NOR) in February 1971.

The poorer Malays' experienced relative deprivation and felt that political power was meaningless without economic power, which lay in Chinese hands and reflected in their control of the finance, trade and commerce and primary industries. Conversely, the non-Malays were especially cynical about the states provision of 'public goods' which, given the in-built ethnic bias, were often interpreted as Malay 'private goods', as in the allocation of scholarships and educational placement and recruitment in the armed forces, police and civil service (Singh, 2001: 50). This led to the state being incapable of gaining adequate legitimacy from the different ethnic groups within Malaysia. In the eyes of non-Malays, its impartiality was undermined by the preference shown to the Malays; yet this did not endear them fully to the Malays. A new policy was designed to fast track the economic participation of the Malays.

#### **2.4 New Economic Policy**

In seeking to regain support and reinforce its legitimacy, as argued by Case (1995: 95), the state undertook massive projects of economic development as a response to the riots. The project sought to redistribute wealth and to effect national integration through social policy. Case (1995) argues that, the NEP extolled Malay indigenism by dusting off Bumiputera ("sons of the soil") legal classification and vastly upgraded special rights through the New Economic Policy (NEP) adopted in 1971. This was an ambitious twenty-year plan covering the period 1971-1990, with the aim of redistributing wealth among ethnically diverse groups to reduce and eventually eradicate poverty (from 49.3% in 1970 to 16.7% in 1990), and restructure society. The need to restructure Malaysian society in order to do away with the identification of race according to economic activity.

For instance, Malays as paddy cultivators, Indians as rubber tappers, and Chinese as businessmen (Case, 1995: 95).

To meet the NEP objective, the government spelled out a new role for the Malaysian state as the guardian of the economy. In contrast to the *laissez-faire* colonial and post-independence state, which only ensured the growth of Chinese economic interest, the state began to play a highly interventionist role in the economy under the banner of the NEP which was launched with the purpose of increasing Malays' participation in the economy. The NEP part of the overall strategy was to re-unite and rebuild the country with the objective of creating prosperity for all Malaysians, so that no community would experience a sense of loss and deprivation. The NEP fashioned the central role for the state to make up the economic deficit of Malay nationalism and it aimed to raise the Malay stake in the corporate sector which amounted to only 2.4% in 1969 to 30% within a period of twenty years (Happer, 1999: 368). The first phase of the NEP, summarized this basic philosophy:

National unity is unattainable without greater equity and balance among Malaysia's social and ethnic groups in their participation in the development of the country and in the sharing of the benefits from modernization and economic growth. National unity cannot be fostered if vast sections of the population remain poor and if sufficient productive employment opportunities are not created for the expanding labour force (Faaland, et al 1990: 14)

The NEP equally stressed the important objective of uplifting the economic status of the Malays, in line with the spirit and intent of the "Great Bargain" and the constitution (Faaland, Parkinson and Saniman, 1990: 14). The priority was to shift and integrate the Malays into the mainstream of development of commerce and industry and prevent them from becoming permanently marginalized in the "backward" sectors of the economy, such as agriculture. This entailed some modernization of rural life by improving the living conditions of the poor in urban areas through the provision of a wide range of social services including public housing, electricity, water supplies, sanitation, transportation, health and medical services and recreational and community facilities

(Milne & Mauzy, 1999: 51). Meeting the basic needs of the Malays depended on the central role of the state.

The NEP emphasized a central role for the state to make up the economic deficit of Malay nationalism aimed at:

...accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. This process involves ...the creation of a Malay commercial and industrial community in all categories and at all levels of operation, so as that Malays and other indigenous people will become full partners in all aspects of the economic life of the nation (Bowie; 1994: 171).

#### **2.4.1 Malay Poverty and Inequality**

In the early years of independence, each ethnic group was defined according to economic functions. The economic activities of the Malays were largely subsistence agriculture and fishing. The Chinese were involved in commerce and the modern sectors of the economy, while the Indians were labourers in the rubber plantations. In 1973, 55% of the Bumiputera population were poor as compared with 20% of the Chinese and 28% of the Indian population; and 78% of all poor were Bumiputera (Roslan; 1996: 26) (See Table 1). Table 1 shows household income as an indicator of income inequality. In 1957/58 the Malays had the lowest mean monthly income (US\$139) compared to the Chinese (US\$300) and Indians (US\$237). By 1970, Malay households still had the lowest mean income (US\$177), while Chinese mean income (US\$399) was almost twice that of the Malays (Searl, 1999: 34). The NEP aimed to increase the productivity and income of all those engaged in low productivity rural and urban occupation by increasing their access to opportunities through the development of skills, access to land, as well as capital and other necessary inputs.

Malay poverty was the outcome of large disparities in income, employment and ownership of wealth. The majority of the Malays lived in rural areas and were engaged in

the least productive sectors of the economy which further exacerbated Malay poverty. Thus programmes to alleviate rural poverty by boosting the rural economy were thought to benefit the Bumiputera population as a whole.

**Table 1: Mean income and shares in income growth, by ethnic group, 1957/58-1970 (Malays, Chinese and Indians only)**

Ethnic group	Mean income per household (US\$/month)		Income growth, 1957/58-70		Total personal income (US\$ million/year)		% share of increase	
	1957/58	1970	In US\$/month	In %	1957/58	1970		
Malays	139	177	39	28	1008	1954	946	41
Chinese	300	399	100	33	1299	2426	1127	49
Indians	237	310	74	31	358	673	315	14

Source: Roslan (1996: 26)

The strategy to reduce poverty consisted of three major components. The first was to improve the quality of life of the poor by improving the provision of social services such as housing, health, education and public utilities. The second was to increase the income and productivity of the poor. This was to be achieved through expanding people's productive capital and utilising it efficiently by adopting modern techniques and the provision of better facilities such as arable land, financial and technical assistance and finally to increase employment opportunities for Bumiputera's.

Among the important measures taken by the government to further its objective was to further develop various economic and social institutions to perform special functions. Government agencies that already existed in the 1960s to assist the Bumiputera's empowerment such as Federal Land Development Authority (FELDA), Peoples Trust Council (MARA), Food and Marketing Authority (FAMA) and Malaysian Agricultural Research Development Institute (MARDI) were supported with huge funds to implement and accelerate rural development.

Besides the existing government agencies, as mentioned in Roslan (1996: 9), new agencies such as Rubber Industry Smallholders Development Authority (RISDA), MAJUIKAN (Fisheries Board) and MAJUTERNAK (Cattle Board) were established to increase and productivity of the Bumiputera. In addition, Urban Development Authority (UDA) and State Economic Development Corporations (SEDCs) were also set up to carry out commercial and industrial projects, which in turn would allow and encourage greater participation of the Bumiputera in these activities and hence induce them to move from rural to urban areas.

Credit facilities, advisory services and the physical infrastructure such as shops and houses were also provided through agencies such as MARA, Malaysian Industrial Development Foundation (MIDF), Credit Guarantee Corporation (CGC) and Bank Bumiputera. The establishment of PERNAS in 1970 was instrumental in increasing the participation of the Bumiputeras in the economic transformation of Malaysia. PERNAS was responsible for buying and developing companies and holding them in trust for the Bumiputera and later selling them to private Bumiputera interests (Roslan, 1996: 13).

The NEP has been successful in reducing poverty beyond its target (See Table 2). In 1970 the incidence of poverty in Peninsula Malaysia was 49.3%, by 1990 it had been reduced to 15.0%, an achievement beyond the target of 16.7%. The incidence of poverty was highest among the Malays (65.0%), followed by Indians (39.0%) and Chinese (26%)

in 1970. By 1990 poverty had declined among all three races: it was 20.8% for Bumiputera, 8.0% for Indians, and 5.7% for Chinese (Roslan, 1996: 16).

Although poverty reduction was achieved, it also had unforeseen consequences. The government viewed poverty in absolute terms (in relation to poverty line), rather than in relative terms, for example inequality in terms of income. With such a conception of poverty, income inequality could grow even as the poverty rate declined if the economy registered high growth (Gomez & Jomo, 1997: 27). Much of the reduction in poverty has been due to economic growth and increased productivity, rather than more equitable redistribution of capital or land.

**Table 2: Incidence of Poverty in Peninsula Malaysia: Targets and Achievements of NEP**

	1970	Target 1990	Achieved 1990
Peninsula Malaysia	49.3	16.7	15.0
Rural	58.7	23.0	19.3
Urban	21.3	9.1	7.3
Bumiputera	65.0		20.8
Chinese	26.0		5.7
Indians	39.0		8.0
Others	44.8		18.0

(Source: Roslan, 1996: 17)

## 2.5 Restructuring of society

Despite some impressive gains in poverty reduction, the overwhelming emphasis of the NEP had been on the restructuring of society, especially enhanced education, employment and Malay share ownership. A central purpose of the NEP was to accelerate

Malay share ownership from 2.4% in 1970 to 30% by 1990. Malays owned only 2.4% of the share capital of limited companies – that is, companies big enough to be organised as corporations. Chinese owned 22.8% and Indians less than 1%. About 62% was foreign owned (Klitgaard & Katz, 1983: 335). The NEP aimed to create an educational system which ensured the advancement of the Malays and established specific targets for Malay shares in employment and ownership in the industrial sector. Education and employment as well as share ownership played a critical role in this regard. In a modern economy, education and training are often seen as the principal means for ensuring social mobility and equality of opportunity.

### **2.5.1 Role of Education**

Although the Malays formed the majority of the population, their inadequate educational qualifications did not allow them to participate in the expanding job opportunities that were opened in both the public service and commercial organisations. Furthermore the Bumiputera's lacked control over capital, thus education had to constitute an important avenue for achieving equivalence of status with the other racial groups.

Among the ethnic communities of Malaysia, the Malays, who were predominantly rural, have traditionally had less formal education than their Chinese and Indian counterparts. The education that colonial government prescribed for the Malays locked them into the low-income strata. Their low educational qualifications were not compatible with the needs of the country's economy. The education that the colonial government provided for the Malays equipped them only for cheap labour. Therefore, as mentioned by Lee (1999: 87), "education was seen as an instrument for promoting and strengthening national integration by inculcating a common and shared destiny among the different ethnic groups, removing racial prejudices and encouraging cultural tolerance, and establishing the use of a common national language. Thus as an agent of social equality, education is to promote social consciousness and social justice by providing equal educational opportunities".

Since independence in 1957, education was given a central role in the new development strategy. It was regarded as a vehicle to modernise society and attain social goals, as well as way to achieve equal opportunities for all and promote national identity. (Faaland, et al 1990: 58). In the *Second Malaysian Plan 1971—1975*, the government made clear its intention to use the education system to improve social cohesion. The search for a national identity and unity involved a range of economic, social and political activities including the formulation of educational policies designed to encourage common values and loyalties among all communities and in all regions. ([http://www.education.monash.edu.au/units/edf6701/study\\_centre/pdf/Module\\_6.pdf](http://www.education.monash.edu.au/units/edf6701/study_centre/pdf/Module_6.pdf))

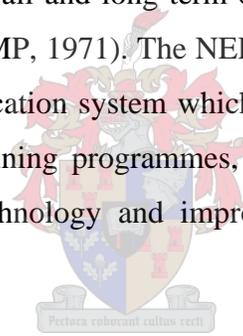
The process of educational expansion was considerably accelerated after independence. The federal budget for education increased from \$M86.3 million (Malaysian Dollar which was later renamed to Malaysian Ringgit) in the last year of colonial government to \$M186.3 during the first year that the newly elected independent government had budget authority. Substantial educational expenditure on education continued to increase absolutely and relatively (Hirschman, 1979: 77).

The process of educational expansion was further enhanced with the establishment of the Science University of Malaysia in Penang in 1969. In 1970 the National University was established followed by the Universities of Agriculture and Technology in 1971 and 1972 respectively. During the same period several technical colleges were started and among the most prominent was the Majlis Amanah Rakyat (MARA), or the Council of Trust for the Indigenous People) whose primary purpose was to train the Malay people in the field of science and technology. These institutions equipped people with the necessary skills, which made them employable under the government's preferential employment. There were also differences in access to capital as well as in educational attainment and the employment pattern, both sectorally and occupationally. The pattern of employment was strongly influenced by the level of educational attainment with the Bumiputera being more concentrated in the lower than in the higher occupational categories.

The main purpose of Malay preference in education was to promote cadres of young Malays with the motivation and skills to take advantage of the opportunities that government has opened for them in the professional and managerial ranks of government and modern economic enterprises. The expansion of educational provision led to a rapid increase in the level of Malay education and training that has enabled a much higher participation in the modern sectors of the economy, and these changes contributed to a substantial reduction in educational inequality (Esman, 1987: 403). Higher education played a central role in this regard.

### **2.5.1.1 Higher Education**

A key element of the NEP has been a massive spending not only on agriculture and rural infrastructure, but also on education and training. One of the early government publications to document the overall and long term objectives of education in Malaysia was the Second Malaysia Plan (2MP, 1971). The NEP objectives in the Second Malaysia Plan, focus on four areas: an education system which promotes national integration and unity, expands education and training programmes, improves the quality of education towards modern science and technology and improved research and implementation capability.



