POLITICS SYMPOSIUM

The Development Bank and the Developmental State Strategy based on a Comparison of China and South Africa

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At present, the international situation is complex and volatile, with the global economy facing multiple risks and challenges. The North–South development divide is widening, drawing increasing attention to the "Global South." Given their distinct historical backgrounds and resource characteristics, countries in the Global South cannot simply replicate the development models of developed nations; rather, they must formulate their own development strategies tailored to their specific national conditions. The development models of these countries vary significantly and warrant further exploration.

This article analyzes and explores development banks as tools of industrial policy, highlighting the unique characteristics of the development models in different countries and deriving lessons for developing nations.

Practical experience shows that the development of latecomer countries does not hinge on liberalism or socialism; instead, statism emerges as a more reliable pathway. Statism posits that during the catching-up phase, latecomer countries must mobilize social resources, coordinate market operations, and guide development through government intervention to optimize their efforts toward economic advancement (Geng & Chen 2019). The more backward an economy is, the greater the likelihood that its industrialization will occur under organized guidance, often led by investment banks or state-sponsored bureaucracies (Gerschenkron 1962).

Chalmers Johnson (1982) provided an in-depth analysis of Japan's postwar economic development, emphasizing how the Ministry of International Trade and Industry acted as a governmental department that protected and supported specific industries through various industrial policies. This proactive approach not only fostered the growth of key sectors but also drove the overall development of the Japanese economy, showcasing the crucial role of government in economic advancement. Similarly, other East Asian economies adopted comparable models and achieved remarkable economic growth rates. The concept of the "developmental state" gained considerable attention, as governments developed new mechanisms of control to replace the "invisible hand" of the market. In the postwar era, the developmental state emerged as the primary agent of capital formation, with development banks serving as the primary entity financing such investments.

In its 2012 National Development Plan 2030, the South African government integrated the concept of a "developmental state" into its national growth strategy, formalizing its aspiration to transform South Africa into a "capable and developmental state." This plan envisions a proactive, interventionist role for the government in promoting growth and development. However, despite undertaking significant political, economic, and social reforms since the dawn of democracy, South Africa has struggled to achieve and sustain the economic growth rates seen in the Asian Tigers. This raises questions and concerns within the academic community regarding South Africa's suitability and capacity to effectively implement a developmental state strategy.

Focusing on development banks as instruments of industrial policy, this article seeks to compare the roles of development banks through case studies and to analyze the primary factors influencing the South African Industrial Development Corporation (IDC) in the context of the country's development banking system.

LITERATURE REVIEW

Research on developmental governance has primarily focused on two core elements: state capacity and industrial policy. Peter Evans (1995) introduced the concept of "embedded autonomy," which was further developed by Linda Weiss and John Hobson (1995) through the notion of "governance interdependence." Both concepts examine state capacity through the lens of state–society interaction, asserting that robust state capacity to coordinate economic development is critical for effective state intervention. However, the literature on the developmental state tends to concentrate more on state capacity, with comparatively less emphasis on industrial policy.

Regarding the discourse on the South African developmental state, existing literature compares South Africa with other typical developmental states and assesses the applicability of developmental state theory to South Africa's development. It is argued that the developmental state model includes both the East Asian developmental model, as pursued by China, and the Scandinavian welfare state model, seen in Brazil. However, the

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East Asian model is neither suitable for South Africa nor one that the South African government desires to adopt. Furthermore, South Africa currently resembles a transfer welfare state more than a Scandinavian-Brazilian social investment state (Burger 2014). Despite initial efforts to build a developmental state, South Africa has seemingly drifted away from this goal in the past decade due to both internal and external factors. Internally, the government's inability to shield itself from external interference and vested interests, along with deep racial and economic divisions, has hindered its developmental aspirations. The lack of coherence within the bureaucracy has further complicated this issue. Although South Africa's plans and policies may be labeled "developmental," the country struggles to implement them effectively. The South African state lacks the necessary capacity to integrate its institutional framework and national identity with effective service delivery, preventing it from addressing the historical and contemporary challenges of racial redress, economic growth, and equitable distribution within a globalized economy (Mulaudzi 2015). Moreover, the historical legacy of apartheid and the legitimacy of the new South Africa have led to a complicated relationship between the ANC elite and private business; although the political elite has catered to international capital during the neoliberal era, it remains wary of white-dominated private capital domestically, thus hesitating to form close partnerships and instead maintaining boundaries around its influence through labor and consumer protections. The scars of apartheid have made it challenging for the close government–business cooperation prevalent in East Asian developmental economies to take root in the new South Africa, limiting the nation's ability to replicate such developmental models (Seekings and Nattrass 2011).

