NATIONALIZING MINES IN SOUTH AFRICA: *A Critical Review of Proposed Models, Prospective Challenges and Socio-Economic Impacts***†**

*by*

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Abstract

The African Congress Youth League (ANCYL) Discussion document publicly released in August 2010 has ignited intense debates between the politicians, intellectual scholars and the business community in South Africa. This document explicitly outline the conceptual frame work for “Nationalization” of South Africa Mines as an immediate alternatives to redress the inequality of the past created by the Apartheid government. This sudden call for nationalization has created a political tensions and the resurgence of a volatile economy due to uncertainty. Many Cabinet Ministers have expressed their opinions and displeasure publicly towards a deterrent policy such as nationalization whilst others remain tight-lipped. Business executives across the mining and banking sectors have dubbed the call for the implementation of nationalization policy as irrational and a hostile move towards foreign investors and the privately owned companies. Experts have posited that this sudden and fervent call for nationalization of South Africa’s banks and mines by the ANCYL will have a negative impact on the lagging economic growth, employment prospects and an improve in standard of living in South Africa. Given the imperativeness of the nationalization debates and the urgency to suggest a definitive policy direction, this research paper critically review the rationale behind the notion of mine nationalization. Additionally, this paper is devoid of emotions, ideologies and reactionary motives towards the current nationalization debates.

Key Words:Nationalization; Expropriation; Emancipation; Developmental State; Freedom Charter; Proxy Argument; Mineral Dependency Trap; COP; ANCYL.

# **INTRODUCTION**

*“For a policy-maker who is anxious to get into action, the theoretical discussions may seem like an unnecessary detour. However, we provide the discussions in the belief that an understanding of the theories underlying policy debates is the best way to improve policy capabilities. If the policy-maker understands the underlying theories, he/she can apply the reasoning to a range of different situations” –* Ha Joon Chang, 2007

During the political struggle era under the Apartheid regime, in 1956, the former President Nelson Mandela declared in the 1956 that: “*It is true that in demanding the nationalization of banks, the gold mines and the land, the Charter strikes a fatal blow at financial and gold-mining monopolies and farming interests that have for centuries plundered the country and condemned its people to servitude. But such a step is absolutely imperative and necessary because the realization of the Charter is inconceivable, in fact impossible, unless and until these monopolies are first smashed up and the national wealth of the country turned over to the people*”

Prior the release of the former President Mandela from prison by the Apartheid government, in his researched paper, Mike Brown (1990) predictedthe materialization an economic debate focusing on nationalization. He asserted that such a debate will be an integral part of the post-Apartheid government as a political negotiation process to bridge the gap between nationalization and the free market (capitalism) from two opposite spectrum. He further enthused that, “*it is probable that the matters of State ownership and the exploitation of South Africa natural resources, including gold, will form an important part of the debate on future economic strategy…the outcome will be an argument on ‘mixed’ economic system, with significant emphasis being placed on income distribution and job creation., i.e. so called ‘national interest’ or ‘social market’ economy”.*

On the other hand, after attending the series of meeting and the World Economic Forum meeting held in Davos (Switzerland) in 1992, he changed his view on nationalization because everyone told him was that if nationalization programme is implemented in South Africa, there will be no inflow of foreign investment from foreigners subsequent to his discussions with industrialists, bankers and other delegates. In particular, Mandela’s conversation with both the Chinese and Vietnam prime ministers convinced him to backtrack on his support for nationalization. Nevertheless, the ANCYL continue to argue that Nelson Mandela never abandoned (or changed his mind) the issue of nationalization of mines but rather he resolved to retreat on tactical reasoning in order ensure a peaceful transition to allow progressive political and economic transformation.

Currently, South Africa is saddled with an unemployment rate of about 25%, adding to this (on average) 65% of South Africa population is living on less than R550 a month (*cf*. StatsSA). The prevailing monetary and fiscal policies including governmental strategies are not yielding positive results in terms of chronic poverty alleviation and job creation.

Twenty-one years after this prophecy, the African Congress Youth League (hereafter called ANCYL or Youth League) discussion document was publicly released in August 2010 has ignited intense debates between the politicians, intellectual scholars and the business communities in South Africa. This document explicitly outline the conceptual frame work for “nationalization” of South Africa Mines as an immediate alternatives to redress the inequality of the past created by the Apartheid government.

A recent study by Citigroup published by Bloomberg in April 2010, revealed that South Africa is the richest country with mineral resources “in situ” that worth $2.5 billion (R17.5 trillion) when compared to other mining countries such as Russia, Australia, Canada, Brazil, Chile, United States, Ukraine and Peru (*cf.* Citigroup, 2010). South Africa’s mineral abundance is an exceptional wealth in monetary terms, Maxwell Mwale’s (Zambia’s Mines Minister) cogent opinion, *“…it is easy to see why the ruling party would want to get its hands on that phenomenal wealth to meet its stated objectives of improving the lives of South Africans, most of whom lives in poverty”.*

Examining the fact that South Africa mining industry worth a staggering value of R17.5 trillion(owing to mineral deposits that worth $2.5 billion), an innovative ways must be developed to unlock this wealth and utilize it effectively in such a way that it ‘trickles’ down to the poorest-of-the poor (that is, to meet the pre-set priorities in the NGP by the government to alleviate poverty, create more jobs, which in turn will stimulate the domestic growth, achieve balance of payment surplus and build tangible infrastructures).