The NEP aimed to create the personnel to manage the economic transition by increasing the presence of the new generation of Malays in higher education. As a way of speeding up changes in the economic imbalance, “a state-sponsored mobility system through tertiary education as a major catalytic agent of change was incorporated into the NEP. These included educational subsidies and loans, quotas, exclusive admission to certain institutions, usage of the Malay language in classroom instruction, and guaranteed employment for ethnic Malays with credentials” (Selvaratnam, 1988: 180).

To effect changes in economic imbalances, a major shift in the higher education policy was conceived and implemented. This policy was initiated by the *Report of the 1956 Education Committee Appointed by the National Operations Council to Study Campus Life of Students of the University of Malaya*. The report pointed out that, “the

composition of the student population has not reflected the composition of the nation as a whole and does not reflect it when considered on a faculty by faculty basis, particularly the science based faculties” (Selvaratnam, 1988: 180).

Educational policies were pursued under the NEP’s, National Education Policy which reflected two related goals: to establish a national system of education, and to make the Malay language the national language, as well as the medium of instruction in all government schools, colleges and universities. This was to make education more accessible to Malays, less good in English. Under the policy English was dropped from being one of the two national languages, and the Malay language (Bahasa Malaysia) became the sole official language of the country (Suet-Ling, 1995: 3).

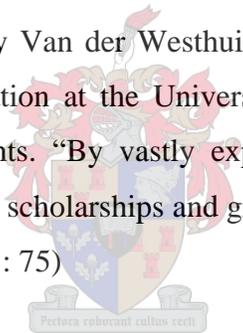
Higher education was expanded and made more accessible through affirmative action embodied in the NEP. A quota system was adopted. The policy required that 55 percent of places in public universities had to be reserved for Bumiputeras. Based on the recommendations made by the committee in the report, the provisions of the Constitution (Amendment) Act of 1971 and the Universities and University Colleges Act of 1971, Article 153 was amended to ensure that students were admitted to Malaysian universities based on racial quotas. It was through this system that Malays, who made up the majority of the population, got most places in institutions of higher learning. Malay students were encouraged to enrol in fields like by sciences and science-based professional and technical courses like medicine, dentistry, engineering, and pharmacy, which were considered to be predominantly occupied by non Malays.

Malay preference, which had always prevailed in the awarding of scholarships, became official policy. According to Chan Wang (1978: 472), the overwhelming majority of university scholarships were awarded to Malays. This preference went beyond financial support, the constitution of the University of Malaya required that the university admit any recipient of a government scholarship as long as they met the minimum entry requirements. Almost four out of every five university scholarships were awarded to Malay students. This provision allowed many Malay people access to education and

thereafter better opportunities for employment and commercial activities in the country's economy (Suet-Ling, 1995: 4).

The education provisions kept Malay and Chinese children apart, because they continue to be educated in different institutions and different languages. Not many Chinese go to national universities either, partly because of the language issue, but mainly because there is a quota system. Although this has been relaxed in recent years, the Chinese are far more likely to send their children to university, and those who go need much better grades to be sure of a place. The solution has been for tens of thousands of young Chinese Malaysians to be sent to study abroad, at great expense. For the Malays, the consequent decline in the standard of English has become quite marked. Also, the quality of students has dropped as merit has ceased to be the only entry selection criterion.

In the late 1960s, as mentioned by Van der Westhuizen (2001: 75), Malays comprised only 25.4% of the student population at the University of Malaya, with 58.9% being Chinese and 13.9% Indian students. "By vastly expanding the university sector and lowering educational requirements, scholarships and grants were provided to nearly every Malay" (Van der Westhuizen, 2001: 75)



**Table 3: Enrolment at local state institutions of higher education, 1980 and 1985**

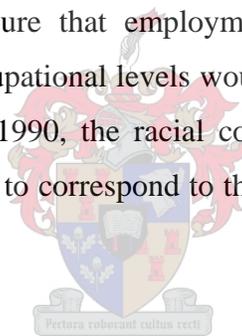
Level	1980			1985		
	Bumi	Total	Ratio	Bumi	Total	Ratio
Certificate	1590	2152	74%	4519	5656	80%
Diploma	11421	11850	96%	23560	24091	98%
Degree	13604	20192	67%	23838	35692	67%
All levels	26615	34194	78%	51917	65439	79%

Source: Tzannatos (1991: 184)

In all local state institutions of higher education the percentage of Bumiputeras increased from 78 to 79% between 1980 and 1985 (See Table 3). During this period the university enrolments were far more reflective of the national population (Tzannatos, 1991: 184). The increase in the number of Malays in higher education was crucial for skills development and consequently employment.

### **2.5.2 Employment**

Emsley (1996: 43) asserts that, to eliminate the identification of race with economic function requires not only an increased supply of Malays with appropriate education and training, but also a supply of jobs in the modern sectors of the economy in which they can slot. The employment structure, which originated in the colonial period had confined Malays to the agricultural sector of the country's economy. The objective of restructuring employment patterns was to ensure that employment in the various sectors of the economy and employment by occupational levels would reflect the racial composition of the country. This meant that by 1990, the racial composition of employment in each occupation ought to have changed to correspond to the racial composition of the country (Takashi, 1997: 213).

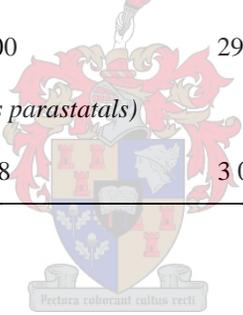


In 1967, the Chinese made up 60% of those employed in the secondary or industrial sector (mining, manufacturing and so forth). Within each sector professional, technical, and managerial jobs were predominantly held by Chinese. The Malays comprised 75% of those working in agriculture and were heavily over-represented among small farmers and fishermen (See Table 4). The table below demonstrates the high proportion of Malays in the traditional rural sector and the low proportion in the urban modern sector. Thus the aim of government policy on employment was firstly, to manage the economy to ensure the growth of the modern private sector which would create jobs directly and via the tax revenues it provided; allow for the expansion of the public sector. Second, it would ensure that Malays obtained a high proportion of these jobs by the use of quotas and other administrative mechanisms. The Malays were thus granted special treatment in public service employment.

**Table 4: Employment and value added by sector, Malaysia 1967**

Sector	Value added per worker		Employment	
	Malay as a %		Thousands	Malay as a % of non-Malay
	Total	of non-Malay		
Modern rural <i>(estate agriculture &amp; large-scale mining)</i>	3 785	88	351	29
Traditional rural <i>(peasant agriculture &amp; small-scale mining)</i>	1 214	79	1 255	74
Modern urban <i>(modern industry, trade and commerce)</i>	4 885	80	535	27
Traditional urban <i>(informal sector activities, petty trading &amp; artisan activities, servants, the underemployed)</i>	1 675	71	562	25
Government <i>(includes education &amp; health, but excludes parastatals)</i>	2 400	100	297	62
<b>Total</b>	<b>2 375</b>	<b>58</b>	<b>3 000</b>	<b>50</b>

Source: Emsely (1996: 36)



In some multi-ethnic societies, as argued by Esman (1987), it is common practice that one ethnic group will empower itself at the expense of the other. As a way of reducing disparities between groups as a result of past injustices, affirmative action policies are applied in such cases. Affirmative action is defined as the set of public policies and initiatives designed to help eliminate past and present discrimination based on race, colour, religion, sex, or national origin (<http://www.now.org/nnt/08-95/affirmhs.html>).

According to Emsely (1996: 11), affirmative action should be considered in two dimensions broad affirmative action which seeks to reduce disparities by creating equality of opportunity (education, employment, ownership), whereas narrow affirmative action tends to create equality of outcome within organisations. Thus affirmative action

means positive steps taken to increase the representation of those who were previously excluded in areas of employment, education and business.

In the *Third Malaysian Plan 1976-98* (TMP) the government recognised the problem of unemployment among the Malay population. The TMP, as alluded by Emsely (1996: 11), stated that new employment opportunities would be created by means of land development, the establishment of growth centres and the provision of greater access to water supplies, credit and markets accompanied by greater provision of electricity and other public services. The urban poor were to be helped by expanded employment in manufacturing and construction and with the promotion of small-scale industries.

The affirmative action policy on employment aimed at forging a racial balance among employees in all sectors. The major policy instrument to attain this objective was training programs and hiring and promoting Malays into government and private sector jobs. This resulted in large numbers of Malays achieving mobility into the modern sector of the economy. Through its policy of affirmative action, the NEP succeeded in redressing occupational imbalances that existed at the time of independence (See Table: 5).

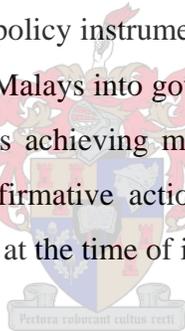


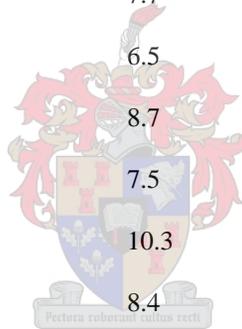
Table 5 illustrates an increase of Bumiputera professional and technical occupations (about 64.3%) followed by the Chinese (26.2%) and Indians (7.3%). Other categories like clerical and administrative workers also show a high percentage of Bumiputeras. Bumiputeras predominate as both agricultural workers (63.1%) and as production workers (44.8%).

Despite the progress made under the NEP to restructure the employment pattern so as to reflect the ethnic composition of the population, imbalances in employment continue to exist at the professional and managerial as well as technical and skilled occupations. Although Bumiputera employment in the manufacturing sector had increased occupation to about 50.3% of the total in 1990, they were concentrated at the lower levels.

Bumiputera's accounted for only about 26% of the total professional and managerial employees and about 36% of the total technical and supervisory employees in this sector ([http://www.epu.jpm.my/Bi/dev\\_plan/opp2/bab403.htm](http://www.epu.jpm.my/Bi/dev_plan/opp2/bab403.htm)).

**Table 5: Employment by Occupation, 1995 (Percentages)**

	<b>Bumiputeras</b>	<b>Chinese</b>	<b>Indians</b>	<b>Others</b>
Professional & Technical	64.3	26.2	7.3	2.2
Teachers & Nurses	72.3	20.5	6.6	1.6
Managerial	36.1	54.7	5.1	4.1
Clerical	57.2	34.4	7.7	0.7
Sales	36.2	51.9	6.5	5.4
Service	58.2	22.8	8.7	10.3
Agriculture	63.1	12.9	7.5	16.5
Production	44.8	35.0	10.3	9.9
Total	52.4	30.3	8.4	8.9



Source: Saravanamuttu, (2001: 35)

A major problem in employment restructuring was the supply of skilled manpower in the various fields. Despite sizeable public investments in education, the availability of qualified and skilled Bumiputera professionals and workers was inadequate, in part, due to the limited success of Bumiputera students, particularly those from rural areas on account of their high attribution rate compared to the non-Bumiputera. This was due to various factors, namely, limited accessibility to modern educational facilities and quality education, low family incomes, lack of proper nutrition and social environments which were not conducive to effective learning. Both education and employment were crucial in making sure that a sizeable Malay population took part in share ownership.

## **2.6 Malay share ownership**

The NEP called for the attainment of the 30:40:30 target in the ownership of corporate equity by 1990, that is 30% equity in Malay hands, 40% for non Malay, principally Chinese, and 30% for foreigners. The architects of the NEP hoped to meet those targets in the context of a rapidly expanding economy, thereby increasing the relative Malay share of the modern sector without causing an absolute decline in non-Malay (foreign involvement) participation (Searl, 1999: 67).

Attempts made by the government to develop government-sponsored support programmes were meant to enable Bumiputera entrepreneurs to form part of the business community. The Fourth Malaysia Plan (1981-85) provided a comprehensive listing of guidelines for Bumiputera entrepreneurs. The most important one was the promotion of Bumiputera entrepreneurs in business and commercial activities, which was considered as an integral part of the overall national development towards eradicating poverty and reducing the identification of race with economic function (Abdullah, 2001: 11).

The share of the restructuring increased over time, particularly in the Fourth Malaysia Plan. To ensure that no other sections of the community would be deprived as a result of implementation of the NEP, the restructuring objective would be carried out in the context of rapid economic growth, largely by relying on foreign investment. According to Henderson, et al (2002: 15) foreign investment and industrial development have remained institutional constants in their respective mandates and positions in the structure of economic governance. Thus, rapid economic growth was paramount to realise the NEP's objectives. During the 1970s, Malaysia experienced a remarkable high economic growth rate. The economy was growing at an average annual growth rate of 8.3%. Although the economy was in recession in the 1985-1986 period, it recovered in 1987 and the GDP growth has been sustained at roughly more than 8.0% annually. The World Bank (1993) cited relatively low and stable prices, as well as low and declining unemployment rate as the sustenance of GDP growth rate. Also, rapid structural transformation of the economy through the declining contribution of agriculture to GDP from 29.0% to 13.5%,

while the contribution of manufacturing sector increased from 13.9% to 33.1% between 1970 and 1995. This rapid growth was also reflected in the increase in per capita income. It was merely RM721 in 1960 (Bank Nagara Malaysia, 1994), but increased significantly to RM6099 in 1990 (Roslan, 1996: 15).

The Malaysian government bought numerous foreign owned firms. The Malaysian government created two major institutions to promote equity ownership restructuring. The first was based on the Industrial Coordination Act (ICA) of 1975 and the second one Permodalan Nasional Berhad (PNB) (*National Equity Corporation*) was aimed at increasing the share of equity ownership held by Malay individuals.