Externally, South Africa's openness to the global economy and its vulnerability to global commodity markets and international financial flows have constrained state autonomy (Craig 2017). More specifically, although the state has adopted a pro-market stance toward the global economy, this has not been mirrored in its approach to the domestic economy. The existing literature has primarily analyzed the applicability of developmental state theory to South Africa from the perspective of state capacity, revealing a gap in the analysis of industrial policy.

Why and how do development banks serve as effective instruments of industrial policy? Unlike commercial banks, development banks have specific sectoral expertise and unique financial capabilities, enabling them to play a countercyclical role in macroeconomic contexts, especially in response to unstable financial markets. Successful development banks are adept at crowding in private sector investment rather than merely substituting for it. Their lending practices often provide firms and other banks with essential information regarding the government's strategic focus. Furthermore, they typically use objective performance metrics to supply industries with substantial targeted credit (Di John 2020). For development banks to effectively implement industrial policy, they must be both autonomous and highly competent (Shimada 2017). Moreover, development banks can identify market failures through their loan screening and lending activities and can help pinpoint government failures that require public inputs (Fernández-Arias, Hausmann, and Panizza 2020).

Development banks play a pivotal role in the development process by financing infrastructure investments and supporting the provision of public goods, such as promoting environmental sustainability and green growth. They also foster innovation, structural transformation, and financial inclusion (Griffith-Jones et al. 2018) while nurturing emerging markets (Mazzucato & Penna, 2016). However, the existing literature has mainly analyzed the macro-level roles of development banks in industrial policy, with insufficient examination of the factors influencing their effectiveness.

This study is an evaluation of whether the South Africa's development bank can contribute to the structural transformation and economic development needed for South Africa to achieve its developmental state goals from an industrial policy perspective. Additionally, it the primary factors affecting South Africa's development bank's role is analyzed and compared with that of the China Development Bank (CDB), ultimately offering recommendations to enhance its effectiveness.

METHODOLOGY

The researcher employs a case comparison approach, focusing on South Africa and China as typical representatives of developing countries. Both nations are considered latecomers in the context of industrialization and are striving to catch up through state intervention. South Africa and China have established development banks with the goal of promoting industrial growth within their own countries. However, the role of South Africa's development bank in facilitating industrialization is significantly more limited than that of the CDB. The purpose of the research is to identify the main factors that constrain the effectiveness of South Africa's development bank.

The development banks in South Africa that are relevant to industrial development, particularly industrialization, include the IDC and the Development Bank of Southern Africa. Between 1994 and 1996, the South African government restructured its development financing system, leading the five national development banks to refocus on their core sectors of renewed interest. The Development Bank of Southern Africa primarily concentrated on the infrastructure sector, whereas the IDC focused on industrial development. Here, we concentrate on the IDC, which is closely tied to the industrialization process.

Established in 1940, the IDC seeks to encourage industrialization by promoting, facilitating, guiding, and assisting in the expansion of existing industries and enterprises. Its objective is to better organize modernization plans to meet the country's economic needs and enable rational planning, acceleration, and implementation of South Africa's industrial development. Additionally, it is empowered to create and regulate industries (IDC 1971). As an industrial bank, the IDC provides capital for new ventures and initiates projects in partnership with both domestic and foreign companies, aligning its initiatives with national development strategies.

It occupies a pivotal role in South Africa's industrial and development policy landscape.

Similarly, the CDB, founded in 1994, seeks to promote industrialization and industrial development in China. Under the concept of operating within a market environment and the framework of banking, the CDB began credit reform in 1998 and attempted a process of commercialization in 2008. By 2015, it had defined its position as a developmental financial institution, emphasizing its commitment to leveraging its advantages in medium- and long-term investment and financing while serving national strategies through market-oriented and developmental approaches.

This study employs hierarchical analysis, conducting two levels of analysis: the institutional level and the national level. The objective is to compare the characteristics and roles of the development banks in both countries while also exploring the primary factors affecting their functionality from a national perspective. Regarding data sources, information on the volume and direction of development bank loans is primarily drawn from the banks' annual reports, financial statements, and financial yearbooks. For earlier years, where annual reports are unavailable, relevant studies provide the necessary data. Furthermore, country-specific macroeconomic data is sourced mainly from the World Bank database.

COMPARISON OF THE INDUSTRIAL DEVELOPMENT CORPORATION AND THE CHINA DEVELOPMENT BANK

Governance Structure

The size of the IDC Board is dictated by the IDC Act, which allows for a minimum of 5 and a maximum of 15 directors to be appointed by the shareholder. All appointments are recommended by the Minister of Economic Development in accordance with the IDC Act, subsequently requiring approval from the Cabinet. Following this process, a Board induction is organized for all new members. The directors are individuals of high caliber, possessing diverse backgrounds and expertise, which facilitates independent judgment and effective deliberation in the decision-making process while pursuing the IDC's strategic objectives.