To validate their cogent arguments for nationalization, the ANCYL utilize the adopted 1955 “Freedom Charter” document[[2]](#footnote-2). Prominent ANCYL members like as Julius Malema and Floyd Shivambu have become more vocal and ardent proponents of mine nationalization as unequivocally outlined in the Charter whilst citing Nelson Mandela’s declaration in 1956 as a concrete reference point. But Professor Ben Turok, the author of theeconomic clause in the 1995 Charter, swiftly disprove the ANCYL’s interpretation of the adopted Freedom Charter.

However, many cabinet Ministers have publicly expressed their opinions and displeasures towards a deterrent policy such as nationalization whilst others remain tight-lipped. Business executives across the mining and banking sectors have dubbed the call for the implementation of nationalization policy as irrational and a hostile move towards foreign investors and the privately owned companies that are responsible for attracting substantial foreign direct investments, generating large government revenues via tax payments, creating jobs, enhancing innovations and technologies and building tangible social infrastructures.

Furthermore, several economists and experts have posited that this sudden and fervent call for nationalization of South Africa’s banks and mines by the ANCYL will have a negative impact on the lagging economic growth, employment prospects and an improve in standard of living in South Africa. This sudden call for nationalization has created a political tensions and the resurgence of a volatile economy due to uncertainty.

The raging nationalization debate has affected the mining industry performance negatively because (foreign) investors are cautious to undertake huge projects, mostly due to the envisaged political risk in South Africa. In the support of this argument, the South African Chamber of Commerce and Industry (SACCI) released the Business Confidence Index (BCI) data in May 2011, which indicate a decline in BCI of 1.1 points to 85.8 (the lowest BCI level ) this year.

Nonetheless, the ANCYL continued to argue that the implementation of nationalization programme would provide the “holy grail” answer, which the South African leaders are seeking for, to achieve an equitable economic transformation. Seemingly, the origin of this “holy grail” answer needed by the government to ensure that a sustainable economic emancipation becomes attainable in South Africa is embedded in the 1955 Freedom Charter, which states that the wealth and the (mineral) resources of South Africa should be distributed among all citizens.

The ANCYL, COSATU and NUM’s have argued that their calls for nationalization is based on the profound statement embedded in the Charter that reads *“The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole.*”

In his extensive empirical study, Yack (1999) revealed that nationalization of the political community has traditionally been accompanied by modernization and nation building. In support of the proposition that nationalization will increase the State’s fiscal capacity and better conditions (pg.12, par.46 of the Youth League’s document) was proven by Ha-Joon Chang in his broad empirical study. Chang (2007) cited various instances where countries (such as Malaysia, Brazil, France, Singapore, South Korea, Brazil) have strategically utilize nationalization process to build State capacity, improve its fiscal capacity and spur industrialization.

This paper is restricted to the debates on nationalization of South Africa mines only. Given the imperativeness of the nationalization debates and urgency to suggest a definitive direction policy, this research paper critically review the rationale behind the notion of mine nationalization. Additionally, this paper is devoid of emotions, ideologies and reactionary motives towards the current nationalization debates.

The research paper discourse is divided into eight sections. Following the introduction, the next briefly review the existing political landscape in South Africa whilst the nationalization is defined from both the economic and Youth League’s perspectives. The proposed nationalization models by within the ANCYL’s conceptual framework is also discussed in the third section. The fourth section critically analyze the renowned ANCYL’s discussion document. Real life experiences and aftermaths of countries that have implement nationalization programmes are the focal point of section five. The performance of existing two Stated owned mining entities in South Africa is assessed in section six. Section seven highlights the pros and cons of nationalization on theoretical and practicability viewpoints. Possible externalities and monetary costs of the proposed nationalization model in South Africa is discussed in section eight. The last two sections documents the research conclusion and recommendations for policy makers respectively.

In finality, it worth mentioning that the research paper is strictly restricted to nationalization of the mining industry in South Africa.

# **SYNOPSIS OF SOUTH AFRICA POLITICAL LANDSCAPE**

To fully comprehend the arguments of both the opponent and the proponents of nationalization in South Africa, it is imperative to have an in-depth knowledge on historical political events and the importance of the Freedom Charter as a unique document of reference to redress the vivid disproportionate income and racial inequalities in South Africa

## **2.1. The Freedom Charter**

# **The People Shall Share In The Country's Wealth!**

*“The national wealth of our country, the heritage of all South Africans, shall be restored to the people; The mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole;*

*All other industry and trade shall be controlled to assist the well-being of the people;
All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.” –* The Freedom Charter, 1955.

At the core of all implemented policies by the ANC is the Freedom Charter of 1955. In accordance to political struggle history, the ANC surreptitiously sent out 50,000 volunteers all over the country in 1955, to obtain “freedom demands” from the people of South Africa to afford all South Africans equal rights. A two-day meeting was convened from 25th to 26th June 1955 by the Congress of the People in Kliptown (near Johannesburg). This gathering brought together 2,844 delegates from all over the country and marked the most pivotal historical moment in South Africa, a platform to establish a new order based on the will of the people. The Charter was officially adopted on June 26, 1955 at the COP meeting, however, Apartheid police broke the meeting on the second day, but the charter had been read in full. The crowd had shouted its approval of each section with cries of ‘Afrika!’ and ‘Mayibuye!’.