### **2.6.1 Industrial Coordination Act**

Private companies of certain sizes were compelled to restructure in terms of racial quota at all levels. A special legislative enactment to this effect, the Industrial Coordination Act (ICA) of 1975 was created. The intention of the act was to control the growth of the manufacturing sector to ensure the advancement of the Malay interests in that sector. The ICA stipulated that all manufacturers must obtain a licence except those with capital of less than \$100 000 and less than 25 full-time employees (Searle, 1999: 43).

The ICA required all enterprises with equity over a certain limit to sell their 30% of shares to Bumiputera's. This meant that large companies with capital and employment above a certain limit were also required to restructure their ownership to ensure Bumiputera's participation either through individual involvement or trust agencies. Another important feature of the Act was the wide powers given to the Minister to grant or refuse a licence in the "national interest". Conditions contained in the Act left no doubt that the "national interest" required manufacturers to ensure that they fulfilled the NEP's requirement of 30% Malay employment and ownership participation (Searle, 1999: 43-44). Its most deleterious effects however, was probably due to the fact that it introduced so much uncertainty into business planning that it was a disincentive against which all

forms of incentive appeared unattractive. This was particularly the case with respect to foreign investment. Another way, in which share equity ownership was incurred, was through Permodalan Nasionale Berhad (PNB) (Gomez & Jomo, 1999: 246).

### **2.6.2 Permodalan Nasionale Berhad**

After creating NEP enforcement systems under the ICA, the Malaysian government proceeded to tackle the next task raising the equity ownership share of Malay individuals. Under this system, stock shares of well-performing companies already obtained by the government and public corporations would be transferred to the state owned holding company Permodalan Nasionale Berhad (PNB) (*the National Equity Corporation*). The need to establish the PNB emanated from the need to expedite Malay corporate ownership of the economy, which was falling behind the targets set. This corporation was designed to accumulate wealth on behalf of the Bumiputeras and its main function was to select and acquire shares in companies. During the 1980s the PNB became Malaysia's leading trust agency and made a substantial contribution towards increasing Bumiputera ownership and participation in the corporate sector.



Public enterprises were to participate much more in “modern sector” activities such as finance, commerce, and industry, previously the exclusive domain of private enterprise. These new public enterprises included government-owned private or public limited companies like property developer Peremba Bhd and food processor Food Industries of Malaysia Bhd, whose equity holdings were either fully or partially held by government (Gomez & Jomo, 1999: 248).

Malaysia began to implement policies to achieve 30 percent Bumiputera ownership of modern sector assets. Accordingly, all new public share offerings had to reserve at least 30% for Malays. By 1990, public-sector asset accumulation on behalf of Bumiputeras, government regulation of business opportunities and investments, preferential policies for Bumiputera businesses had all helped to augment Bumiputera equity in the corporate

sector (Gomez & Jomo, 1999: 251). Bumiputra share equity in listed share corporations rose from 2.4% in 1970 to 18% in 1983, and 19.3% in 1990 a remarkable increase despite being short of the NEP's 30 per cent target. Of this 19.3%, Bumiputera individuals held 14.2 per cent (See Table 6).

**Table 6: Ownership of share capital of Malaysia limited companies, 1970-1995 (per cent)**

	1970	1990	1995
Bumiputera	2.4	19.3	20.6
Individuals and Institutions	1.6	14.2	18.6
Trust Agencies	0.8	5.1	2.0
Non-Bumiputera	28.3	46.8	43.4
Chinese	27.2	45.5	40.9
Indians	1.1	1.0	1.5
Others		0.3	1.0
Nominee	6.0	8.5	8.3
Foreigners	63.4	25.4	27.7

Source: Gomez & Jomo (1997: 251)

By the end of 1990, PNB held shares in 162 companies, 107 of which were publicly listed. The corporation's assets in 1990 included 55% of Malayan Banking Bhd, Malaysia's largest banking group, 93% of Kumpulan Gunthrie, 65.5% of Golden Hope Plantations Bhd, 28% of Sime Darby, 55% of Island & Peninsula, and 50.5% of Malaysian Mining Corporation (Gomez & Jomo, 1997: 38).

## 2.7 Assessing the success and shortcomings of the NEP

During the NEP period, Malaysia experienced a remarkably high economic growth rate. The economy was growing at an average annual growth rate of 8.3%. The reason, as cited in Hart (1994: 48), why timing in relation to the international economy had been so important was that the NEP coincided with the OPEC oil price rise. Because of Malaysia's exporting earnings, the surge in government revenues played a decisive role in enabling what was essentially a redistributive from incremental income rather than a reallocation of existing resources and property rights. This high growth rate could be attributed to favourable global conditions, like stable oil prices. The Malay share of corporate equity grew from 2.4% in 1970 to 20.3% in 1990. In other words, Malay holdings increased from a negligible \$125.6 million in 1970 to \$22.3 billion in 1990, an increase of about 18-fold. Of the 20.3% corporate equity held by Malays in 1990, 14% was held by Bumiputera individuals and enterprises and 6.3% by trust agencies such as PNB, PERNAS and SEDCs (Searl, 1999: 67).

While the NEP was successful in reducing poverty amongst the Malays, intra-ethnic (among-Malay) inequality increased. The success of the NEP resulted in the Malays becoming less economically homogeneous as before. Class divergence began to appear. For example, a Malay urban working class, a Malay middle (professional) class and also a Malay business (capitalist) class emerged. It has been alleged that people who were close to the ruling party (UMNO) were the ones who mostly benefited from the NEP prescriptions (Roslan, 1996: 20).

The instruments of the NEP were unable to challenge the emerging levels of intra-ethnic (among-Malay people) inequality. The political rhetoric of ethnicity was unable to articulate the interests of all the factions that existed within the Malays. The failure to address this intra-Malay distribution issue brought major political crisis that Malays still grapple with. It might also partially explain the 1999 general elections, where some of the Malays voted against UMNO. The NEP policy now no longer drew the considerable support as it did before (Roslan, 1996: 20).

Some commentators argue that the NEP led to rent-seeking behaviour. Gomez & Jomo, (1997) are of the view that since the 1980s government policies to assist Malays tended to favour larger business interests rather than smaller companies. “Larger, politically well-connected enterprises have enjoyed better access to government-created rents as business size and political influence have interacted as part of the new Malay idiom of power in contemporary Malaysia. Small Malay enterprises have to compete with companies owned or controlled by politicians which are generally assured of favourable government treatment” (Gomez & Jomo, 1997: 49).

According to Financial Mail (2002), influential Malays used government quotas and incentives schemes to obtain preferential treatment for themselves and their families and friends. They also used their preferential access to subsidies, licences, and contracts and to operate in close alliance with wealthy Chinese through the so-called Ali-Baba arrangements. Through this arrangement, some Malays merely obtained the licences, permits, shares or contracts and immediately sell them off to non-Malays, mainly the Chinese. They learned nothing of business and became even less capable of practising it and earning an income. Having sold, they no longer had anything to do with business. They then go to government for more licences, permits and shares. Elements of this rentier class also ally themselves with foreign capital in exchange for directorship, joint ventures, and other benefits (Financial Mail, 2002: 29).

This enabled their enterprises to do well in areas of business. For this reason Tipton (1998: 320) argues that “trust agencies, which were intended both to provide capital for Malay enterprises and broaden ownership of assets in the Malay community, were in fact largely unaccountable to their shareholders, and they provided a conduit for the distribution of patronage and a source of funds for those in control. A few large corporations mostly foreign-owned, controlled the major portion of financial assets and production in the mining, plantation, and manufacturing sectors. Local ownership of these corporations was highly concentrated in the hands of a few wealthy families, and

Malay directors (some 12 per cent of the total) generally had political or civil service backgrounds and held honorary or hereditary titles” (Tipton, 1998: 320).

Gomez & Jomo, (1999: 248/9), concur that almost all the prominent Malay business people made a dramatic leap into a corporate world through an initial windfall obtained from state concessions. Timber, construction and mining concessions were the most common entry points, and increasingly the purchase of shares was the important avenue for upward mobility.

On the negative side “the vulnerability of public enterprises to patron-client influences led to a dependency on government by Malay businessmen and at the same time limited the capacity of some public enterprises-particularly those obliged to provide loans and other forms of assistance to Malay businessmen, such as MARA and UDA-to create a ‘genuine class’ of Bumiputera traders. They lacked a competitive, entrepreneurial ethos, which had the effect of impeding profitability, while remaining immune from financial discipline and competitive market forces” (Searl, 1999: 14). Losses or low profits and wastage of investments resources increased the government fiscal burden and slowed economic growth. For instance, in 1984 The Ministry of Public Enterprise could only report annual returns of 269 out of total of 900 public enterprises; their accumulated losses came to RM 137.3 million (Supian in Gomez & Jomo, 1999: 248). This led some commentators to argue that, with the NEP the state no longer merely played a supportive role for private capital, it moved to centre stage to become a medium for capital accumulation serving the particular interests of the governing class.

By the early 1980s the growing number of Malay businessmen created by the NEP had become an increasing important element in the Malay political elite. The composition of which gradually changed from being politicians and administrators to a combination of politicians and businessmen. The UMNO’s changing social base had an effect on the relationship between politics and business. The politicians became not only more

interested in the business of politics but also increasingly knowledgeable in the art or the politics of business, particularly, in the business of rural development-generating income, wealth and influence from projects related to rural development programs. In view of the fact that most of these development projects were infrastructural in nature, they involved large amounts of construction, an industry dominated by Chinese. Tenders and contracts for these projects were awarded to UMNO politicians but eventually subcontracted to Chinese companies. The former received a certain percentage from the latter, literally for doing nothing, (Shamsul, 1997: 248).

After the 1970s the NEP produced business opportunities and inevitably increased the stakes in the struggle for power in the UMNO. The ambitions of those in the middle and business classes vying to climb the UMNO hierarchy compelled them to use their business influence, especially control over media, to expose various types of transgressions, both moral and legal, to discredit their opponents. For instance, there have been numerous exposes orchestrated by some members of the UMNO in the mainstream press of corruption and conflict of interest involving some UMNO leaders. The scandal involving Rafidah Aziz (the former minister of international trade and industry) in which she allegedly abused her position to channel worth of equity shares reserved by the government for Bumiputeras to her family members. It is believed that this expose was highlighted by Anwar Ibrahim's (deputy president of UMNO) controlled media (Gomez & Jomo, 1999: 257).

Success in the party elections and the chance to be a member of parliament also opened the way to commercial opportunities. The distribution of economic favours also contributed to growing ties between business and politics. The development of this phenomenon, referred to as “money politics”, also involved distributing cash and gifts and offering expenses-paid trips to members in return for votes. As a result, large sums of money were spent on elections at all levels in the party (UMNO), by businessmen who sought government contracts.

The implementation of the NEP meant that state intervention in the economy most favoured those best able to exercise political influence, and facilitated their access to rentier opportunities. Since their close ties with influential politicians had given them access to business opportunities to develop their corporate holdings, such businessmen were, in turn, expected to financially support their political patrons (Gomez & Jomo, 1997: 121).

However, in the 1985-86 period the economy suffered a recession and severely curtailed the number of business opportunities that could be disbursed through the government. Searl (1999) argues that during this period there was an across the board decline in commodity prices and a weaker demand for the country's manufactured products. There was also a virtual collapse of private investment, both domestic and foreign and as a result GDP registered a negative growth of 1.1 per cent in 1985 (Searl, 1999: 53).

The severity of the recession provided a catalyst for radical policy reform in the hope of quick recovery which was critical if the economic advances already made by the Malays were to be sustained and built upon. According to Gomez & Jomo, (1999: 344), Prime Minister Mahathir and his Finance Minister Daim Zainuddin instituted economic reform measures and liberalisation which included introducing new investment incentives (through the Promotion of Investment Act, 1986), lower interest rates and bureaucratic restructuring with the view of making the bureaucracy more efficient and responsive to business and investment.

While such reforms were of benefit to the business community generally, a number of key reforms had a negative impact on Malay business and particularly on those elements that were heavily dependent on government support. This left the UMNO deeply divided. In 1987, a new opposition faction-led by former UMNO Treasurer and Finance Minister, Tengku Razaleigh Hamzah, alleged that UMNO President Mahathir had centralised decision-making powers and that most government contracts and business opportunities

were being distributed to members of his inner circle. In 1988, the party was deregistered when 12 Razaleigh supporters, after Razaleigh's narrow defeat by Mahathir for the UMNO presidency in 1987, filed a suit claiming that the elections be nullified on the ground that delegates from 30 unregistered branches had attended the UMNO General Assembly. In February 1988 the court ruled UMNO an illegal organisation because of the presence of these unregistered branches. Mahathir subsequently formed UMNO Baru (New UMNO) and used the opportunity to deny his critics membership in the new party (Gomez & Jomo, 1997: 345).

## **2.9 Conclusion**

There is no doubt that through the NEP Malaysia managed to link poverty reduction and its economic development strategy. Although Malaysia's record on reducing poverty has been impressive it gave rise to intra-ethnic inequality. The NEP fell short of reaching its target of transferring 30 per cent of the country's wealth in the hands of the Bumiputera in the set period of twenty years. Despite these shortcomings there was a significant improvement in the lives of Malays considering that Malaysia's total stock value rose 3.7 times from 528.9 million ringitt in 1990. Bumiputeras's equity ownership in absolute value thus rocketed 22 times from 100.49 million ringitt to 2,228.94 million ringitt. The result has been the emergence in Malaysia of a Malay middle class and Malay new rich (Torri, 1997: 235). It is through its social policy of redressing past imbalances that the government created conditions, which were suitable for Malay middle class to participate in the mainstream economy. These interventions led to the expansion of the Malay new rich.

