

# BIG BUSINESS COMES TO THE TABLE

**Ben Turok** interviews **Leslie Maasdorp**

Leslie Maasdorp, vice-president of Business Leadership South Africa (BLSA), spoke with Ben Turok on 4 December 2009

**Ben Turok:** Let's first discuss Business Leadership South Africa. Who does it represent and what does it do?

**Leslie Maasdorp:** It is a representative body of the top 80 listed companies on the Johannesburg Securities Exchange, including the likes of Anglo-American, BHP, Angloplat, MTN, Eskom, and so on. In terms of pure power, it is a very important group: 80 percent of corporate taxes come from these members. Saki Macozoma is its president and the executive committee includes Bobby Godsell, Sizwe Nxasana and Maria Ramos. I was elected about a year ago as vice-president.

BLSA began as the South Africa Foundation during the apartheid era. Without going into too much detail, it represented big business and was almost an apologist for the policies of the apartheid government. One of its principle aims was to prevent effective sanctions against South Africa, because business wanted to compete internationally and the political environment was not favourable. Obviously, all of that changed quite substantially post-1994, although the name was changed to Business Leadership South Africa only in 2005.

In about 1992, I would say, the ANC decided that it needed a structured dialogue with big business about its role in the economy. At the time, I worked in the ANC economic policy unit with Trevor [Manuel] and Tito [Mboweni] and so on. We recognised the importance of speaking to business collectively. There was a National Economic Forum, but all the structures were in transition then because the legitimacy of the government was in question.



## BUSINESS INITIATIVES POST-1994

**LM:** After 1994, President Mandela used his individual power and charisma to encourage tycoons to engage in particular initiatives, but there was no kind of organised formation around it. The big business working group and the Business Trust were created in 1999. Mandela basically said: “It’s five years after democracy and the pace of change is too slow. People can have the vote, but unless they feel real freedom in concrete economic terms, this thing is not sustainable. You cannot have 30 percent of your workforce unemployed, a massive skills gap and high crime levels in the country without threatening the democracy. Look, what can we do?” Big business was completely persuaded by the logic of the argument and put R1 billion into a pot: R200 million per year over five years.

**BT:** To do what?

**LM:** It was meant to find critical gaps where the pace of government implementation was not seen as sufficient. Job creation was identified as one priority.

We didn’t make a fresh start in terms of reconciliation. No one looked business in the eye and said: “You fellows collaborated in setting up the migrant labour system, in the way that capitalism developed. You provided the foundations of an exploitative system.”

**BT:** R200 million a year for any of that is nothing. It was a gesture.

**LM:** It was a symbolic gesture that business was prepared to come to the party.

We should recognise that business could have played a more positive role in those years. It wanted to be a catalyst. For example, Business Against Crime was born then. The government is responsible for the safety and security of its people. Its duty is to run the state apparatus, the machinery of police, the army and correctional services, the courts and so on. But if these things are not working, business can act as a catalyst by intervening in selected areas. It was recognised that the lack of forensic capacity impaired the ability of the police to solve murder cases, and that a small intervention there could have a magnified impact.

We identified skills as a major issue, and so business was very active in JIPSA [the Joint Initiative on Priority Skills Acquisition].

**BT:** What did Thabo Mbeki do in this situation?

**LM:** The dialogue with business degenerated into multiple consultant forums under President Mbeki. For example, there was a black business working group and another structure for the agriculture sector. He had the big business working group, but it lacked teeth. So the power of business was dissipated.

Post-1994, we never effectively built such a partnership between government and business that government could draw on the strengths, systems, expertise and resources of business to further the developmental agenda. Business recognised that we cannot be competitive globally without the necessary infrastructure of roads, ports and so on, or without a skilled workforce – all of these things that are really part of the government’s responsibility. We recognised that our companies cannot be profitable and world-class unless we make an effort to complement the government’s efforts.

**BT:** The big economic gurus of that government were Thabo Mbeki, Trevor Manuel, Alec Erwin and Tito Mboweni. Mbeki had a very strong economics background; he knew all about the South Korean model and how states can direct capital. Looking back now, it seems surprising that this group didn’t try to harness the resources of big business in the way that you are suggesting. Why do you think this was?