Afterwards, the Congress of the People’s meeting was denounced as treason by the South Africa Apartheid government, subsequently, the ANC was banned and 156 activists were arrested, including Nelson Mandela who was first imprisoned in 1962. Nonetheless, the Charter continued to circulate in the underground and inspired a generations of young militants. In South Africa Political landscape, the Charter remains an important document to the ANC, SACP, COSATU, COSAS, SASCO, SANCO and all Mass Democratic Movements.

The existing debate on nationalization of mines (in particular) as unequivocally supported by the ANCYL and other proponents, is based on the sectional statement which elucidates that *“national wealth of our country … shall be restored to the people; the mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole”.*

## **NATIONALIZATION DEFINED?**

*“Nationalization of mines means the democratic government’s ownership and control*

*of mining activities, including exploration, extraction, production, processing, trading and beneficiation of mineral resources in South Africa” –* ANCYL discussion document, August 2010

There are variant definitions for nationalization, according to Wikipedia’s definition; nationalization is the process of taking an industry or assets into the public ownership of a national government or State. In the same way, nationalization could be defined as the transfer of private assets into public ownership (*cf.* Oxford Dictionary of Politics). On the other hand, from a broader perspective, nationalization typically refers to private assets and/or assets owned by lower levels of government (such as [municipalities](http://en.wikipedia.org/wiki/Municipality)) being transferred to the [public sector](http://en.wikipedia.org/wiki/Public_sector) to be operated by or owned by the state.

Characteristically, nationalization can either be undertaken *with payment* of compensation [to the former owner] or *without no* compensation – this is the thorniest side of the deal. The most controversial form of nationalization is referred to as “expropriation”, that is, no monetary or physical compensation is paid to the former owner or a lesser amount below the fair value / market price of the nationalized assets is paid. Given the unbridled abuse of a State’s sovereign power by government to confiscate assets forcibly, in 1962, the UN General Assembly adopted Resolution 1803, *“Permanent Sovereignty Over National Resources”,* which states that in the event of nationalization, the owner “shall be paid appropriate compensation in accordance with international law”.

On the contrary, many socialist beliefs and ideologically accentuate that public ownership enables people to exercise their full rights and democratic control over the means where they earn their living, at the same time, provide an effective channel of distributing output to benefit the public at large, and a means for providing public finance.

In whichever way the slice is being cut, implementing nationalization programme with/without compensation can be excruciatingly lengthy, expensive in monetary terms and generate negative spin-offs that will increase the level of economic, political and business – riskiness.

In the light of numerous evidence, nationalized industries entrusted to operate in the public interest are likely to be under strong political and social pressures to pay more attention to externalities. These industries may be obliged to operate some loss making activities where social benefits evidently exceed social costs.

## **3.1. ANC Youth League’s Rationales For Nationalizing Mines**

Given the agonizing slow pace of transformation (especially among the majority South Africa blacks) to empower the previously disadvantage, the persisting high unemployment rates (this is more evident among the youths between the ages of 15 – 34 [*cf.* Mthembu (2008), CEE, StatsSA]), inequitable income distribution (with rich getting richer and the poor getting poorer), dismal / no service delivery, inadequate social infrastructures, inaccessibility to proper house and land – all these socioeconomic difficulties were the main raison d'être that the ANCYL demand the nationalization of South Africa mines after 2012 ANC annual conference. Although, in the Youth League’s discussion document, they openly attest that; *“[even though] Nationalization is not a panacea for South Africa’s developmental challenges, but it should in the manner we are proposing it…”*(*cf.* pg.2, par.7of the ANCYL discussion document). That is, successful nationalization programme is feasible in South Africa within the Youth League’s outlined conceptual frame work and proposed models.

Apart from striving towards a *developmental state*, achieving total political, social and economic emancipation of the previously disadvantaged black South Africans, in their discussion document, the ANCYL highlighted other five cogent reasons for the implementation of nationalization programme in South Africa (*cf.* pgs.11-16*,* par. 45 – 67of the ANCYL discussion document) [[3]](#endnote-1). These reasons are:

1. To increase the State’s fiscal capacity and better working condition
2. To stimulate industrialization
3. As a means to safe guard sovereignty.
4. To transform accumulation path in the SA economy
5. To transform South Africa’s unequal spatial development patterns

Based on the Youth League’s highlighted justifications for nationalization, in their document (i.e. within the League’s developed contextual framework), three models that the ANC led – government should adopt to facilitate the proposed nationalization programme in South Africa, was discussed (*cf.* pg. 14 of the ANCYL discussion document).

## **3.2. Discussing the ANCYL Proposed Model for Nationalization**

Restricting the discussion of this paper to mines nationalization, in the ANCYL’s discussion document the three models that were suggested for the anticipated nationalization (of mines) programmes in South Africa are:

1. **Establishment of State Mining Company**

In this model, the government will have to create a State Owned Mining company which will be a sovereign entity in control of Alexkor, Sasol, all government’s mining shares/interest and provincial agencies. This entity will be under the direct supervision of the Department of Mineral Resources with functional task to control all mineral resources, maximize revenue gained and channel these profits directly towards social and economic development. Furthermore, the created State entity must ensure that communities where mineral resources are mined are taken care of adequately and empowered via job creations whilst maintaining the environmental and adhering to correct safety standards.