Much of the NEP's successes can be attributed to the education system, where the Malays were given preference in the awarding of scholarships. Through the affirmative action policy on employment and on higher education, the Malays were able to improve their lives through such policies, which favoured them. By the 1990s there had been a dramatic improvement in the lives of the Malays compared to the 1970s.

## Chapter 3

### South Africa's Black Economic Empowerment Programme

#### 3.1 Introduction

In this chapter it is argued that, since its inception Black Economic Empowerment (BEE) has not produced the expected results of empowering the black majority of the South African population. It is only a small group of elite who have benefited from the empowerment process. The implementation and success of BEE can be categorised into three waves. This chapter gives a background on the evolution of BEE, followed by an evaluation of South Africa's Broad-Based Black Economic Empowerment (Broad-Based BEE) strategy with specific reference to education, employment and business ownership. Comparisons will be drawn with Malaysia's NEP.



The BEE has been a consistent theme in ANC policy from at least the time of the Freedom Charter. Two of the Charter's main demands were that "the people shall share in the country's wealth" and "the land shall be shared amongst those who work it" (Umrabulo, 2001: 56). Immediately after assuming power in 1994 the ANC set out key development challenges for the new government embodied in the Reconstruction and Development Programme (RDP). RDP priorities included among others the creation of jobs, human resource development, provision of infrastructure, changes in ownership patterns and reduction of inequality in society.

#### 3.2 Background

Similar to Malaysia, South Africa was colonised by the British. In 1910, following independence from Britain, an uneasy power-sharing (the Union of South Africa) between the Afrikaner and British held sway until 1948, when the Afrikaner National Party was able to gain a strong majority. Whereas Malaysia was under majority rule immediately after decolonisation in 1957, in South Africa the National Party (NP)

government introduced the apartheid policy in 1948. This was meant to cement control, which was severely repressive and discriminatory towards black people. One of the intended purposes of apartheid was to systematically and purposefully restrict black people from participating in the country's economy. People were officially classified into four racial groups, namely White, Coloureds, Indians and Blacks.

Soon after taking power, the National Party government adopted a three-pronged programme meant to promote Afrikaner interests. It enacted new discriminatory laws shielding whites from competition on all fronts. The civil service was deliberately expanded to provide Afrikaners with employment opportunities and an assortment of social programmes were established to redistribute wealth and strengthen the poor white population (Luiz, 1996: 3). Apart from a purge of government jobs to make way for Afrikaners, Afrikaner farmers, financial capitalists, small traders and workers all received massive direct and indirect handouts from the government in the decade after 1948 (Van der Westhuizen, 2002: 54). Afrikaner advancement was also stimulated by state-created corporations, like Iron and Steel Corporation (ISCOR), the Industrial Development Corporation (IDC), ESKOM (now the largest electricity supplier in Southern Africa), ARMSCOR (which manufacture armaments), and SASOL (the production of petrol from coal and a petrochemical industry).

When the Malays successfully defeated colonial rule, they almost immediately set out to achieve economic transformation. This was not the case in South Africa. After independence from British rule black South Africans had to fight a second struggle against repressive policies of the apartheid regime, which forced them to respond by means of mass civil disobedience and an armed struggle. Unlike the Malays who started redressing the economic imbalances created by their past after their independence, South Africa's post colonial period was followed by more than forty years of apartheid rule.

The Group Areas Act of 1950 explicitly restricted firm ownership by blacks to specified areas in cities and towns and later regulations prevented black entrepreneurs from owning more than one business, from establishing companies or partnerships. African firms were further restricted to certain markets, only 25 activities – mainly retail supply of food and fuel – being allowed before the restrictions were partially relaxed in 1976 (Gelb, 2003: 27).

Despite the apartheid governments policies to restrain the urban black business class this policy, however, changed after the apartheid government relaxed influx control measures, thereby allowing black people to find employment in the corporate sector. The introduction of such reforms was a result of the 1970s-1980s economic stagnation in South Africa. In response to this crisis, the government initiated new reforms of social, economic and political relations through a process of reform. These reforms opened up possibilities for the advancement of black entrepreneurs. Thus, this reform was intended to recognise the existence of the black business class in the urban areas and secondly was meant to affirm its presence and expand its base (Maseko, 2000: 162). Also, such reforms largely created more possibilities for the betterment of a black entrepreneurial class. Opportunities were still limited as the government still prohibited black people from establishing companies. Until the early 1990s there were almost no large black-owned firms.

After the first democratic elections in 1994, the ANC government faced a big challenge of redressing the imbalances, which were created by the past, without harming future economic development. The democratic government inherited an insidious past of economic mismanagement, racial and social oppression, enormously complicated and costly bureaucratic structures and extreme poverty and inequality (Luiz, 1996: 4). The challenge for the ANC government was to restructure the country's economy, as in Malaysia, to benefit the previously disadvantaged black people, especially Africans, who were denied opportunities to actively participate in the mainstream of the economy. The

government's initial response was embodied in the RDP, which was meant to address the challenges of redressing the economic imbalances created by apartheid.

### **3.2.1 Reconstruction and Development Programme**

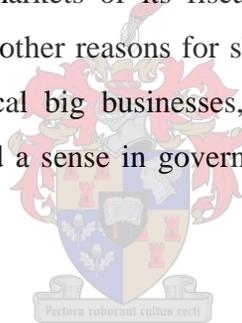
Following the first democratic elections in 1994, the ANC government through its Reconstruction and Development Programme (RDP) has placed the need to address poverty and inequality firmly at the centre of its transformation agenda. The RDP called for an active role for the state in the reconstruction and development process. The RDP was institutionalised through the establishment of a Ministry for the RDP and incorporated into policy through the RDP White Paper (Gelb, 2003: 35).

In relation to business ownership the RDP (1996) stated that: “the domination of white business and the exclusion of black people and women from the mainstream of economic activity are causes for great concern for the reconstruction and development process”. The central objective of the RDP was to deracialise business ownership and control completely, through focused policies of BEE. The RDP suggested several means for realising these goals. To redress the imbalances at the managerial level in the economy, for example, affirmative action measures has to be instituted to end discrimination on the basis of race and gender. The democratic government had to introduce tendering-out procedures which facilitate BEE’ (African National Congress, 1994: 676).

Due to changing global market conditions such as the interconnectedness of the markets, the ANC government was forced to replace its social upliftment policy, the RDP, with a more market friendly macro economic policy the Growth Employment and Redistribution Strategy (GEAR).

### 3.2.2 From RDP to GEAR

The government moved from the premise that reconstruction and development would be achieved through the leading and enabling role of the state in co-operation with the private sector. The active involvement by all sectors of civil society, which in combination would lead to sustainable growth. The growing financial turmoil, in the mid-1990s, led to the Rand to depreciate. The Rand which had appreciated by 5.5 percent from the end of May 1995 to the middle of February 1996, depreciated by more than 15 percent in the next two and a half months (Padayachee in Van der Westhuizen 2003: 110). The trade account of the balance of payments became highly erratic and with foreign exchange reserves equal to just five weeks import cover (at the time one of the lowest in the world). This according to Michie and Padayachee (1998), is what pressurised the government to replace the RDP with GEAR to reassure the jittery international financial currency markets of its fiscal prudence (as quoted in van der Westhuizen, 2003: 110). Among other reasons for shifting from RDP to GEAR can be attributed to the influence of local big businesses, the International Monetary Fund (IMF), the World Bank (WB) and a sense in government that it had to secure investor confidence.



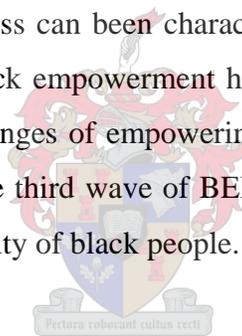
In contrast to the leading role granted to the state in the RDP policy in 1996, the government adopted GEAR as a growth led policy for economic redress and that black empowerment must now depend on competitiveness and private self-promotion in the market, rather than on state policies. According to Terblanche (1999: 86), the GEAR point of departure was that sustained growth on higher plane requires a transformation towards a competitive outward oriented economy. It stressed the need for market-led growth, fiscal and monetary discipline and investor confidence. The initial goal of redistribution was dropped as a main objective under GEAR, and the government role in the economy was reduced to the task of managing transformation (Iheduru, 2002: 57). Whilst BEE initiatives have always been welcomed within government circles, there was a simultaneous decline of both redistributive efforts and state intervention in the

economy. Almost all the targets set in GEAR were not met, with the exception of housing, water supply and sanitation (Cheru, 2001: 509-510)

GEAR had failed to meet the expected results. Growth in 1996 was 10 per cent less than predicted, with investments closer to 20 per cent lower and interest rate reached 17 per cent by the end of 1996, far higher than GEAR predictions. Between 1996 and 1997, 57,000 and 86,000 jobs were lost contrary to GEAR's predictions 126,000 and 252,000 new jobs, respectively. The most important premise of GEAR, foreign investments, failed to materialise as projected (Bond, 2000: 51).

### **3.3 The Evolution of Empowerment**

Since its inception the BEE process can be characterised in three waves which mark different periods under which black empowerment has been taking place. The first two waves saw BEE faced with challenges of empowering the majority of the people under volatile market conditions, and the third wave of BEE is aimed at broadening economic empowerment to benefit the majority of black people.



#### **3.3.1 First Wave of Black Economic Empowerment**

Black Economic Empowerment started in the 1990s when the private sector voluntarily embarked on BEE initiatives to empower black people (a generic term, which means indigenous Africans, Coloureds, and Indians). Since its inception, black economic empowerment has focused on the transfer of share ownership from white corporations to BEE groups or consortia, as well as government-initiated businesses with the hope that these would trickle down to the masses. In 1993, companies like Sanlam sold 10 per cent of its controlling stake in Metropolitan Life to black investors led by Dr Ntatho Motlana. The deal gave birth to New Africa Investments Limited (NAIL) which became the first BEE company to list on the Johannesburg Securities Exchange (JSE). It was soon followed by Real Africa Investments (RAIL), led by Don Ncube.

In November 1994, the Johannesburg Stock Exchange (now known as Johannesburg Securities Exchange) listed eight black-led companies; by May 1995, 11; by April 1996, 14 and by the end of 1996, 17. By early 1998, 53 black companies had total market capitalisation of R111 billion compared to the R57.9 billion at the end of 1996 held by 33 black firms (Van der Westhuizen, 2001: 82).

While gains were made by certain individuals who benefited from such deals the majority of people were left outside the empowerment deals because such industries were largely to be found in the insurance sector, as industrial holding companies, and in media and publishing industry. These industries needed people with particular skills, something which was lacking among the black majority. Moeletsi Mbeki (2003:13) (younger brother of President Thabo Mbeki) asserts that, this formula for empowerment was invented by conglomerates to create what he described as a “black buffer” to protect their interests and the ANC government has internalised this model of transferring white-owned or state assets to people with good political connections, instead of encouraging and supporting people to build their own assets from the ground up. Thus the overall approach to black economic empowerment lacked focus and an overarching framework.



Unlike the Malaysians who created their own enterprises, black empowerment emphasis has been almost entirely on taking chunks of existing “white owned” enterprises, rather than creating new ones. This led many individual blacks to jockey up for stakes in these enterprises under the name of BEE, whilst pursuing their individual interests, as asserted by the opposition Democratic Alliance (DA) in an uproar ahead of South Africa’s general elections in April 2004. The DA contended that of the R42.2 billion worth of BEE deals concluded in 2003, 60% or R25.3 billion accrued to the companies of two men: Patrice Motsepe and Tokyo Sexwale (<http://www.irinnews.org/print.asp?ReportID=40489>). As a result the Black Business Council was established as a way of creating one voice which is representative of black business.

### **3.3.2 Black Business Council**

Black Economic Empowerment (BEE) became a 'catch phrase' as one of the key measures to ensure the inclusion of black people into the mainstream of the economy. In 1995 a group of black business people formed the Black Business Council (BBC), as there was a need for a black voice that would ensure that BEE goes in the right direction. Also, the BBC was formed in response to increasing frustration on the part of various stakeholders, including the new democratic government, over the fragmentation of black business formations and the lack of a common front for the development and implementation of a national strategy on the development of the black business sector.

Subsequently, BEE evolved as a multifaceted approach to the redistribution process which included measures designed to promote black business and management, greater workplace democracy and more vigorous competition to break the stranglehold big white capital was seen to be having over the economy. In pursuit of economic empowerment, the BBC led to the formation of the Black Economic Empowerment Commission (BEECom) chaired by Cyril Ramaphosa. The mandate of the commission was to redefine the concept of empowerment, investigate the state of empowerment in the country, identify the hurdles to empowerment and recommend policy to government. The BBC argued quite strongly for the establishment of a statutory Black Empowerment Council in the Office of the President that would oversee and monitor the implementation of the process.

The BBC wanted an instrument that would force big business to fall in line with BEE regulations. This instrument, comparable to the one used by the Malaysian government at independence, relied heavily on radical legislative interventions to transfer ownership to the black majority. The BBC played a significant role in drafting the government's broad-based economic strategy and the establishment of an advisory council on BEE in the Office of the President.