In contrast, at the inception of the CDB, the State Council directly appointed the president and vice presidents in accordance with the approved establishment plan, implementing a presidential responsibility system. The organizational structure included four vice presidents, a secretary of the Discipline Inspection Commission, three assistant presidents, and departments and offices established based on principles of industrial division of labor and the unification of auditing and lending. Roles such as chief accountant, chief economist, and chief auditor were also designated.

Following the restructuring of the bank into China Development Bank Co., Ltd. in 2008, its governance structure underwent significant changes, continuously promoting the establishment of standardized corporate governance. The operational mechanism was refined to encompass three tiers: the General Meeting of Shareholders, the Board of Directors, and the Board of Supervisors, alongside senior management. Moreover, the chairman of the board of directors is appointed by governmental agencies, reflecting the state's influence within the governance structure.

Financing Capacity

The IDC has not received government funding since 1954 and primarily relies on borrowing, internal rates of return, capital growth, and the sale of mature investments to maintain and expand its funding sources (IDC 2017). However, the amount of capital available to the IDC is considerably smaller than that of other development banks (Naqvi 2018). The repayment period and interest rate of loans extended by the IDC to firms are contingent upon the borrowing terms and interest rates of the funds it raises. As a result, the IDC is unable to offer more favorable interest rates than those prevailing in the banking sector and its loan tenures are relatively short. This situation creates tension between the IDC's development mandate and its financial sustainability. Although the IDC seeks to promote structural transformation and inclusive economic growth by providing concessional loans to small and medium-sized enterprises, it remains predominantly focused on large, established firms in less-diversified upstream industries to ensure its financial stability (Goga, Bosiu, and Bell 2019). Industrial financing is crucial, as the cost, maturity, and availability of funding are the main determinants of investment in the manufacturing sector. The manufacturing segment needs "longer financing terms, grace period subsidies, lower interest rates, and effective mechanisms for funding working capital" (DTI 2014).

In contrast, the CDB has developed robust financing capabilities through its reform practices, gradually establishing an internationalized and modernized financing mechanism that is largely based on capital funds, primarily through bond financing, supplemented by refinancing from the central bank. This approach effectively integrates national credit with institutional credit, actively promoting market construction and the enhancement of various systems through project financing. The CDB's strategy reflects government objectives in a market-oriented manner, implementing a financing system where "the government selects the entry point, development finance incubates initiatives, and the market realizes outcomes" (CDB, 2018). The CDB's approach fosters credit construction and nurtures qualified market participants. Notably, the CDB does not rely on the treasury; instead, it primarily selects projects that drive economic growth and tax revenue, which can be repaid through market-based mechanisms, using local government credit as a guarantee to address potential repayment issues.

The contrasting financing capacities of the IDC and CDB highlight the differences in their operational frameworks and their ability to fulfill developmental objectives. The IDC grapples with limited capital and focuses predominantly on large firms, whereas the CDB has managed to cultivate a multifaceted financing system that supports a broader range of projects and actively integrates market mechanisms to promote development. This comparative analysis underscores the importance of exploring financing mechanisms that align with the specific developmental goals and contexts of different countries.

Area of Investment

From 1994 to 2007, the IDC largely funded upstream, resource-based sectors within the metals and chemicals industries, thereby reinforcing the existing industrial structure. However, there was still a notable lack of support for diversity and inclusion. Beginning in 2007, the IDC began implementing a more targeted industrial policy through the National Industrial Policy Framework and its subsequent implementation plan, the Industrial Policy Action Plans. This shift was intended to bolster labor-intensive and value-added manufacturing sectors.

As figure 1 shows, between 2008 and 2022, the sectors that received the most funding included mining and quarrying, machinery and metal products, other manufacturing, and chemicals and other minerals. Throughout this period, IDC funding continued to primarily support more mature upstream industries rather than diversifying into labor-intensive downstream sectors. Although some limited diversification has occurred, the IDC has predominantly focused on funding sectors that have historically received strong support—specifically, the capital-intensive upstream industries, which are characterized by high concentration and limited labor absorption. Consequently, the downstream sector has not received adequate support.

The CDB aligns its investment direction with the country's industrial policy and actively supports the government's strong initiative to guide foreign investment. It strategically allocates funds to sectors and industries that resonate with the nation's development strategy. As a vital policy instrument, CDB's investment priorities reflect the government's developmental focus and serve as a barometer for foreign investment inflows.