1. **Utilization of the Expropriation Model by the State government** (*supported by Property Clause as stipulated in Section 25 of the South Africa Constitution*)

This approach involves the re-introduction and immediate adoption of the Expropriation Bill in the Parliament by the ANC (given its powerful leadership stance and its majority seats in the parliament). The content of this bill must indicate how the State will implement expropriation plans either with or without compensation depending on the balance of probabilities. Of a great importance, this bill must align with the ANC’s Strategy and Tactics to ensure speedy transformation that favour the masses without any disruptions in the existing operations to foster socioeconomic development. Notably, the State will not expropriate less than 50% of existing mines. Equally, the South Africa’s taxation, royalty’s requirements and provisions must be complied with.

1. **Amendment of the MPRDA**

In addition to the Minerals and Petroleum Resources Development Act of 2004 that was revised in 2007, the ANCYL recommended that a *regulatory clause* should be incorporated into the MPRD Acts. The sole purpose of this regulatory clause is to coerce all mining corporations to enter into partnership with the State Owned Mining Company when applying for mining right(s). In this scenario, the State must owns not less than 60% of the mining shares and right of determination.

Rounding up the ANCYL’s argument, the intent of nationalization is to provide an avenue to intensify the provision of education, (technical) skills and expertise in the whole mineral value chain (that is, from extraction, processing, beneficiation and industrialization to manufacturing and trade.)

**3.3. The ANCYL Proposed Ownership Split In A Conceptual Framework**

Within the suggested frame work for acquiring mines from its private owners, the Youth League suggested that a minimum of 60% of mineral resources extracted by the State Owned Mining Company should be locally beneficiated and industrialized, and 50% of this process must take place in the identified mining communities. This suggestion is profound, in the sense that, during the beneficiation and industrialization process, the communities where mines are situated will indirectly benefited via job creation, social developments and provisions of infrastructures necessary to improve these mining communities’ living standard such as clean water, bore holes, electricity etcetera.

In the extension of this model, the ANCYL in a released statement (on 7th March, 2011) indicated that, in the original discussion document submitted to the Parliamentary Portfolio Committee on mining, “*the State Owned Mining Company should take a minimum of 60% of the existing privately owned mining corporations….the remaining maximum 40% will be owned and controlled by the private corporation and should be compliant to the Mining Charter requirements and all legislation that governs minerals and mining in South Africa, particularly the Mineral and Petroleum Resources Development Act and the Mineral and Petroleum Resources Royalty Act*”.

**A critical evaluation of this model shows that it is skewed and clearly biased towards foreign investors.** On a hind sight, the implementation of the proposed nationalization models by the ANCYL will disrupt the sophisticated business landscape that currently exist in South Africa and the political landscape will be overwhelmed with extensive litigations against the government.

**Without a doubt, implementing a nationalization programme in accordance to the ANC Youth League’s models will produce adverse results that would be costly and damaging.** Why? In a simple analysis, if the State expropriates 60% of private mines and leave 40% to former owners. To comply with the MPRD Act and the Mining Charter, these private owners must (then again) give 26% to black South Africans (as a BEE deal relevant for transformation). From a simple arithmetic, only 14% of the company share and/or interest are left for the private owners.

*What will the original private owners do with a meager 14% controlling shares?* Unquestionably, big mining companies will surely put up a nasty litigation fight. South Africa Mining Industry will be in shambles because experts and engineers with technical skills, business management, valuable knowledge acumens and risk takers responsible for running the existing mines will emigrate and the JSE will experience a huge capital outflow. This impact on the JSE will be awfully disastrous because the equity investments by foreigners (in the existing companies) in South Africa are considerably large according a recent research by McGregor for Sake24 (in December 2010). For example, the McGregor’s report revealed that foreign investors owned about:

* 74.01% of Gold Fields shares
* 68% equities in AngloGold Ashanti
* 53.4% controlling shares in Harmony (South Africa’s third-largest gold mining group).

If banks are being considered; on foreign investors owned about:

* 64.41% of Absa Group – includes the 55.7% in Barclays’ shares)
* 45.99% of Standard Bank Group equities
* 38.29% shares in African Bank Investment

 Other communications groups also have a significant number of foreign shareholders.[[4]](#endnote-2)

## **CRITICAL ANALYSIS OF ANC YOUTH LEAGUE’S CONCEPTUAL DOCUMENT**

The foremost issue that this research seeks to clarify is the misconstrued prevalent views held by ANCYL leaders that Nelson Mandela’s objective(s) remains in favour of nationalization. Malema and Shivambu have popularized this idea whilst the former democratic President Mandela remains silent, perhaps due to his resolution and momentous announcement to withdraw from the public and all political engagements since 2004.

However, according to Allistar Sparks, after a three hours discussion with Mandela (at the end of their conversation), the former President admitted that; “*he didn’t really know enough about economics and   he would have to call in some business people”, to further discuss it [.i.e.nationalization]”* [[5]](#endnote-3). Additionally, Anthony Sampson (the official biographer of Mandela) confirmed the fact that the change of heart by Nelson Mandela on the “nationalization issue” occurred in February 1992 after his visit to the World Economic Forum held in Davos, Switzerland. Of recent, Tito Mboweni (former Governor of the Reserve Bank) truthfully verified this claim that Mandela’s meeting with both the Vietnamese and Chinese Prime Ministers altered his paradigm on implementing nationalization policy in South Africa.