### **3.4 Second Wave of Black Economic Empowerment**

The second wave of BEE saw the establishment of many black empowerment companies that could not survive the 1997 Asian financial crisis. Unlike the historical period of Malaysia's economic empowerment where global economic conditions were conducive for empowering the Bumiputeras, the period in which South Africa's economic empowerment took place was characterised by volatile market conditions that proved catastrophic for most of the new businesses. For example, the 1997 Asian financial crisis affected many developing countries, including South Africa, and the constant increase of oil prices. According to Zegeye (2002: 265), in a period of volatile market conditions, governments in the developing world often do not have the financial and political wherewithal to support both the social and political reforms needed in their countries. They also lack economic programs required by globalisation to link fully to the global economy.

#### **3.4.1 Special Purpose Vehicles**

In order to facilitate the process of share transfer, financial institutions provided special purpose vehicles (SPV) funding as a means to encourage black economic empowerment. SPVs were established by empowerment groups, which offered preference shares to institutional investors. Black investors had voting control of the SPV through ordinary shares, but a significant portion of the advantages lay with the financial institutions because their preference shares were paid a dividend linked to the prime-lending rate. Any difference between the dividend income received by the SPV and the dividends payable to the preference shares was rolled over and paid when the preference shares were redeemed. To redeem the preference shares and any accumulated dividends, the SPV would have to sell off some of its shares in the underlying business. This process initially appeared to work well and gave rise to a number of prominent black empowerment groups like JCI (<http://www.tips.org.za/events/proceedings/bee.htm>).

According to Segal (1998: 82), these black empowerment deals were nothing more than investment syndicates taking small equity stakes in firms only to benefit the few elite. During this period, more than 200 BEE transactions were concluded and not a single black operating company could stand on its own and claim to add the type of value to the economy that creates significant jobs and improve skills. According to EMPOWERDEX (2003: 77), a number of BEE transactions were structured more like the so-called Pyramids. BEE names acquired partial stakes in companies that were used to add empowerment flavour and the repeat of this exercise resulted in the formation of companies which provided an insignificant flow of economic benefits to historically disadvantaged South Africans. This led to a situation whereby a few blacks were co-opted as directors to make white firms look empowered and this affected the true substance of ownership.

Yet it was precisely in the sphere of operational management that real influence lay and real skills were learned and developed to run a successful business. What was witnessed, following the achievements of these deals, was the creation of a small black elite who became extremely rich in the name of black economic empowerment. The issue of black empowerment was perceived as only working in favour for those who were close to the ruling party. For example Cyril Ramaphosa, Patrice Motsepe, Tokyo Sexwale and Saki Macozoma (known as the gentlemen of BEE) are members of the ruling party (ANC). Black businesses that were formed under SPV's were severely affected by the 1997 Asian financial crisis.

### **3.4.2 1997 Asian Financial Crisis**

Black businesses that emerged on the back of SPV's within the established business sector felt the cold winds of emerging market jitters in the wake of the collapse of the South-East Asian economies. According to Zegeye (2002: 255), this was the result of the demands of global capitalism whose strict financial rules often put countries under intense economic pressure, leaving little room for reforms at a more local level. Most of the big black empowerment deals were struck in the sectors of the economy, which are

most vulnerable to fluctuations in the global markets i.e. telecommunications, media, entertainment and financial services (Jacobs, 2002: 58).

By the late 1990s, a number of high-profile black businesses such as Pepsi, National Sorghum Breweries, African Bank as well as Community Bank had gone effectively bankrupt when business plans, trading conditions or the cost of borrowing backfired on the highly leveraged deals. This was due to the heavy reliance on share price performance of SPVs (Bond, 2000: 43). NAIL, which at one stage controlled assets worth R20 billion was eventually forced to restructure after the 1998 market crash. Metropolitan went back to Sanlam. Real Africa is no more. Meanwhile Anglo pocketed R5 billion from Johnnic and JCI and kept its crown jewels in Amplats. JCI, bought on credit by a consortium led by businessman Mzi Khumalo, collapsed requiring substantial asset-stripping to pay creditors and a full unbundling (Gqubule, 2003: 16).

The effects of the Asian financial crisis led many black businesses listed on the JSE being unable to pay back loans provided by white big businesses as a result many black businesses fell out of favour to big business. Therefore, the collapse of the local equity market has been particularly cruel to empowerment companies, leaving many emerging black businesses in jeopardy. Black businesses went from representing almost 7% of the Johannesburg Stock Exchange's market capitalisation in early 1999, to 4.8% in February 2001 and 2.2% in February 2002 (Reddy, 2003).

Van der Westhuizen (2003) asserts that “unlike Malaysia's ability to more incrementally accede to free market policies since the early 1980s, the rapidity with which South Africa was reintegrated into a fiercely globalised economy in the 1990s assured that any protracted attempt to stave off the kind of liberalisation that the competition state model demanded was simply an unaffordable luxury” (Van der Westhuizen, 2003: 115). The failure and criticism levelled against BEE, during this period, led to the formation of the Black Economic Empowerment Commission.

### **3.4.3 Black Economic Empowerment Commission**

The collapse and failure of many black empowerment companies to transfer their wealth to benefit the majority of South Africa's population put the BEE process in crisis. In November 1997 the Black Management Forum (BMF) decided to establish the Black Economic Empowerment Commission (BEECom)-which would be launched in May 1998 under the auspices of BBC - which was a forum for discussing all BEE related issues. The purpose of the BEECom became to give strategic direction to the formulation of public policy on the issue of economic empowerment. The prevailing view for the establishment of BEECom was that black people should direct and take charge of a new vision for BEE. The commission's mandate became to redefine the concept of empowerment, investigate the state of empowerment in the country, identify the hurdles to empowerment and recommend policy to government (BEECom, 1998).

Prior to June 2001, the government delayed on a date to meet the commission, leading to frustration among members of the BBC. In 2001, the commission presented its final report with recommendations to President Mbeki after two years of discussion within the black business fraternity. These included the setting up of empowerment targets, legislative intervention by the government and the establishment of a Black Economic Empowerment Commission in the Office of the Presidency that would oversee and monitor the implementation of the process (Ray, 2003: 17). The danger of setting up specific targets for black participation across a broad spectrum of sectors in industries and professions, as argued by Black (2002: 1152), may prove to be counterproductive, frustrating policy makers when they are not met and possibly scaring off existing businesses and potential investors.

In 2003, for example, when the draft mining charter was leaked to the media it caused a panic in the equities markets, which led to an estimated R50 billion to flee as foreign investors scurried for cover after disclosures that 51 per cent of mining investments would be distributed to black people within a ten year period (Wakeford, 2002: 12). The

government responded by reviewing the mining charter, stating that within a period of ten years, black people should own 26 per cent ownership of mining companies.

Similar to the targets set by the Malaysian government on redistribution, the Commission proposed that within a decade, 30 per cent of productive land should be in black hands; at least 40 per cent of directors of JSE listed firms should be black and at least 50 per cent of the loans on the books of national development-finance institutions should be black-owned companies. The third wave of black empowerment was selective in terms of implementing some of the recommendations made by the BEECom through the Broad-Based Black Economic Empowerment policy.

### **3.5 Third Wave of Black Economic Empowerment**

The much-needed economic transformation has proved to be elusive in the last eleven years since South Africa's political transition from apartheid to democracy. This wave of BEE is mainly characterised by most of the recommendations made in the final report of BEECom. Here, the focus is on scorecards, which set out precise black advancement targets that companies must achieve within a specified timeframe.

#### **3.5.1 Broad-Based Black Economic Empowerment Strategy**

After the first five years in office, the ANC government's strategy on BEE failed to redress the economic imbalances, which were created by the past colonial and apartheid policies. As President Mbeki pointed out at the Black Management Forum (BMF) National Conference in 1999, "five years after the arrival of the democratic order, we have not made much progress and may as well be marching backward with regards to the de-racialisation of the productive economy. Clearly something is not right" (<http://www.anc.org.za/ancdocs/bubs/umrabulo/13n.html>).

It is now nearly six years, after President Mbeki made these remarks and South Africa's BEE initiative has not made any major strides in terms of empowering the majority of Black people, particularly Africans. In the discussion paper for its 2002 policy conference, the ANC realised that the lack of a clear strategy on BEE had given rise to ambiguity relating to the definition of black economic empowerment. In terms of the discussion paper, "the fundamental question is whether black economic empowerment aims to ensure that blacks are fairly represented among top owners and managers of companies or whether black economic empowerment aims to improve the position of all black people, especially women, through measures that ensure a more equitable distribution of incomes and assets overall" (Umrabulo 16, 2002).

It is against this political and socio-economic backdrop that the ANC government has adopted the second view, which means that a national empowerment strategy must include such broad-based redistributive strategies as land reform, reprioritisation of government services and job creation. The central challenge articulated by the discussion paper is that "specific strategy to ensure that the levels of ownership and control of the commanding heights of the economy by the majority is equitable - black economic empowerment - should form a part of a comprehensive national empowerment strategy. However, a national empowerment strategy is not limited only to a BEE strategy. The failure to make this explicit has led to the view that empowerment is geared primarily to supporting black capital. There has been an increasing focus on BEE but this focus has not been situated within a national empowerment strategy" (Umrabulo 16, 2002).

After abandoning the RDP for GEAR policy in 1996, which put economic growth before redistribution, the government in 2001, realised that economic growth on its own was not the sufficient condition for economic redress. After the 1969 riots the Malaysian government introduced the NEP to fast track the Bumiputeras empowerment over a period of twenty years. In order to avoid what happened in Malaysia, the ANC government in 2003, came up with a focused Broad-Based Black Economic Empowerment Strategy (Broad-Based BEE) framework to ensure effective participation

of black people in the mainstream economy, in terms of ownership, control and skilled occupation by 2014.

According to Mahabane & Haffajee (2002: 24), this was the first time the state had set a date for economic transfer, suggesting an epoch of a far more interventionist state that would use a “carrot and stick” approach to the redistribution process. The initial BEE initiatives, as indicated earlier in this chapter, only brought limited success in bringing about substantial increase in the number of black people owning, controlling and managing significant and important parts of the economy such as manufacturing.

The realisation by the ANC government that BEE was not producing the expected results in terms of reaching the majority, particularly African people, come amidst fears of racial tensions which might ensue as a result of frustrations of people who feel that they are left out in the process of economic empowerment. Such a situation would be reminiscent of what happened in Malaysia when the Bumiputeras’ frustration led to violence against the Chinese minority that dominated the country’s economy. Beneath the ANC government’s fears, as argued by Battersby (2002: 1), about a popular revolt lies the realisation that so far at least, black empowerment has been confined largely to a small inner circle of the ruling elite and has not been passed on to the masses.

As indicated in this chapter, the first phase of black economic empowerment lacked focus and vision. What has been witnessed in the Broad-Based BEE strategy is a process seeking to broaden the margins of participation in the economy and sharing in the country’s wealth. According to Mlambo-Ngcuka (2003: 14), the government has an obligation to a broad-based constituency and has to service every one of the people, both through the assets that are state-owned and in transactions facilitated by public policy. Thus broad-based empowerment continues to be seen as a way to correct the disparities of income and wealth in South Africa. It is only logical therefore to conclude that BEE benefit the majority of the people, not only the select few.

Government has shown that it can utilise a number of policy instruments to achieve its objectives in respect of BEE. These include legislation and regulation, preferential procurement, institutional support, financial and other incentive schemes.

### **3.5.2 Policy instruments to achieve BEE**

The use of a common scorecard (administered by the Department of Trade and Industry) by different stakeholders provides a basic framework against which to benchmark the BEE process in different enterprises and sectors. The scorecard will measure three core elements of BEE: direct empowerment through ownership and control of enterprises and assets, human resource development and employment equity, and indirect empowerment through preferential procurement and enterprise development.

The scorecard also allows government departments, state owned enterprises, and other public agencies, to align their own procurement practises and individual BEE strategies. The Department of Trade and Industry has published the Codes of Good Practice to guide organisations and companies on how they can best comply with BEE targets. Economic entities are awarded broad-based BEE status according to the points they achieve in the BEE scorecard provided for by the Department of Trade and Industry's Codes of Good Practice or in a gazetted industry charter. The preferential categories include:

- |  |                                |
|--|--------------------------------|
| a) Excellent contributor to broad-based BEE    | - total score of 80% and above |
| b) Good contributor to broad-based BEE         | - total score of 65% to 79.9%  |
| c) Satisfactory contributor to broad-based BEE | - total score of 40% to 64.9%  |
| d) Limited contributor to broad-based BEE      | - total score of below 40%     |

The BEE status of economic entities is awarded in terms of the scores that they achieve under the following seven categories in the broad-based BEE scorecard:

**Table 7: The BEE scorecard**

<b>Core component of BEE</b>	<b>Indicators</b>	<b>Conversion Factor</b>	<b>Raw Score</b>	<b>Weighting</b>	<b>Total Score</b>
<b>Direct empowerment score</b>					
Equity Ownership		% share of economic benefits		20%	
Management		% black persons in executive management and/ or executive board and board committees		10%	
<b>Human resource development and employment equity score</b>					
Employment equity		Weighted employment equity analysis		10%	
Skills development		Skills development expenditure as a proportion of total payroll		20%	
<b>Indirect empowerment score</b>					
Preferential procurement		Procurement from black-owned and empowered enterprises as a proportion of total procurement		20%	
Enterprise development		Investment in black-owned and empowered enterprises as a proportion of total assets		10%	
<b>Residual 10%</b>					
		To be determined by sector/ enterprise		10%	

**Total Score out of 100%**

Source: Broad-Based Black Economic Empowerment Strategy (2003: 23)

Some commentators caution that the BEE scorecards do not fully address broad-based empowerment. According to Randall (2003, 13), companies can score well on areas such as human resource development and in share ownership without making a significant contribution to the creation of black capitalism. Randall (2003) further argues that, while the goal of sharing the economic benefits of these transactions among more blacks is

laudable, it detracts from the importance of creating a strong, self-standing class of black capitalists in South Africa.