## DIFFICULT RELATIONS

**LM:** I’d say there are three reasons why there was no major structured strategic dialogue with business.

Firstly – and I speak as someone who grew up in the political structures of the ANC and the UDF – the ANC was always suspicious of business. It was not a relationship of trust. When the ANC was unbanned, I worked in the department of economic planning and I know that we saw these guys with their own agenda, and they were probably checking us out, too. We didn’t make a fresh start in terms of reconciliation. No one looked business in the eye and said: “You fellows collaborated in setting up the migrant labour system, in the way that capitalism developed. You were the heart and centre. You provided the foundations of an exploitative system.” So there hasn’t been a relationship of trust in the past.

My second reason is that the ANC has never really had – and still does not have – adequate representation of what I would call a “big business interest”. In the evolution of a society, it is pretty normal for the various interests to be represented in political formations. BLSA is an organised constituency with a lot of clout. So why is it that big business



does not have a voice in the political establishment as it is currently configured? Out of a hundred members of the ANC national executive committee, there are only a few from business, people like Cyril Ramaphosa, Saki Macozoma, Tokyo Sexwale. So big business has to organise its own structures outside the ANC.

**BT:** But my question is the other way around. Why did the ANC, as astute economists and freedom fighters, not see it in their interest to create that kind of relationship? The guys at the top must have felt that the time had come to set an agenda, as Japan, Taiwan and South Korea had.

**LM:** To be fair to the previous administration, there definitely was a strong programme of reconstruction post-1994. If you look at the developmental states in Asia, investment in people was at the heart of it. In South Africa, we spent R40 billion on education in 1996–97. That number has since trebled. There's been a massive investment in social services, in education and training. So there has been a programme of sorts.

Trevor Manuel said we were cowards. To a degree he was right.

**BT:** But not in relationship with capital, as you say.

**LM:** That is precisely my point. The third reason – the first was distrust and the second was ANC party structure – is that very few people actually have experience of or understand the real issues of business. “Business” is often seen in nebulous or monolithic terms. But it is important to differentiate between the interests of big business and the interests of small and micro entrepreneurs and to recognise organisations like the Chamber of Commerce, which represent different sectoral interests. For example, some businesses love a weak exchange rate, while others want a strong one.

So how will you understand what the issues are, from the perspective of Sasol or MTN, unless you speak to people regularly? In the big developed democracies and in emerging markets, CEOs have access to the political establishment in a much more seamless way than in South Africa. Things are organised and formalised here. We need much more informal engagement. For us to create more jobs, for us to create prosperity, the government needs to see how they can facilitate that. There is often too much red tape for business to flourish and to be competitive. Now, with the current administration, I think there's an openness to engage on these issues.

This is one of the key points that I want to make: there is not a deep enough understanding of the need for us to be globally competitive. In order for South Africa to occupy its rightful place as potentially the fastest-growing emerging market, we need to build more home-grown multinationals. I don't think the ANC projects such a desire.

**BT:** You mean parastatals?

**LM:** No, I don't mean parastatals. I mean South African companies building a global footprint, like MTN or SAB. South African companies, most of them headquartered here, employ hundreds of thousands of people and bring prosperity to ordinary South Africans.

## THE MANDATE AND THE MANIFESTO

**BT:** What is Business Leadership's mandate?

**LM:** It is derived from our members. At the beginning of the year, we have a strategic dialogue about the key issues facing South Africa and where we should invest our efforts and resources. And you shouldn't be surprised that there's a huge overlap in the issues that we identify as critical and the agenda of the government and the ANC election manifesto.

Our number one issue is that we need a growth strategy. Number two is that energy is critical for South Africa's growth and for the continent. It is the biggest deficit, the biggest hindrance, the biggest constraint on Africa's growth over the next 20 years. Energy can make or break an economy. It determines whether the lights are on for a woman to give birth in rural Uganda or for a schoolchild to pass an exam. We are facing a huge crisis because of an obsession with keeping energy completely in public hands. The only way to build a long-term strategy is to ensure that independent power producers can leverage the skills, resources and capital from the private sector and international capital to complement what is known now as Eskom.