According to Mboweni; *“…the most interesting and memorable occasion at Davos was around 1992 with President Mandela  [when he] “had occasion to meet the Chinese prime minister and also the Prime Minister of Vietnam and they had a conversation - and one of those conversations was about nationalization - and both prime ministers actually indicated to President Mandela that they were leading communist parties, they were both general secretaries of their respective communist parties and at the same time, they were prime ministers of their respective countries.  They said to Madiba, “we are privatizing state corporations because we have found that they did not work as we wanted them to.  You are a leader of a nationalist organization - a liberalization movement.  What is this thing of you talking about nationalization”.  The national liberation movement when communist party governments were privatizing – that was a wonderful moment in the history of policy formulation in South Africa and when we returned, the ‘old man' said this talk of nationalization needs to be debated and finalized.  That’s why, when we went to the NASREC Conference in 1992, the issue of nationalization was debated for over eight hours, at the conclusion of which the final document entitled “Ready to Govern” did not have the word nationalization in it*”. Clearly from these verified dialogue extract and events, there should be no further ambiguity about Mandela’s stance on nationalization.

Secondly, variant arguments have risen from the [correct] interpretation of the Freedom Charter’s clause from experts, scholars and politicians. In fact, Ben Turok, Jeremy Cronin and Maria Ramos in different debates have openly criticized the interpretation the Charter’s clause often used by the ANCYL and other proponents of nationalization. Some arguments were based on the definite clarification, whilst others were based on dissimilar political regime and/or situations of the state, the economy and global integration.

In particular, according to Ben Turok in his public statement on August 27, 2009, where he strenuously elucidated that[[6]](#footnote-3): “*As the author of the economic clause of the Charter in 1955, I suppose I have a responsibility to comment. First, the word “nationalization” does not appear in the clause headed “The people shall share in the country’s wealth”. The clause states, “The national wealth shall be restored to the people”, and, “The mineral wealth beneath the soil shall be transferred to the ownership of the people as a whole”. (Note: “beneath the soil”). What was in our minds at the time was to emphasize that white economic power had usurped the historical legacy of the indigenous people whose ownership had to be restored. It was the colonial aspect that the charter sought to reverse, not private ownership of property. It has never been the intention of the ANC to create a command economy by nationalization, either then or now. Apart from these considerations, other external influences were at work, too. In the period after World War Two, there was a worldwide drive for political democracy — but also for social justice. The state was everywhere seen as the primary instrument. In the UK, the Labour Party introduced the welfare state and some nationalization; Latin America nationalized many industries. This was often accompanied by various other measures of state intervention*.”

Arguably, in reference to the Freedom Charter, the ANCYL’s interpretation might be considered as a **“narrow interpretation”** since the Charter’s clause does not explicitly call for nationalization but only argues that the mineral wealth would revert to the people. Ultimately, restitution and transformation is paramount for South Africa to attain an equitable distribution of wealth. Matshiqi (2010) reiterated that whether the reversion of the mineral wealth to the people implies that the mineral wealth of the South Africa will be nationalized or not is what remained questionable.

Thirdly, debating the distortion in ANC Youth Leagues interpretation in the context of nationalizing mines, Jeremy Cronin and Leon Louw, in separate debates have disputed that, if the conviction of the ANCYL implies that “*mineral wealth beneath the soil”* in Freedom Charter, has the same meaning as “*the mines above the soil*”, then the MPRD Act has already relinquish the sole ownership of South Africa minerals ‘*under the soil’* to the State by the use of its existing mining policies. Moreover, Cronin maintained that the MPRDA has given the government (the State) a greater strategic leverage over the mining industry more than it had before.

Now, looking at the discussion document (*cf.* pg. 10, par.39), the Youth League put forward the notion that; *“in the ANC, the transfer of* *mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole”, was correctly understood as nationalization”.*  This statement is contradictory to usual public statement fronted by *some* prominent ANC leaders that nationalization is not an ANC policy neither as a mandate received in Polokwane.

In reality, this paper put forward the argument that the validity of this statement is debatable in one’s mind, *is this ideology and/or interpretation of the Freedom Charter’s clause, that of the ANC or a pre-emptive assumption by the Youth League?* The next possible question in one’s mind is that; *where is the centre of power? Is it with the ANC or the Youth League? Is the Youth League speaking what is truly in the mind of the ANC?*

In Cronin’s argument, he also posed the question that begs for a serious reasoning, that is, if the ANCYL basis for nationalization in is the Charter’s clause which states that: *“the mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole”,* thus, the Charter’s interpretation will not only be a case of what lies beneath the soil. Intuitively, could it surmised that the Charter had in mind the big mining companies (such as Anglo American, BHP etcetera) with principal listing and an offshore operations that are on top of the soil [as monopoly companies] when it was formulated.