Shareholding by such groups creates few opportunities for the exercise of real control, results in accumulated capital being distributed to multiple passive beneficiaries (when dividends are eventually issued by these highly leveraged transactions) rather than being put to further capital generating use, and ends up perpetuating the project's focus on large transactions. Since the BEE scorecards makes very few direct reference to SMMEs, this leaves small and medium enterprises, which is a strong base of black business, with limited options when it comes to attaining percentages of black ownership (Randall, 2003: 13).

These enterprises include family-owned businesses, most of which do not issue shares and some which have one or two shareholders. Most do not have boards and cannot score under the control component of the scorecards (Wadula, 2003: 12).

SMMEs do not form part in the discussions about preferential procurement. Procurement targets can be met by having major suppliers transform rather than undertake the more complex but higher-impact process of increasing sourcing from the SMMEs. The same applies to the restructuring of state-owned enterprises as an empowerment tool without explicit reference to SMMEs. The beneficiaries are likely to be large companies that have incorporated broad-based empowerment shareholders or the usual black elite (Randall, 2003: 13).

Mbabane (2003:13) identifies other shortfalls of the BEE scorecard approach. According to him, some companies may adopt a “reductionist and quantitative approach” to BEE, once the scorecards are introduced. It could become a scoring exercise with people calculating where they may score “overall” as they look at whether they should go for “social investment” enterprise development, employment equity or any other factors that

they consider being easy and less challenging. For this reason a company may decide that it can afford not to have black ownership (which is given a 20% rating), if it already has a number of black executives on board as well as an acceptable BEE score (the latter two account for 20% together). The issue of benchmarks and “minimum threshold” for each factor therefore needs to be considered. A company that scores below a certain minimum in one particular factor (e.g. blacks in management) should not be able to make up for this through higher scores in one or two other two areas (e.g. skills development and enterprise development) (Mbabane, 2003: 13).

The South African policy objective on economic empowerment strategy mentions human resource development as one of the requirements to be met by companies to satisfy the BEE scorecard. The challenge with this requirement is that it leaves the majority of the people who are unemployed excluded from such benefits in terms of empowering them with skills. In the case of Malaysia, expanding education and training and poverty alleviation were seen as an effective way of supporting the attainment of their policy objectives on economic empowerment.

The broad-based economic empowerment strategy, as was the Malaysian NEP, signalled the intervention of government in the economy with a host of rules and regulations aimed at boosting black ownership in the economy. It also aims to significantly decrease income inequalities. This, according to Mbabane (2003), is significant as it seeks to avoid one of the negative side-effects of the Malaysian NEP on income inequality. Whilst Malaysia achieved significant strides in the economic empowerment of the indigenous Malay majority (between 1970 and 1990), the gap between wealthy and poor Malaysians increased. The focus on decreasing income inequalities will therefore ensure that the economic wealth derived from broad-based BEE is not skewed in favour of a minority of entrepreneurs and executives, whilst the majority remains poor and or underpaid (Mbabane, 2003: 13).

Government set aside finance to support the Broad-Based BEE a new mandate for the National Empowerment Fund (NEF) and a review of the roles of other development finance and support institutions, such as Khula Enterprise.

### 3.5.3 National Empowerment Fund

Similar to PNB in Malaysia, the South African government in 1998 created the National Empowerment Fund (NEF), a trust to hold equity stakes in state-owned enterprises and other private enterprises on behalf of historically disadvantaged persons. The body was set up by an Act of Parliament and was meant to deliver empowerment to the masses. The NEF Corporation was tasked with managing the trust in order to:

- Provide historically disadvantaged persons with the opportunity to, directly and indirectly, acquire shares;
- Encourage and promote savings, investment and meaningful economic participation by historically disadvantaged persons and
- Promote and support business ventures pioneered and run by historically disadvantaged persons (Broad-Based Black Economic Empowerment Strategy, 2003: 9)



Through NEF, government was supposed to warehouse 5 to 10 per cent of its shares in state-owned enterprises with the fund, before passing them on to black investors. It was estimated that R4, 1billion in assets would be transferred. Only the government's 1.5 per cent stake in M-Cell was transferred into the fund.

In the 2003 budget speech Finance Minister Trevor Manuel announced that R10-billion would be set aside over the a five year period for BEE to support the funding of new ventures and business expansions that meet agreed empowerment criteria. The fund was given the go-ahead by DTI to operate. It was capitalised with R2 billion initially, to be provided by the Treasury. Since the money is essentially free, the NEF's cost of capital is zero and it in turn will be able to provide cheap capital to entrepreneurs (Mahabane, 2004: 44).

### 3.5.4 Khula Enterprise Finance

The National Small Business Act was introduced in 1996 to provide an enabling environment for SMEEs and to establish several institutions to provide financial and other support to entrepreneurs. Similar to Malaysia, the government created institutions to finance the BEE companies. Institution like, Khula Enterprise Finance, have targeted substantial portions of their programmes at black entrepreneurs.

Khula Enterprise is an agency of the Department of Trade and Industry established in 1996 to facilitate sustainable access of loans and equity to SMMEs. It functions through an effective network of intermediaries by offering a range of financial resources, information as well as facilities to small businesses. These include commercial banks, Retail Financial Intermediaries (RFI's) and Micro Credit Outlets (MCO's). Khula also provides mentorship services to guide and counsel entrepreneurs in various aspects of managing a business.

Khula has also made important contributions to empowerment and small business development. Amongst other things, it has approved facilities to the tune of R1, 3 billion. Of these, 79 per cent were to BEEs, 56 per cent to women-owned enterprises, 71 per cent to urban enterprises, 29 per cent to rural enterprise (Broad-Based Black Economic Empowerment Strategy, 2003: 9).

In a recent assessment of Khula, it has been found that a significant percentage of businesses supported by Khula have gone bankrupt. According to Barrie Terblanche, as quoted in Tabane (2004), Khula lost millions because it mistook business development for poverty relief. "In some instances they were helping provide finance to ultra-poor, unskilled people who had no prospect of success. Where they have been successful is where Khula has subsidised viable businesses. The mistaken belief was that survivalist business is the same as growable business" (Tabane, 2004: 5).

### 3.5.5 Ownership

According to a 2003 survey conducted by EMPOWERDEX (Economic Empowerment Rating Agency) (Enterprise, April 2003: 77) more than 80 per cent of BEE wealth is owned through public sector pension funds. There are only five listed companies, which have more than 50 per cent black ownership. According to Reddy (2003: 26), the market capitalisation of black-controlled companies is only 3 per cent of the JSE. This equaled to R41.5-billion in June 2003, which compares with a total JSE market cap of R1.4-trillion (See Table 10). Similarly to the NEP, Broad-Based BEE strategy aimed to accelerate black share ownership from the current 3 per cent to 20 per cent by 2014.

Unlike in Malaysia where some Malay owned companies were created, the trend in South Africa was of imminent conclusion of a number of proposed mergers and delistings, which by 2003 caused a significant decline in black representation on the JSE. These included the delisting of ARMgold, which merged with Harmony, the sale of New Africa Investments Limited's assets, and the delisting of Hosken Consolidated Investments and AMB Holdings. The delisting of BEE companies in the JSE has been seen as a huge blow to BEE, especially companies like ARMGold, which has a market capitalisation of close to R8-billion. The same applies to NAIL, once the shining light of economic empowerment. Black companies need to establish mainstream profiles and act as role models for other companies to list. (Klein, 2003).

The EMPOWERDEX (2003) survey showed that more than half (51%) of the JSE-listed companies still have no black directors and more than 80 per cent of these entities do not have black executive directors. At the inception of BEE the creation of new black-owned and black controlled enterprises was seen as a key component of the strategy.

**Table 8: Black-Controlled Companies on the JSE**

	Number of firms	Market capitalization (Rbn)	% of the JSE
October-1997	17	37	3
November-1997	26	52	4
February-1998	27	55	5
July-1998	28	68	6
September-1998	28	48	4
November-1998	33	66	7
January-1999	35	59	6
April-1999	35	67	6
August-1999	38	53	4
November-1999	36	42	3
February-2000	36	61	4
May-2000	32	37	3
August-2000	33	98	6
November-2000	34	78	5
February-2001	22	84	5
March-2002	26	38	2
June-2002	26	39	2
September-2002	22	33	2
December-2002	22	44	3
March-2003	21	42	3
June-2003	21	42	3

(Source: Reddy, 2003: 26)

### 3.6 Deficiencies of BEE

Whereas the NEP focused on aspects such as land reform, job creation and poverty alleviation, the Broad-Based BEE strategy overlooked some of the recommendations made by the BEECom in terms of “broad-based redistributive strategies” which would include aspects like land reform, social service delivery, job creation and poverty alleviation by separating them from the objective of increasing participation, contribution and stake of blacks in the economy.

The ANC conference in 2002 recommended that redistributive strategies such as land reform, social service delivery, job creation, and poverty alleviation be separated from the narrow objective of increasing the participation, contribution and stakes of blacks in the economy. Behind this, as argued by Randall (2003: 13), was a rise to prominence in the ANC of an increasingly confident and vocal black business elite as well as the growing political importance of the black middle class. For example, a prominent businessman, Max Sisulu heads the ANC's economic transformation, and among others who sits in the party's highest decision making body is, Cyril Ramaphosa and Saki Macozoma.

Friedman (2002), Terblanche (2003) and Makgetla (2003), argue against the separation of land reform, job creation and poverty alleviation in terms of increasing the participation of blacks in the economy. Friedman (2002: 17) argues that, while virtually all the poor are black, not all black people are poor. Nor do the poor benefit from increased black ownership of assets as they cannot afford shares or access to the professions as they cannot get near university. Therefore, racial inequality could be wiped out in business without making any dent on poverty because there is no way in which the poor can access the benefits of racial redress.

It has to be acknowledged that government has long adopted important programmes to redress land reform, job creation, skills development and support for SMMEs, but there has been slow progress in terms of producing results and these programmes are not getting the necessary attention from the government. Friedman (2002) raises concern about the energy devoted in ensuring that more black people own assets, while there is little energy devoted to fighting poverty. There is a compelling case for making the alleviation of poverty a top priority to achieve broad-based economic empowerment. By alleviating poverty, which is a serious challenge facing the majority of black people economic empowerment can be effectively broadened (Friedman, 2002: 17).

One of the reasons for the delisting of some BEE companies is that empowerment has become increasingly associated with leveraged buyouts (LBOs), where black investors essentially use the assets they are buying as security for the necessary loan finance. Most empowerment shareholdings, in the-mid 1990s, relied largely on various forms of LBO. Many proved unsustainable in the harsher economic conditions of the late 1990s (Makgetla, 2004: 9).

### **3.6.1 Poverty and Racial Inequality**

Similar to Malaysia, living standards are closely correlated with race in South Africa. While poverty is not confined to any one racial group in South Africa, it is concentrated among blacks, particularly Africans. According to the 1999 October Household Survey: 52% of Africans are poor, while Africans make up 78% of the population, they account for 95% of the poor, 17% of Coloureds are poor, in comparison with rates of less than 5% among Indians and Whites.

<http://www.sarpn.org.za/CountryPovertyPapers/SouthAfrica/july2002/woolard/page3.php#footnote>.

In 1996, while whites constituted about 20 per cent of the population they constantly received more than 51.9 per cent of the income and while Africans constituted about 70 per cent of the population they received only about 35.7 per cent of the income (see Table 7). Overall, Statistics SA's Survey on earnings and spending found the gap between black and white households widened between 1995 and 2000. Table 3.7 show that 83 per cent of the African employees earned less than R2500 a month, compared with 18 per cent of whites. The income of the rich paints a clear picture. In 2000 only 3 per cent of African households earned more than R8000 a month, as against 52 per cent of white households. Where high-income Africans earned 15 per cent less in salaries than whites, they received only half as much in profit (Makgetla, 2003: 12).

**Table 9: Share of Income by Population Group**

	Africans	Whites	Coloureds	Indians
1970	19.5	71	7	2.5
1980	25	65	7	3
1991	29.9	59.9	6.8	3.8
1996	35.7	51.9	7.9	4.5

(Source: Terblanche, 2002: 392).