Moreover, CDB leverages its institutional and technological advantages to nurture the market, enhancing the growth of domestic enterprises and guiding private investment. By effectively combining domestic and foreign resources, CDB integrates foreign advantages with domestic demand, thereby driving the progress of domestic enterprises. This approach promotes a dual circulation of domestic and international resources and markets, allowing CDB to fulfill its role as a primary development bank.

FACTORS AFFECTING DEVELOPMENT BANKS

This research identifies two primary factors influencing development banks: state and business relations (domestic factor) and openness (international factor).

Domestic: State and Business Relations

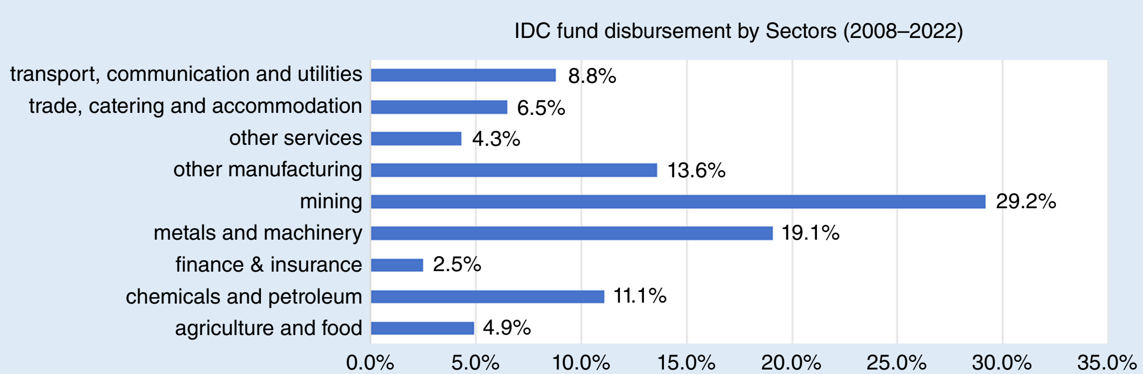
The state and business relationships within a country significantly affect the development and effectiveness of development banks. On one hand, these relationships reflect the nation's power structure, especially regarding how relevant interest groups control resources and influence government decision making. This dynamic affects the trajectory of economic reforms and subsequently the funding sources for development banks. In South Africa, the decentralized nature of state power has enabled large business groups to exert considerable influence, leading to a situation where government authority is diminished and political and business interactions are predominately characterized by strong commercial control.

To gain legitimacy and broader support, the new South African government was forced to compromise with major business groups, resulting in a shift from an economic reform program that prioritized social redistribution to a neoliberal reform agenda. This ideology advocates for minimal government intervention in the market. Consequently, even with relatively ample financial resources, the South African government has not provided excessive financial support to development banks. The IDC's financing capacity remains limited, as government support has not been sufficient to enhance its capability to significantly contribute to South Africa's industrialization.

Conversely, the state–business relationship has created disparities in the roles development banks can play in different countries. In a capitalist framework, industrialists wield substantial power and governments depend on a steady income from these entities in the form of taxes and wealth to

Figure 1

Sectoral Distribution of IDC Loans (2008–2022)



Source: Based on data from IDC Annual Report (2008–2022).

implement their programs. The South African economy is dominated by a handful of powerful conglomerates that influence policies to their advantage, particularly in the mining and industrial sectors, where their influence on policy making is entrenched (Chabane, Roberts, and Goldstein 2006). Large upstream producers in sectors like steel and chemicals often place downstream labor-intensive industries at a disadvantage. Although the IDC states that its strategy is to support industrial capacity aligned with national industrial policies and the priority sectors identified by the National Growth Plan and Industrial Policy Action Plans, state support has predominantly benefited heavy industry, reinforcing rather than altering existing industrial development paths (Black 2012). The failure of the developmental state to manifest in the postapartheid era can be attributed to the convergence of interests among the national treasury, the business sector, and global financial actors (Shaukat Ansari 2016). A "conservative consensus" on macroeconomic policy among the primary policy makers, such as those within the national treasury, has allowed ruling interests to consolidate their power and continue to benefit from the country's development banks.

In contrast, the state–business relationship in China demonstrates much greater state control, with the government dominating the policy agenda and effectively regulating large businesses. The state directs economic reforms and maintains a powerful role in governance. Funded by $50 billion in state capital, the CDB is granted quasi-sovereign state-level credit, allowing it to issue financial bonds in the market—forming the foundation for its market-driven operations. The CDB's reliance on state credit for bond issuance represents indirect government support, with the state actively participating in market financing (Chen 2020). Rather than undermining the state's role, the government's concession to market dynamics has enhanced its capacity to mobilize resources effectively.