Another contradictory point that stood out in the Youth League’s document can be found in page 11(par.51), they pontificate that “*with the State ownership and control of Minerals Resources, South Africa will be able to attract industrial investors, who will contribute to growth of the economy, transfer skills, education and expertise to locals and give them sustainable jobs*”. In the context of this statement, there is a glaring conflict with the statement made by Shivambu in his discussion during the SARW conference, where he mentioned that: “…we [the State] *need to safeguard our sovereignty and not be bogged down by the whims and needs of investors*” (*cf.* pg.4, SARW’s document). In essence, Shivambu’s statement literally means that South Africa government should not take into consideration foreign investors and/or its trade partner’s apprehensions about political stability, social unrests (e.g. protests), market volatility and risk assessment of investments in the economy and the stock market.

The crux of the matter is that since South Africa’s re-integration into the global market in 1994 cease to be an “island” that operates in an autarky economy. As a *small-open economy* and an advanced emerging market, South Africa is susceptible to exogenous negative externalities such as financial contagion, imported inflation, global market volatility and variability in foreign direct investment flow.

On the contrary, in the real world, for South Africa government to attract foreign direct mining investments, innovative technologies and infrastructural development (that is unique to foreign investors), it is the priority of the government to reassure these investors and trade partners that the country is politically and socially stable. Suffice to say, to attract foreign direct investment which the life-blood for domestic growth, the assessment, whims and needs of trade partners and investors cannot/must not be undermine by any country’s government for the sake of upholding its sovereignty, it is probable for such government to face serious challenges such as slow / no economic growth, lack of development due to low/ no foreign investments, high unemployment rate due to no growth and increase in production output, depreciating or an valueless domestic currency, social oppression and inequality etcetera.

On this argument, Adam Smith (1776) accurately summed it up with his postulation of **“the invisible hand theory”** in his paper titled “The Wealth of the Nations (1776)”, stating that; *“It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantage”*. In a lay man’s term, in a capitalist market or in a mix economy system, ‘nothing goes for nothing’, since the purpose of trade partnership is not based on goodly natures or friendship between two partners or negotiators but it is purely based on the self interest (benefits) that both party wants to acquire from their deals. In so doing, the entire economy will benefit indirectly through the operation of an invisible hand (multiplier effect), whereas, everyone may have a selfish motive but the use of domestic industry and labor enriches and promotes the interests of society as a whole. This is the idea of markets automatically channeling self-interest toward socially desirable ends. Milton Friedman referred to Adam Smith’s invisible hands concept as “the possibility of cooperation without coercion”[[7]](#endnote-4).

Considering, paragraph 59 (on page15, ANCYL’s discussion document) which states that; “*investments are often used as a way to undermine countries’ economic sovereignty. In South Africa, the African National Congress’ good intention to construct a democratic developmental state might be undermined by the whims and needs of foreign investors who wittingly or unwittingly place conditionalities before investing. It is not uncommon for the political leadership in the ANC and alliance to defer or even avoid taking sovereign decisions in fear of investors and markets*”.

Inevitably, the foreign investors and/or trading partners based on their an anticipatory anxieties of the State usually want governmental protection and assurance against their huge investments, it is natural that the State (for the benefit of fostering strong international relations that will ensure a robust domestic growth and socio development) to consider their concerns based on status quo to relax stringent rules and policies, this effort by the government is not a weakness of the State’s sovereignty but a tactical move to build its economy.

 Following the same critical assessment of the ANC Youth League’s document, the rationale given to support their explanation on the establishment of a State Owned Mining company, presents an inconsistency that is surprising. Evaluating the League’s document (*cf.* pg.17, par 70), it clearly states that; “*The State Owned Company should necessarily operate differently to how State Owned Enterprises, such as Eskom, Transnet, SAA, etc., operate. The Fundamental difference will be that it will not be run like a private business corporation whose extent of progress is solely measured through profit generated*”. In support of this statement, in page 17 and 20, the League clarify its intention by elucidating that; “*One vital point to mention is that the performance of companies is not just a function of private or public ownership, but mainly a function of control…State participation in Mining should never be about profit maximization. The role of the State should be measured as per numbers of quality jobs created, skills produced and certainly the revenue generated for further development of Mining and communities*” (*cf.* pg 20, paragraphs 84 & 85 ANCYL’s discussion document)

Without any doubt, this statement is contradictory because *if State Owned company’s performance is not based on ‘profit maximization’, how will it generate the needed revenue?* The parallel question in reference to this assumption is that; *what is the main purpose of creating a business? Is it not to generate revenue?* Thirdly, *how can a company’s performance not be measured by its capacity to generate revenue or accumulate loss? What will be the bench mark for measuring State Owned companies in the existing competitive market?* Fourthly, *if a State Owned Company is incurring a huge loss repeatedly, how will the government cope with this burden, if performance is not based on the revenue generated?*

Lastly, the *most critical question* is; *if profit maximization is not relevant to measure the performance(s) of the established State entities, from where will the large revenue desperately needed by the State ( to build hospitals, invest in labour intensive projects, provide adequate service delivery to the masses and create jobs) comes from?* In addition, *how will the economy survive or grow, if the government become a charitable Father Christmas?*

1. **CASE STUDIES: Evaluating Nationalization Models of Four African Countries: Zambia, Angola, Namibia and Botswana**

In the ANCYL’s discussion documents and various public arguments on nationalization; the Youth League often cite the nationalization programmes or models of; Botswana, Venezuela and Norway are as countries where nationalization has been successfully implemented with considerable economic gain and social benefits, whilst Zambia’s failed nationalization programme is only referred to when it is expedient.