Healthcare reform is also critical in South Africa. The ANC has a plan to introduce a national health insurance scheme. We want to be actively engaged with this in order to bring together the best of the private and public systems to deal with the deficit in public healthcare. Working with government in a partnership for safety and security is also a huge issue. And job creation as part of the growth strategy...

**BT:** This is not far from the ANC manifesto.

**LM:** As I said, there is a very strong concurrence. It doesn't mean that business supports everything the ANC does or says, but we believe that the priorities identified by the government fit with the needs of South Africa.

**BT:** I have been saying that there is a basis for a consensus in South Africa. You're outlining a common programme. Why is it not happening?



**LM:** Debate in South Africa has become ideologically ossified. You are seen as fitting into a particular agenda, either left or right. If Rob Davies, Ebrahim Patel or Trevor Manuel were heard to say what you have said now, the unions would fall on them like a ton of bricks for “representing the class interests of business”, right? I had the wonderful privilege of working for the ANC in the early '90s and the debate then was more sophisticated.

**BT:** I agree.

**LM:** I'm now sitting here as a representative for business, but it doesn't mean that I've changed my paradigm lock, stock and barrel. Fundamentally I still believe in a South Africa that can deliver prosperity for the majority of our people. We live in a very unequal society.

**BT:** All right, but why – and this lies at the heart of Business Leadership's purpose – are you and the government unable to say, “Let's agree on the following items and disagree on others”?

**LM:** In order to forge a common agreement, each partner needs a broadly unified position, and the ANC had its own internal contestation around economic policy in the '90s. We had the RDP and then GEAR. If I had been in big business then, it would have been difficult to find someone to negotiate with.

I was also involved in the creation of Nedlac in 1995, which was to be the institution for socio-economic policy-making and consensus-building, but it was weakened over time because the three partners – government, business and labour – did not place the same level of importance on it.

**BT:** The ANC will have contestation forever, because that is its nature as a “broad church”.

**LM:** We're also a broad church.

**BT:** But the cabinet is not: it is a single body under a head of state. One would have thought that a way would have been found to negotiate with business on certain basic common issues and this did not happen. I'm suggesting that there was a failure of leadership.

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**LM:** I'd say that there was no quest to forge a social contract – to put it in more elaborate terms – because of the concessions and compromises entailed. Such a social contract could potentially have worked in the early '90s, as part of the overall settlement, but there were no real favourable conditions after 1994. Incrementally, we forged partnerships on selective issues.

**BT:** And how does it change for Business Leadership now? How do you intend to interact with government and with the ANC?

Trying to direct private capital flows to particular industries is outmoded, and trying to introduce that today will, in fact, drive capital away.

**LM:** We need to be an active stakeholder, as labour is, in contesting policy ideas. We want to be much more assertive, much bolder in advancing our agenda. Big business was attacked by Trevor Manuel at the World Economic Forum last year in June. He said we were cowards. To a degree he was right, because we chose to take quiet meetings with President Mbeki to say, for example, that we are on a slippery slope unless we deal with crime in the country. Under the Mbeki administration, it wouldn't have worked if we had gone public and said, “You are stuffing up on crime”.

**BT:** Why? What would he have done?

**LM:** Potentially, Mbeki and the culture in the ANC at the time would have seen us as unpatriotic or sell-outs, as opposing a kind of patriotic national agenda.

**BT:** And the situation has changed now?

**LM:** There's more openness now. There's no splintered centre where some people are seen to have access to particular individuals. As business, we believe that there's a new opening up of space to engage on policy ideas. The ANC and the government aren't obsessed with having all the answers.

**BT:** You used the word “contestation” earlier, which is quite strong. Do you mean that?

**LM:** For example, formations within the ANC and the broader alliance have called for the nationalisation of key sectors in the economy: mines, banks and other large industries. The idea is outdated; it would have hugely negative consequences on the economy. Those demands



came from the Freedom Charter under conditions that are very, very different from what exist today.

