

Governance, corruption and state capture: Portending a slippery slide for South Africa's economy

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In recent weeks we have been witness to a proliferation of media reports and press clippings about alleged corrupt relationships between the Gupta family and the state. For example, Andrew England writing in the *Financial Times* claims that the predatory relationship between capital interest and the state is not only a shady one, but is effectively the cause of state pillage. In this respect he alleges that the Gupta family has for all intents and purposes been responsible for 'state capture'. He further argues that under these circumstances the Gupta family is increasingly portrayed "as a symbol of the malaise afflicting the nation", especially in terms of wielding their influence over state officials and appointments and procuring government contracts.

In short, because of a lack of good governance, especially in terms of weakness on the part of the South African state to control its bureaucracy, contractual rights and rule of law, the *Leviathan State* is giving way to increasing commodification by large corporations. As a result, corruption and cronyism become the order of the day.

In this submission we argue that in South Africa as well as in other emerging economies the inextricable relationship between state bureaucracy and large corporates cannot be ignored in any critical analysis of corruption and cronyism. Good governance is key to the way in which the state interacts with capital for the greater benefit of society.

Generally, when we read about state corruption in South Africa, we conjure up images of state bureaucrats extracting bribes from helpless individuals or a private firm in order that they can 'facilitate' some 'important work' to be done. In this context it would seem that the state is extracting a kickback for the selective benefit of some politician or bureaucrat. The flipside of this effect is when some large corporate or 'family' stage-manages the governance policy framework of the state for its own selfish ends. In contemporary South Africa and globally this is regarded as corruption of the most pernicious kind. It violates every tenet of democracy.

In the contemporary South African perspective, the alleged control of the state by a powerful business interest (the Gupta Family) is regarded as the 'privatisation' or 'commodification' of the state or 'state capture'. It is an objectionable situation when a business oligarch not only assumes, but acts as if it has complete control of the state and manipulates decisions on behalf of the state, including the alleged appointment of an individual within its realm of influence to the position of minister of finance. This insidious situation has had many repercussions not only for the government and its leader, but perhaps, more importantly for the state of the economy and its poor world ranking.

South Africa's 'state capture' thus not only reflects on the quantum of corruption, but also on poor governance. It affects almost every facet of the state's apparatus, including the violation of its contractual rights and rule of law. Consequently, the state has failed in its obligation to serve the majority of civil society and the business ecosystem.

In attempting to comprehend this sinister relationship between potent business interests and the state it is important to understand the means through which influential corporates act. Whilst most corruption is directed to tampering with the administration of existing laws and regulations, in the instance of 'state capture' business juggernauts attempt to influence and shape how those laws and regulations are formulated. Bribes are either tendered to members of parliament, for example, to procure their votes on important pieces of legislation or to government officials to enact favourable decisions in order that they can extract maximum financial advantage for themselves. In such a relationship, 'state capture' thus becomes a strategy for a firm to create a financial space of relative security and advantage for itself at the expense of all other competitive business interests.

Besides an impending downgrade of the economy by Moodys, what other negative impacts can South African civil society

and the business environment expect as a result of state capture? Evidence suggests that when a state is susceptible to capture, foreign direct investment can amplify the problem, to the extent that international firms with local headquarters may be tempted into corruption when competing for public procurement contracts. They have the financial means to offer a larger quantum in bribes. The South African arms deal, is a classic exemplar.

Equally, within the perspective of 'state capture' there are real challenges for the long-term development of the South African economy. It is highly unlikely that local emerging businesses will concentrate on competing in a warped economy through entrepreneurial spirit and innovation. They would rather spend their time, energy and entrepreneurial skills on capturing the state. Sadly, the distorted economy rewards those firms who are well connected to the bureaucracy of the state, and not those who show entrepreneurial promise.

If the South African political economy continues to be 'privatised' by large business interests, it will weaken the state through corruption and cronyism and undermine good governance and the rule of law. If unchecked, the captured South African state will systematically deter new private investment in the economy, both foreign and domestic, and create obstacles to the entry of small and medium-sized enterprises, the backbone of any competitive global economy.

In the interest of the future of our country's economy and good governance, we need to purge the state of corruption and cronyism. Failure to do so will only result in a state that will perpetually be in a condition of capture and lend itself towards a slippery slope to economic decimation – an affront to our hard earned democracy. In order to prevent an exacerbation of the current South African privatisation of state, it beholds us as a nation to tackle the problem head on. It's an imperative that we cannot simply ignore. As Finance Minister, Pravin Gordhan said, "We need to wake up and prevent our country from being stolen". We need to improve our governance structures and strengthen our legal and regulatory environment. The business sector likewise needs to oblige.

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