At this junction, this research paper restricts itself to profiling the nationalization models of only four countries within the Southern Africa Development Communities (hereafter SADC) region. Considering, the broad nature of the debates on nationalization, extant examples, time constraints and based on the premise that these SADC share their borders with South Africa, evaluating their models will present a valuable lessons to South Africa.

In reality, South Africa will be able to identify with these SADC countries effortlessly without any sophisticated and/or extensive experimental models. Thus, for the purpose of presenting a equal balance of evidence regarding the prevailing and sensitive nationalization debates in South Africa, this section reviewed four (4) African countries surrounding South Africa as part of the SADC that have implement different nationalization models, namely: Zambia, Angola, Botswana and Namibia.

The aim to review these four SADC countries is foremost; to evaluate their nationalization models. Secondly, to use the outcome of their nationalization models as a point of reference, if ANC will implement such policy in South Africa in favour of the models highlighted in the Youth League’s discussion document. Finally, to sketch out the lessons for success or failure of the nationalization models used by these countries.

In a balanced order, Botswana and Namibia’s successful models will be evaluated first, followed by an evaluation of failed nationalization models in Zambia and Angola. However, Norway, Venezuela and other relevant countries with different nationalization models will be discussed with merits and not extensively since their discussion falls outside the scope of this paper.

## **5.1. CASE STUDY 1: BOSTWANA’S MODEL**

## **5.1.1. Botswana: Brief Historical and Economic Overview**

A mid-sized, landlocked country of just over two million people, Botswana was one of the poorest countries in Africa when it gained independence from Britain in 1966, with a GDP per capita of about $84. Over the years, Botswana has transformed itself from one of the poorest countries in the world to a middle-income country by becoming one of the fastest-growing economies in the world to a GDP (purchasing power parity) per capita of about $7,403 (*cf.* 2010 World Bank data). Botswana has the fourth highest gross national income based on its purchasing power parity in Africa – an indication that the standard of living in Botswana is on par with Mexico and Turkey.

According to the International Monetary Fund, economic growth averaged over 9% per year from 1966 to 1999. As a country, Botswana earned the highest sovereign credit rating in Africa and a high level of economic freedom compared to other African countries. The Botswana government stockpiled foreign exchange reserves (over $7 billion in 2005/2006) amounting to almost two and a half years of current imports. Additionally, the government has maintained a sound fiscal policy, despite consecutive budget deficits in 2002 and 2003, and a negligible level of foreign debt.

While generally open to foreign participation in its economy, Botswana reserves a number of sectors for citizen participation because Botswana government are of the view that, high foreign investment inflow plays a significant role in the privatization of State-owned enterprises.

 Investments regulations in Botswana are transparent coupled with streamlined and open bureaucratic procedures. Moreover, investment returns such as profits and dividends, debt service, capital gains, returns on intellectual property, royalties, franchise’s fees, and service fees can be repatriated without limits.

## **5.1.2. BOTSWANA MODEL (DEBSWANA): Is this a nationalization model?**

Botswana (presumed) nationalization model involves the:

* Formation of Debswana is a 50/50 mining joint venture between Botswana and De Beers
* Diamond Trading Company is the wholly-owned distribution arm of De Beers
* Diamond Trading Company Botswana is a 50/50 sales joint venture between Botswana and De Beers

The richest diamond mines in southern Africa are in Botswana. After geologists discovered diamonds in Botswana in 1967, the De Beers Botswana Mining Company was launched in 1969. The Orapa mine and Jwaneng pipe are the richest diamond mine in the world. In 1969, De Beer (one of the world’s diamond miners) and Botswana government formed a public-private partnership to mine the country’s abundant diamond resources; this strategic partnership led to the establishment of the De Beers Botswana Mining Company. Afterward, Botswana government increased its shares in the company to 50% and the De Beers Botswana Mining Company was rebranded to Debswana Diamond Company (Pty) Ltd. Debswana is the largest diamond mining company operating in Botswana and it provides about 40% of all government revenues.

Several international mining corporations have established regional headquarters in Botswana, and prospected for diamonds, gold, uranium, copper, and even oil, many coming back with positive results.

Government announced in early 2009, that they would try and shift their economic dependence on diamonds over serious concerns that diamonds have been predicted to dry out in Botswana over the next twenty years. However, after a nine months negotiations from January to September 2011, Botswana and the De Beers Group jointly announced a new public-private partnership agreement of 10 years contract for the sorting, valuing and sales of Debswana’s diamond production.

In this new contract, De Beers will transfer its London-based rough diamond sales activity to Botswana, underpinning the long-term future of the partnership and transforming Botswana into one of the world’s leading diamond trading and manufacturing hubs. De Beers planned to relocate its London base to Gaborone by the end of 2013. Even before the agreement was announced, Diamond Trading Company (DTC) has already embarked a consultation process with employees over the move to Gaborone. This relocation strategy entails moving the entire Sights and sales operations such as professionals, skills, equipment and technology.

From its new base in Botswana, the DTC will aggregate production from De Beers’ mines, its joint venture operations worldwide and sell to international Sightholders. Finally in 2014, The London Sights will move from London to Gaborone. This new agreement provides Botswana government with 10% of Debswana’s production for independent sales. In addition, the Diamond Trading Company will relocate to Botswana.