During the transition period, South African society has been transformed from a rigid racially divided society into a highly stratified class society, Natrass and Seekings (2001) and Terblanche (2002). According to Terblanche (2002: 33) inequality in the distribution of income has solidified over the past eight years into three clearly identifiable classes: a bourgeois elite consisting of 16, 6 per cent of the population (of which  $\pm 50$  per cent is white and  $\pm 50$  per cent black) receiving 72, 2 of the total income-this is an upper class comprising people with assets or skills that are internationally transferable. A petit bourgeois class consisting of 16, 6 per cent of the population (of which  $\pm 15$  per cent is white), receiving 17, 2 per cent of total income-this group consists of an urban industrial working class, a range of public sector employees and some work in the formal private sector services and a lower class consisting of  $\pm 67$  per cent of the total population (of which 2 per cent is white) receiving only 10, 6 per cent of total income-this is the bottom half of society, comprising predominantly households that either have no working members or are in the most marginal sectors of the working class.

Terblanche (2002) further argues that despite the radical changes in income distribution in South African society, the highly stratified class society has not been cleared of its erstwhile rigid racial distribution of income, which is the legacy of colonialism and apartheid. One third of the  $\pm 15$  million people in the two bourgeois classes are white, while only 2 per cent of the 30 million people in the lower class are white. Sixty per cent of Africans are poor compared to one per cent of whites (Terblanche, 2002: 34).

Yet, large intra-class division among Africans grew (faster than among whites under the NP government in the 60s-70s). Similarly to what happened in Malaysia where a small group of people became extremely rich at the expense of the majority, such classes in South Africa were further strengthened by the first phase of black economic empowerment, which aimed at creating a strong black elite and overlooking the majority of the population, with the hope that their wealth would trickle down to the masses. This very same class created by empowerment deals were not strong enough in managing their businesses and its existence in business depended on favours from the government through preferential procurement. Education is critical for the successful implementation of broad-based economic empowerment strategy.

### **3.6.2 The Role of Education**

Similar to Malays, Black people formed the majority of the South African population but the kind of education they received under apartheid did not provide them with the necessary skills to actively participate in the mainstream economy. Under apartheid, separate institutions were created for different race groups. In favour of white people, the state poured resources into historically white institutions at the cost of historically black institutions, which exacerbated gross socio-economic inequalities.

The South African system of education emerging from the 20<sup>th</sup> century was remarkable for its purpose. The Christian National Education Policy of 1948, the Bantu Education Act of 1953, and the Education Policy Act of 1967 largely codified the education system with reference to apartheid purpose. These policies articulated a racially and culturally segregated and differentiated education system based on the ideology of Christian National Education, designed to build a social structure reflecting a rigid hierarchy on the basis of so-called 'race' (Porteus, 2003: 13).

According to Sayed (2003: 5), educational exclusion usually occurs in the guise of an acceptance of differentials: a smaller section of society is assumed (almost legitimately)

to have greater access to commodities, better housing, education and sporting facilities because of their socio-economic status. The apartheid system was a prime example of higher education providing whites with access to the middle class, professional training, some knowledge production particularly military and defence related R&Ds, and strong ideological support for the regime, mainly through the Afrikaans institutions. This argument confirms Castells's assertion that, universities perform five major functions: they select dominant elite, provide professional training, generate new knowledge, link knowledge in the university to applied contexts through entrepreneurial activities, and act as part of the ideological apparatus of society (as quoted in Cloete, 2002: 1).

The post-apartheid government's plan to restructure education is based on a vision of 'inclusive education' system. According to Sayed (2003: 6), this process can be viewed as an agenda aiming at fundamental educational transformation with a view to developing an equitable education system that echoes and reflects fundamentals of an equitable society. The government's plan is to expand higher education by making it more accessible to a wider and more diverse body of students and to grow South Africa's participation rate (the proportion of school leavers entering higher education) from 15% to 20% in the next 10 to 15 years. This 20% participation rate will require an additional 200 000 students to be recruited into higher education to swell student numbers to around 800 000 in the public higher education institutions (Higher Education in Transition, 2003).

In the public higher education institutions, most of the additional students will be Africans from previously disadvantaged backgrounds and they will be supported by the National Student Financial Aid Scheme (NSFAS), proposed by the National Commission on Higher Education for individual redress, which in 2002 allocated loans and grants worth R687 million to 100 000 students (Higher Education in Transition, 2003).

A more equitable higher education system is crucial in South Africa's efforts to eradicate the race-based inequality in education and in society at large. The change in the racial

composition of the student population has been striking with the proportion of Black (African, Indian and Coloured) students rising up to 70 % of all students; and that of African students soaring by 80% between 1993 and 1999 from 191 000 to 343 000 (Higher Education in Transition, 2003).

Since 1994, there has been an increase in the proportion of black students in higher education. The ratio of black students in total university enrolments increased from 32% in 1990 to 60% in 2000, while in the technikons it rose from 32% to 72% over the same period. Thus, by 2000 there was a majority of African students both in the universities (60%) and technikons (72%). At some institutions the composition of the student population changed dramatically, for example, the University of Port Elizabeth changed from being 62% white in 1995 to being 87% black in 1999 (Cloete, 2002: 1).

South African universities and technikons produced about 75 000 graduates and diplomates in 1998 on a head count enrolment base of 600 000 students (350 000 in contact programmes). If the system had achieved reasonable throughput rates of 20% for contact programmes and 12% for distance programmes, then at least 100 000 graduates/diplomats would have been produced by the higher education system in 1998. The inefficiency of the system resulted in South Africa producing 25 000 fewer graduates/diplomats in 1998 (New Higher Education Landscape, 2000: 17).

The other problem facing the South African education system, relate to skewed patterns of distribution of students in critical fields of study i.e. Science, Engineering and Technology (SET), Business and Commerce. In contrast to South Africa's development needs, there is a greater concentration of Black students in the fields of Humanities and Education compared to scarce skills fields. In 1999 about 15% of all students in universities and technikons were following teacher training programmes and about 35% other humanities programmes (New Higher Education Landscape, 2000: 17-18).

About 25% students were enrolled in programmes in business and management studies, with a further 25% in the broad fields of life and physical sciences, engineering, computer science, all the health sciences, and in various fields of applied technology. It is important that a balance that is appropriate to the needs of a developing country exists in the distribution of students across the different fields. The number and proportions of African students in programmes in science, engineering and technology and business/management remained low in 1999. Post-graduate enrolments across most fields are also extremely low (New Higher Education Landscape, 2000: 18).

Unlike in Malaysia where education formed part of the NEP program, South Africa's BEE programme does not include education as part of an inclusive programme. While education is recognized as integral part of the country's developmental agenda, it is, instead, vested in the Department of Education to address it separately from the BEE programme.

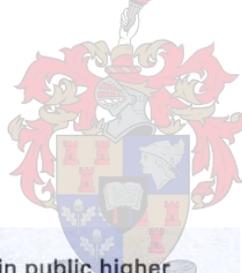
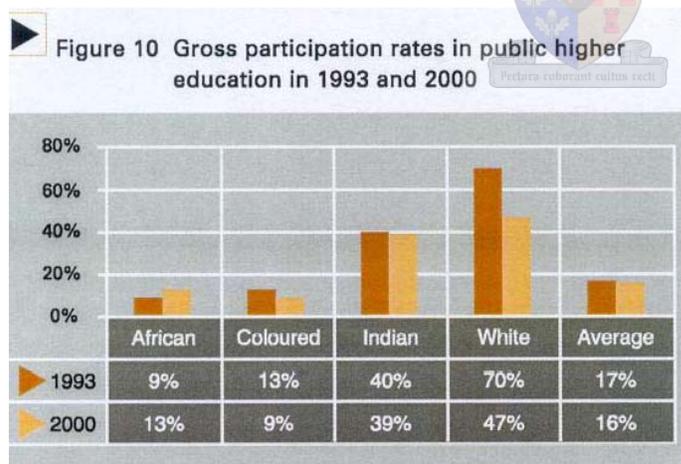


Table: 10:



(Source: Cloete, 2002: 2)

The separation of education from the BEE framework is not likely to broaden BEE to benefit the majority of the black population, since it is the majority of black people who

lack the necessary skills (commercial, science and technology) that are needed in the country's economy. Also, education will not get the necessary attention from the government as it is the case with BEE, and as long as education is separated from the BEE framework, BEE will continue to benefit the elite. It is a small percentage of black people who possess the necessary skills that allow them to participate in the economy.

### **3.6.3 Employment**

Skills development should be the most important element of the BEE strategy. South Africa spends less than one percent of GDP on skills development. According to the University of South Africa's Bureau for Market Research (BMR). By comparison, the US spends six percent and Japan 10 per cent (Gqubule, 2003: 5).

The apartheid government denied black people decent education, thus prohibiting them from being employable in the mainstream economy. As a result it has been mostly Whites with the small proportion of Indians and Coloureds that enjoyed such benefits. According to (Agocs & Burr, 1996), Whites held 85 to 95 per cent of key posts in senior management, government offices, and other professions. It is increasingly recognised that inequality and disadvantage on the basis of race results from discrimination that is systemic and deeply embedded within the culture and structures of the workplace. Systemic discrimination can be defined as patterns of behaviour that are part of the social and administrative structures and culture of the workplace that create or perpetuate a position of relative disadvantage for some groups (and advantage for others), or for individuals on the basis of their identity (Agócs & Burr, 1996: 2).

According to Agócs & Burr (1996: 2), the existence of systemic discrimination reflects the reality that the workplace was designed by and primarily for a working population that was white and Christian. Since 1994, after the new democratic government was elected in South Africa, the legacy of racial stratification in the work place continues to persist. Black people are grossly underrepresented in top and senior management. After

1994 the government aimed at transforming the workplace to be representative of the country's demographics. Although, there has been improvement in terms of representativity in the workplace there are some areas, which needs to be addressed.

Similar to Malaysia, as part of its transformation agenda, the ANC government adopted an affirmative action policy on employment as a remedial strategy. Affirmative action, as described in Portnoi (2003: 80), is a positive, corrective measure to assist people who have been discriminated against in the past in obtaining employment and training. What is seen as a great hope for so many disadvantaged blacks has triggered an equal intense rejection by those whites that perceive themselves as the new victims of reverse discrimination. They believe that affirmative action overlooks them, together with the skills they possess, by favouring black people.

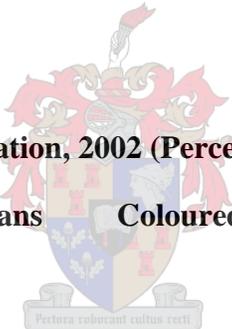
In advancing its efforts of redressing the imbalances in employment, the government put its redressal strategy into law by introducing the Employment Equity Act (1998), which according to Portnoi (2003:80) is a desired goal for employers and is a situation in which discrimination does not occur and the workforce is adequately trained and representative of the population. The Act stipulates that, “as a result of apartheid and other discriminatory laws and practices, there are disparities in employment, occupation and income within the national labour market: and that those disparities create such pronounced disadvantages for certain categories of people that they cannot be redressed simply by repealing discriminatory laws. Therefore, in order to promote the constitutional right of equality and exercise true democracy, eliminate unfair discrimination in employment, ensure the implementation of employment equity to redress the effects of discrimination; achieve a diverse workforce broadly representative of people, and promote economic development and efficiency in the workplace” (Portnoi, 2003: 80).

The main purpose of the Act is to achieve equity in the workplace by promoting equal opportunities and fair treatment in employment through the elimination of unfair discrimination and implementing affirmative action measures to redress the

disadvantages in employment experienced by designated groups (Africans, Coloureds, and Indians) to ensure their equitable representation in occupational categories and levels in the workplace (See Table 9).

Table 9 illustrates the low representation of blacks at top management level, Africans (13%) followed by Coloureds (7%) and Indians (5%), despite them constituting the majority of the population, compared to the white minority (74%). Blacks dominate the semi-skilled and unskilled sector such as agriculture and fisheries. In sales and service Africans make up (52%) Coloureds (15%) and Indians (5%), compared to 28% of whites. In agriculture and fishery Africans make up (52%), Coloureds (28%) and Indians (5%), compared to 15% of whites. Equally in plant and machine operators and assemblers blacks dominate with Africans making up (72%) followed by Coloureds (17%) and (4%) Indians compared to 7% of whites.

**Table 11: Employment by Occupation, 2002 (Percentages)**



	Africans	Coloureds	Indians	Whites
Legislators, senior				
Officials & managers	13	7	5	74
Professionals	42	7	6	45
Technicians	29	13	6	52
Sales & service	52	15	5	28
Agriculture & fishery	52	28	5	15
Crafts & related trade	44	12	4	39
Plant & machine				
Operators & assemblers	72	17	4	7

(Source: Employment Equity Commission Report: 2002)

However, shifts in the economy towards the services and top-end manufacturing sectors have meant South Africa is caught in a skills shortage trap. According to Adam (1997: 242), the scale of change demanded by the RDP entailed a massive expansion of both public and private enterprises, but the black talent with competitive skills and training that spans the professional and managerial spectrum was neglected as an essential target of affirmative action policy. Trade and financial services are the top growth sectors – requiring high entry level skills as well as management. Given the fact that Whites have the correct skills profile for these sectors, this group has the highest labour absorption rate. At the top of the job market, there are not enough black skills to fill the core business roles, including financial management and business strategy. Top black managers dominate in non-core areas, such as human resources, corporate communications and corporate social investment (Haffajee, 2002: 27).

### **3.7 Conclusion**

The first ten years of liberation in both Malaysia and South Africa failed to fundamentally transform the economic landscape. In both countries after the realisation that the first ten years of liberation failed to economically empower ordinary people, they came up with revised empowerment strategies as to ensure that the greatest number of people benefit in the process.