International: Openness

Historically, South Africa's economic performance has been largely driven by investment in sectors such as mining, metals, and machinery. However, the level of investment has remained insufficient relative to what is needed to restructure the economy, with a significant emphasis on capital-intensive industries, including coke production, refineries, and basic chemicals. The South African economy has not diversified beyond these traditional resource-based sectors, which continue to dominate output growth, and investment in the manufacturing sector remains concentrated in these areas rather than shifting toward a more diversified manufacturing base.

Furthermore, South Africa's economy displays a high degree of concentration, with a few large firms dominating most sectors. This concentration, along with increasing vertical integration within sectors since 1994 and significant entry barriers, has resulted in limited competition. Although South Africa's financial sector has experienced substantial growth, it remains disconnected from the real economy, with investment rates falling well short of those required for sustained economic growth. Capital flows are highly volatile, primarily manifesting in merger and acquisition activities and securities trading rather than in productive investments (UNCTAD 2014). Moreover, South Africa's gross fixed capital formation levels have consistently lagged behind those of countries at similar levels of development (Bosiu et al. 2017).

South Africa's high degree of openness further undermines the role of the IDC in economic development. Globalization in South Africa has been primarily driven by trade. Whereas Northern countries have engaged through mutual interdependence, South Africa, as a Southern country, has participated through dependence and adaptation to the global system, characterized by a high degree of external orientation. However, South Africa's capacity to leverage globalization for domestic benefit is limited, inhibiting its ability to shape the global system to address pressing domestic issues (Tsheola 2002). Being a former colony, South Africa's production structure relies heavily on the import of production inputs, leading to an import-dominated trade structure, a persistent current account deficit, and capital outflows greater than its capital inflows resulting from the ratio of exported rand to imported rand.

The expansion of exports and rapid growth in imports has been accompanied by higher economic growth rates, along with deficits in net foreign direct investment flows and balance of payments imbalances. Such imbalances inevitably lead to a reliance on foreign borrowing, resulting in increased external debt. South Africa's weak nontraditional exports, which require higher levels of investment growth, depend heavily on capital inflows. Conversely, most of South Africa's foreign capital inflows consist of short- and medium-term investments, primarily in the form of bonds and portfolio investments, with little greenfield foreign direct investment. This dependence on short- and medium-term capital inflows reinforces reliance on resource sectors and oligopolistic firms (Bhorat et al. 2014). Moreover, foreign direct investment has strengthened the preexisting industrial structure and further diminished the role of the IDC in South Africa's economic development, particularly in terms of industrialization.

In contrast, although China's openness is comparatively lower than South Africa's, the Chinese government has effectively guided and controlled this openness, formulating coherent foreign investment and trade policies. The CDB's

This article argues that the factors influencing the IDC's role in South Africa are rooted in the state–business relations and the degree of openness within the economy.

investment direction aligns closely with the country's industrial policy and robust foreign investment guidance, directing funds into sectors and industries that support national development strategies. As a policy tool, the CDB's investment priorities reflect the government's developmental objectives and serve as a barometer for foreign investment. Additionally, the CDB leverages its institutional and technological advantages to foster market growth, enhance domestic enterprise development, and guide private investment. By integrating domestic and foreign resources and aligning foreign advantages with domestic demand, the CDB vigorously promotes domestic enterprises, effectively facilitating the dual circulation of domestic and international resources and markets, thereby fulfilling its role as a development bank.

SUGGESTIONS

The comparison between South Africa's IDC and China's CDB reveals significant differences in the effectiveness of these development banks, despite both being market oriented. This article argues that the factors influencing the IDC's role in South Africa are rooted in the state–business relations and the degree of openness within the economy.

To some extent, South Africa can learn from the successful experiences of China's CDB. The government could provide indirect support to the development bank by offering credit guarantees, thus strengthening the IDC's capacity to empower economic growth. Additionally, the South African government should work to coordinate relevant institutions and departments to ensure that industrial policies remain consistent and that foreign investment and trade policies align effectively. By directing both domestic and foreign resources toward investments that align with the national development strategy, the government can foster the structural transformation of crucial sectors in the economy.

Furthermore, the South African government should seek a degree of autonomy to move beyond merely responding to the interests of large conglomerates. This autonomy is vital for establishing a more balanced approach to economic development that prioritizes broader national goals over the interests of a select few conglomerates.

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CONFLICTS OF INTEREST

The authors declare no ethical issues or conflicts of interest in this research. ■

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