**BT:** So you're going to take an open stance on certain major economic issues? That's the key difference, isn't it?

**LM:** Oh, absolutely. If we see this debate as occurring largely within ANC formations, we are forced to be silent. But now I've got to say that this will have a destructive impact on the economy, or that intervening in the currency market will have this potential impact.

**BT:** Do you want to say anything about black economic empowerment (BEE)?

**LM:** I think BEE got a bad name over the last number of years, but it was a necessary series of interventions to change the ownership structure of the South African economy.

There is not a deep enough understanding of the need for us to be globally competitive.

**BT:** Has it?

**LM:** If you look at the members of BLSA, the picture is very different today as a consequence of transformation and black economic empowerment. BEE has had its distortions, but it has had a positive impact in creating a small but new class of people who can be "patriotic capitalists", if you like.

## ECONOMIC GROWTH PATH

**BT:** I am running a series of seminars with DBSA on the structure of the economy. The view that's emerging is that South Africa is a low value-added but high rent-seeking economy. In other words, the productive sector of the economy is not efficient and is not producing competitively. On the other hand, there is high rent-seeking, because profits are very high. Would you agree with that?

**LM:** The structure of the economy has obviously changed fundamentally. Pre-1994, the economy was closed and focused on import substitution. After 1994, we wanted to open up the economy, integrate it more globally. We've been fortunate over the last eight or nine years with a commodity boom that has been very favourable for South Africa. However, that's not where our future resides. The biggest growth in employment has been in the services sector.

Is our economy on a strong growth path? We believe that it is not. We've got to invest massively in our people to create the kind of capabilities for our country to grow.

**BT:** Nobody would disagree that human capital is a vital issue. But by itself it is not enough. Our research shows that the real economy – namely mining, manufacturing and agriculture – is stagnant...

**LM:** And declining in some cases.

**BT:** Yes, and that's the foundation and where value addition takes place. Doesn't big business have a vision about that?

**LM:** One needs to expand the definition of production and not be confined to those traditional factors. Over the last 10 to 15 years, the biggest growth in employment has been in services: retail, telecommunications, call centres and financial services. It is a natural shift that is happening globally.

**BT:** Let me take you up on that. The UK de-industrialised and then pushed London's financial district as the "financial sector of the world", and they've been the hardest hit by the crisis. Of course we want to grow jobs in the services sectors, but at the end of the day those companies are not going to be sustainable if the economy doesn't produce things, if we do not grow our productive capabilities.

**LM:** Absolutely. However, we are living in a global age. We have to be competitive. That's a function of our rate of using skilled people. You need comparable labour market regimes so that you are able to attract investment. For example, the cost of labour needs to be competitive. I'm not saying we must try to be a low-cost labour producer, because we will never compete with the likes of Vietnam and China. My point is that a number of pre-conditions need to be in place to ensure that we are able to expand what you call the productive sector.

**BT:** Is big business wanting to do that, and how?

**LM:** That's more difficult, because each sector has unique sets of opportunities and constraints. We need to have a more structured partnership with government.

**BT:** If Business Leadership is going to come strongly to the debate, it's also got to come with proposals on how to grow the real economy. Is that discussion happening?

**LM:** We cannot sit in our ivory towers and design plans for each industry. We don't believe that kind of intervention is what's required. We need to look at what we can unblock to

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ensure that investment flows to the particular sectors where we do have a comparative advantage. In some areas, we need things like improved IT services and outsourcing. But this is a discussion we want to have with government, with the department of trade and industry (DTI).

**BT:** I know I'm being a bit traditionalist, but honestly, if you want to have a productive base, you must have a manufacturing capacity. And yet we have foundries closing down all over the country. If the government planning commission came to Business Leadership to say that we think we need much stronger tooling and foundry industries, and that we're worried that big business is not investing in that real base, what would you say?