However in South Africa, since the inception of BEE it has not produced the expected results of empowering the black majority of the South African population. The first wave of empowerment only managed to empower certain individuals and made them overnight millionaires, leaving the majority of the people who are poor, from participating in the mainstream economy. In this first wave of empowerment, it is only the black elite who made themselves rich in the name of black empowerment.

The same applies to the second wave empowerment which was carried under the dubious mechanism of SPV's. All the empowerment deals signed during this period failed due to

the highly globalised period during which these enterprises were established as well their inability to absorb the effects of the 1997/1998 Asian financial crisis, which severely affected emerging markets. This is what differentiates South Africa's BEE failure to the success of the Malay capital. Both programmes were carried under different market conditions.

The third wave of BEE is mainly characterised by scorecards which companies have to comply with in terms of empowering those who were previously excluded from participating in the mainstream economy. Although progress is to be made in empowering some companies through these scorecards, this does not seem to broaden empowerment to benefit the ordinary people on the street. This strategy on empowerment excludes the most critical areas such as poverty reduction and education where many blacks are trapped. For people to participate in the mainstream of the economy they need to possess certain skills, therefore skills development is critical for successful economic empowerment.

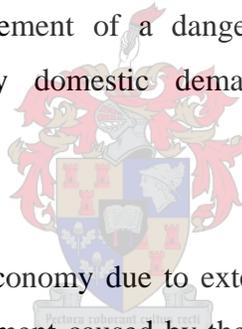


## Chapter 4

### CONCLUSION

#### 4.1 Introduction

The ANC government inherited a political economy that had undergone vast structural changes. Unlike the period, where the Malaysian economic empowerment took place, which was less globalised and allowed the Malays to benefit from generally high commodity prices, particularly in agriculture and thus extended their interests to the commercial, financial and industrial sectors of the economy. The current phase of globalisation today, forestalls the ANC led government from pursuing the same strategy as the Malaysian one. The ANC government went at greater length to impress the capital markets with its commitment to ‘macroeconomic stability’, the mining and other charters signal government’s acknowledgement of a danger equally calamitous as ignoring international confidence, namely domestic demands for interventions (Van der Westhuizen, 2002: 8).



To an extent, the failure of the economy due to external factors beyond control of the South African business or government caused by the global slow down of the past few years has made it very difficult to find and to grow new business opportunities in South Africa. Equally important though is that where empowerment has occurred, it has tended to focus mainly on individual enrichment rather than the much broader economic empowerment of black people. As yet, there are few substantial success stories about black start-up operational businesses that can be cited as role models.

The much-needed economic transformation in South Africa has proved to be elusive in benefiting the majority of black people in the past ten years, since South Africa’s political transition from apartheid to democracy. During this period, the ANC government introduced a number of policies, laws, and regulations aimed at achieving BEE, but this has only benefited a small group of upper middle class blacks. The first wave of

economic empowerment has done little to empower the majority of black South Africans, instead gains were made by the group of upper middle class blacks, in a context of rising levels of poverty among the majority of black people, as unemployment doubled to eight million people in 2003 and the numbers of “working poor” – most of whom should be classified as unemployed – increased dramatically to more than four million people (Gqubule, 2003: 4).

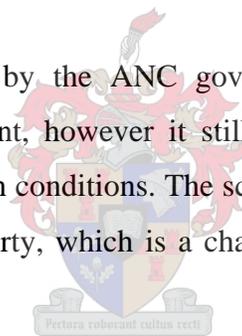
Initially, BEE was created to empower the elite with the aim of trickling down their wealth to the masses, something, which thus far failed to materialise as envisaged. The biggest challenge of black economic empowerment remains to address the high levels of socio-economic inequality and poverty. The little redistribution of wealth, which has taken place, has benefited only a few in the black middle class, which occupies skilled, supervisory and managerial jobs and a tiny black business elite, whom in the process have become overnight millionaires (Jacobs, 2002: 58).

## **4.2 Lessons**

South Africa can learn a great deal from the Malaysian experience on how to implement an economic empowerment programme aimed at ensuring that economic wealth is broad-based. The Malaysian experience shows that for an economic empowerment programme to work the South Africa economy needs to grow. The economic growth the country has registered in the past decade, is not matching the average growth of 8% experienced by the Malaysians in the 1980s, which was the cornerstone of the Malaysian economic empowerment programme. Since the-mid 1990s the South Africa’s growth rate has been ranging around 3-5% and this does not have major impact on poverty alleviation experienced by the majority of black people. South Africa’s slow growth rate can be attributed to the different global conditions from those in which the Malaysia’s economic empowerment took place.

What made the Malaysians to be successful in reducing poverty experienced by the Bumiputeras during its economic empowerment programme, is the inclusion of a poverty alleviation programme as part of NEP. Poverty alleviation was part and parcel of the NEP, which aimed at empowering and improving the lives of the Bumiputeras. In its recommendations of broadening BEE, the BEECom recommended that poverty alleviation and land reform programmes should form part and parcel of Broad-Based BEE programme. In examining the recommendations of the BEECom, the ANC government through the influence of elite, decided to exclude issues of poverty and land reform from Broad-Based BBEE strategy, to be carried out by the respective government departments. The exclusion of such issues as poverty alleviation and land reform is like excluding the majority of black people, in particular Africans, from the BEE programme because this is where they are mainly concentrated.

The Broad-Based BEE adopted by the ANC government, to a certain extent, has broadened economic empowerment, however it still leaves out the majority of black people who live in poverty stricken conditions. The scorecards set by BBEE can be met without making any dent on poverty, which is a challenge faced by many black South Africans.



One of the lessons South Africa can learn from Malaysia, which was a key element of the NEP, has been the massive spending not only on agriculture and rural infrastructure, but also on education and social services in rural areas. As a way of speeding up changes in the economic imbalances, a state sponsored mobility system through tertiary education as a major catalytic agent of change was incorporated into the NEP.

Much of the NEP's successes can be attributed to education. Education was critical in the NEP (Second Malaysian Plan 1971) and was seen as an instrument that would integrate the Bumiputeras into the mainstream of the Malaysian economy. In Malaysia's development strategy, education was regarded as a vehicle to modernise society and

attain social goals and as a way of achieving equal opportunities. As part of advancing Malays participation in the economy, the government of Malaysia established a specialised Institute of Science and Technology (MARA), with the aim of training and equipping Malays with the necessary skills in the field of science and technology.

Through education programmes, universities began producing Malay doctors, engineers and lawyers making racial stereotypes obsolete. The Malay feeling of alienation, of not getting a fair share of the cake, has been overcome through the restructuring of society. As a result, in 1990 the government relaxed the plan, placing far less emphasis on quotas (Hiebert, 1998: 23).

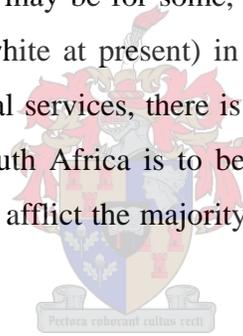
The South African government is failing to recognise how Malaysians used education in empowering the Bumiputeras. South Africa's economic empowerment strategy does not include education programmes to ensure that the majority of blacks are equipped with the necessary education and training that would ensure their participation in the mainstream economy, as Malaysia did in its economic empowerment programme. Similar to poverty alleviation, education is left out to the line function of the Department of Education, which lacks capacity in ensuring that the majority of blacks South Africans receive the necessary education and training that would make them employable or participate in the mainstream economy. Only 12 percent of Africans have a matriculation certificate or a tertiary qualification. About 24 percent of Africans over the age of 20 have had no formal schooling at all ([www.irinnews.org/print.asp?ReportID=40489](http://www.irinnews.org/print.asp?ReportID=40489)).

Also, education does not get the necessary attention from government, as it is the case with BEE. As long as education is separated from the BEE framework, BEE will continue to benefit the elite. BEE cannot be broadened if the majority of the country's population is not properly trained to meet the demands of the economy. To broaden BEE the government need to align its education system to meet the needs of the country's

economy, in areas such as science and technology, as was successfully done by the Malaysians.

In employment equity, most gains have been made in the public sector and parastatals, where black people account for more than 50 per cent of management positions in most cases. In the private sector transformation has been slow. Black people (including Coloureds and Indians), who account for 90 per cent of the population occupy two per cent of executive director positions of companies on the JSE (Gqubule, 2003:5).

Skills development should be the most important element of any BEE strategy. The bigger picture is that South Africa spends less than one per cent of GDP on skills development. However, painful it may be for some, the reality is that without a base of skilled people (who are mostly white at present) in areas such as telecommunications, media, entertainment, and financial services, there is not much hope for rapid economic growth, which is necessary if South Africa is to begin making a dent on poverty and unemployment, the twin evils that afflict the majority of black South Africans (Financial Mail, 2002:14).



The low level of skills prevents the majority of black people from actively participating in critical sectors of the economy. And for that to be achieved, according to Azar Jammie (2003) (quoted in [www.safrica.info](http://www.safrica.info)), “there has to be a considerable focus on development of skills and education, and one senses that the focus of BEE has been far too much on ownership and control, and too little on skills development and education, which is the true economic empowerment.” Some commentators argue that, the BEE scorecards give more weight to the ownership and management/control of a company than it does to skills development. The danger in this is that many companies will only diversify their ownership profile in order not to lose state business, while continuing to ignore their responsibility to the development of skills.

In both countries, South Africa and Malaysia, the state played a highly interventionist role in empowerment programmes. These programmes were driven through state institutions such as ICA and PNB in Malaysia, and Khula Enterprise Finance and National Empowerment Fund in South Africa. Despite these intervention measures taken by both government in trying to redress the imbalances created by the past, economic empowerment of both the Bumiputeras and black South Africans did not meet the expected results.

Given the South Africa's socio-economic exclusion of black majority, the Malaysian experience teaches South Africa that it is through education, employment, and ownership, that broad based economic participation of the black majority can be somewhat guaranteed.

### **4.3 Pitfalls**

While Malaysia made significant strides in the economic empowerment of the indigenous Malay majority, between 1970 and 1990, the gap between the wealthy Malaysians and the poor increased. This is similar to South Africa's economic empowerment, where a number of BEE companies buy stakes in large corporations, a process that do not necessarily benefit the large majority of Africans. The South African government is making the same mistake made by the Malaysian government of viewing poverty in absolute terms rather than relative terms. As a result there has been a growing intra-class division among black people in particular Africans. What seems to be happening is not narrow racial inequality between blacks and whites but growing intra-black inequality.

One of the pitfalls of the NEP where South Africa can learn from Malaysia, is a rentier capitalist system whereby, the vast majority in business, regarded the opportunities given to them as something to be exploited for the quickest return. Very early on, they sold off their opportunities such as preferential access to subsidies, licences, and contracts to operate in close alliance with wealthy Chinese in an arrangement cynically known as the

Ali-Baba arrangements. Influential Malays used government quotas and incentives schemes to obtain preferential treatment for themselves and their families and friends. This enabled their enterprises to do well in areas of business.

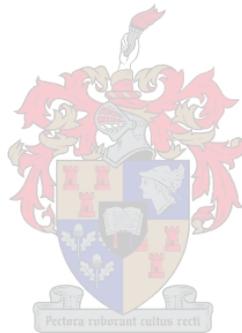
Government policies, in South Africa, have tended to favour larger, politically well connected business interests rather than smaller companies. According to Jammie (2003) (as quoted in [www.safrika.info/doing\\_business/trends/empowerment/bee-10years.htm](http://www.safrika.info/doing_business/trends/empowerment/bee-10years.htm)), “many of these BEE companies are actually still being run by whites, and yes, you’ve got a nice [black] guy at the top and couple of directors, but the actual businesses are still being run by whites and that’s not empowerment, that’s just enrichment.” The ANC Secretary General Kgalema Montlanthe (2004), shares the same views with Jammie (2003) that, broad-based provisions can sometimes be reduced to unknowingly, agents which lend credibility to self-enrichment. He further argued that, in the period between 1994 and 2004, black empowerment has been from a narrow base, especially in respect of the transfer of ownership of assets to individual beneficiaries.

South Africa should guard against the negative aspects of empowerment, including creating a class of people whose existence in business depends on hand-outs. Another danger is the growth of an elite favoured by certain business interests. If BEE has at its heart crony capitalism, as was the case in Malaysia, and there are definite signs of this happening, it could lead to even more frustration by the majority of blacks outside the mainstream economy (Wakeford, 2002: 8).

In order to ensure a broad-based sustainable black economic empowerment, the ANC government has to pump more resources in the existing SMMEs and create new ones for black entrepreneurs, than favouring larger business interest. SMMEs is where the strength of black business lies. Throughout the apartheid era they managed to run and sustain their businesses. By investing more resources in SMMEs, government would

ensure that there is a smooth transition from small business to bigger companies by black entrepreneurs.

Future empowerment initiatives need to focus more on the SMME's to ensure that trickle down effects of BEE initiatives improve the quality of life for the ordinary South Africans. This remains the greatest challenge, especially in light of the socio-economic inequalities and structural deficiencies within the domestic economy (Banda, Herzenberg & Paremoer, 2003: 5).



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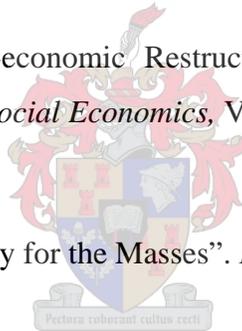
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