**LM:** The idea of directing investment to particular sectors because we've come to an *a priori* conclusion that we must develop them is problematic. I think it's important that we have an overall industrial policy framework that allows us to leverage our capability where there is demand, where we have skilled people, where we've got all the enablers in

place. But we shouldn't be trying to direct investment and private capital to a particular sector just because we believe somehow...

**BT:** But that's what South Korea, Japan and Taiwan did in a big way.

**LM:** The environment that enabled industrial policy interventions in those countries in the '50s, '60s and '70s does not exist today. We've got a much stronger WTO. We've got a much more integrated global economy where countries will be sanctioned for particular forms of government support. For example, our motor industry development plan is choreographed in such a way that it doesn't fall foul. We don't have the luxury to do what the South Koreans and the Japanese did.

**BT:** When the DTI talks about an action plan based on the industrial policy document, could that be verging on undue direction?

Mbeki and the culture in the ANC at the time would have seen us as unpatriotic or sell-outs, as opposing a kind of patriotic national agenda.



**LM:** I would say that the role of industrial policy and the DTI is to set a framework in which businesses and investors then identify potential opportunities. But trying to direct private capital flows to particular industries is outmoded, and trying to introduce that today will have counter-productive measures. It will, in fact, drive capital away. The movement of capital is instantaneous, it is 24/7. Sure, we have some constraints on the movement of capital in South Africa, but foreign investors have no such constraints. We need to be sure that, whatever measures we put in place, we are competitive with the big emerging markets. We don't have the luxury to say, "Let's do the following".

**BT:** But the Chinese do a bit of that, don't they?

**LM:** It's *slightly* different: they are a billion people and we've got probably 48 million. (Laughter) They have a huge consumptive capacity, a massive market. We're a tiny economy on the tip of a continent. We don't have a Japan next to us, or a US. If we had an economy with 300 million consumers next to us, South Africa could have been a very different place today.

**BT:** You're suggesting we need to be very timid, really?

**LM:** No, no, no. In fact, quite the opposite. I believe that we have to root our strategy in the region, not just in South Africa, because our market here is too small. We should look very, very strongly at the rest of Africa. This continent has one billion people. This is the last frontier in terms of new investments, skills opportunities, huge infrastructure investment in roads, in ports, in telecoms and all of these things.

Increasingly now, I think that Africa will be recognised as being where China was 50 years ago. It could be the new China if we just create a more enabling environment for business. So I don't agree with the notion that we need a

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timid agenda. We need a bold plan which should demonstrate a path or gateway for companies like MTN, South African Breweries, Checkers, Massmart, DSTV to grow throughout Africa. South Africa has proved that we are able to make a positive contribution to economic growth.

**BT:** Is Business Leadership going to lead the way with this?

**LM:** Absolutely. All of these companies I mentioned are our members.

**BT:** Do you have a plan – without colonising Africa?

**LM:** This is about ensuring that we are able to grow these markets in Africa to contribute to the economic growth of those countries. As I said at the beginning, we see our role as a catalyst. If there are small projects with the potential to have a huge impact, or if you can unblock capacity, get those governments to collaborate, and can come up with a model – those are definitely the kind of interventions we want to be involved in. It's not about going to Tanzania and taking over their breweries.

**BT:** Is there anything you'd like to add in closing?

**LM:** South Africa is going through a very important period of transition right now. I see more honesty coming through in the debates and there are signs of a greater openness which we, as business, really, really welcome. ☺

## President Zuma to attend celebration

President Zuma has agreed to join the board of *New Agenda*, South African Journal of Social and Economic Policy, to celebrate our 10th anniversary. *New Agenda* was started to fill a gap in our discourse on economic and political issues. Although the board consists of ANC MPs and academics who are ANC sympathisers, *New Agenda* has consistently exercised its own independent judgement on the issues of the day.

*New Agenda* has given space to some of the most distinguished minds in our country and has never resorted to populism or the trivialisation of issues. We are proud of our record as a serious publication which is read by top decision makers in government, business, labour and academia.

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**Time:** 18h00

**Date:** Tuesday, 01 June 2010

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