Undoubtedly, the partnership between the Botswana’s government and De Beer is one of the most successful public-private partnerships in the world. From 2011 onward, Botswana government will receive 10% of Debswana's production for independent sales from De Beers over five years period and this supply will increase to 15% after the agreed five years period has lapsed.

## **5.1.3. Analyzing Botswana’s Model Assessment based on Economic Theories.**

The ANCYL’s claim is accurate by using Botswana’s existing model as a compelling argument for nationalizing mines in South Africa. The positive spinoffs of the strategic partnership between the government and De Beers are evident in the rapid domestic growth in Botswana as a developing country.

According to Dr. Ponatshego Kedikilwe (The Minister of Minerals, Energy and Water Resources) the new signed deal in 2011, between Botswana and De Beers offered Botswana a direct access to global market that would ensure the successful development of the downstream diamond industry, create more job opportunities and enhance social development.

Nonetheless from economic sustainability perspective, Botswana’s existing model is not robust considering the following factors:

1. Botswana’s political, business and investment landscape differs from that of South Africa. To reinforce consistency in ANCYL’s recommendation, the two countries are facing different political and socio economic problems. Moreover, the implementation of their political, fiscal, and monetary policies are totally different. In addition, from historical background, both countries are incomparable. Thus, the nationalization strategy that works for Botswana *will not necessarily* do the same for South Africa owing to different exogenous and endogenous factors.
2. Secondly, *it was immediately after* independence that Botswana government forged its partnership with De Beers (a private sector), *not during an ongoing democracy period*. In comparison, the calls for nationalization in South Africa materialized after 16 years into its democratic regime as a liberated State from Apartheid. Adding to this, De Beers and the Botswana government must have engaged in a thorough negotiations process before forming their joint-venture in 1969 to outline relevant Acts, rules and regulations that are of mutual benefits. 2011 marked the 45years that the Botswana government and De Beer’s public-private partnership. Obviously, a lot of trust and assurance must have been built over the years to sustain such as successful relationship.
3. Thirdly, Botswana has never outrightly announced that its joint venture with De Beers is a form of nationalization as interpreted by ANCYL (*cf*. pg.12, pars.46 – 49, Youth League’s discussion document). It is imperative not to misconstrue Botswana’s *equal partnership* with De Beer as nationalization, when, in reality it is not. Debswana operations were not branded as a nationalized model. To validate this argument, according to Modise Modise (the Deputy Permanent Secretary of the President) in his speech delivered at a workshop convened by UNCTAD, he affirmed that in Botswana “*…all major mining ventures in Botswana have always been run as private companies in which government has significant shareholding... In the case of Botswana, government has had an arm’s length approach in the day-to-day operations of the mining companies*”[[8]](#footnote-4) . Concurrently, Tom Tweedy (De Beers’s spokesman) maintained that De Beer *has always regarded* the Botswana government’s stake as a partnership, not as control (or nationalization). Many investors regard Botswana as a business-friendly country.
4. Roy (2006) postulate that there is a predisposition to assume that all public investment “crowds out” private investment. Conversely, Ha Joon Chang (2007) pointed out that “crowding out” becomes a significant possibility only when the economy is near full employment. In most countries with under-utilized resources or increased resources that were obtained through aid, it is expected that public investment will “crowd in” private investment. Based on economic theory, private investments more often are the *core driver* for domestic growth and employment. According to extant data, Botswana’s government revenue from diamond mining is about 33% of the GDP, this is approximately one-third of government revenue, hence, an increase in government expenditure to provide basic amenities, build infrastructure and ensure social developments, will definitely ‘crowd out’ private sector investment that would result in slowing down economic growth (Roy, 2006). Urbach (2011) in a recent study revealed that a paradox has emerged [in Bostwana] where there is a high level of government expenditure coupled with a low level of taxation. The majority of the people in Botswana assumed that they are getting something for nothing. In contrary to the majority assumptions, all the services currently provided by the government are being funded using the revenue from diamonds sales as opposed to taxes.
5. Botswana government announced in early 2009, that it will endeavor to shift the country’s economic dependence away from diamonds to other mineral resources based on the prediction that diamond’s abundance in Botswana will be exhausted over the next twenty years and the steady decline in diamond sales revenue. Technically, two critical issues are identifiable here: Firstly, the peril of a country depending entirely on a *non-renewable* and *exhaustible* mineral resources. Secondly, the future of Botswana’s economic growth, its source of revenue and social development rests in a precarious balance. This “mineral dependency trap” is what South Africa will inevitably step into (in the long run), if nationalization is implemented.
6. In Botswana’s case, Urbach (2011) argued that the current size and scope of Botswana’s public sector is unsustainable, given the natural inclination for stable revenues to decline over time. He further indicated that without diversification to allow more private sector participation in the economy, the current low level of private sectors participation combined with a relatively low tax base will worsen the future welfare of Botswana.

**Box 1**

**Finding(s) from Botswana’s Public - Partnership Model**

Irrefutably, **Botswana’s model** **is not a nationalization model** but a 50/50 joint venture between De Beers and the State government, which led to the establishment of Debswana – a diamond mining company currently deemed as the world’s largest diamond producer. The current economic and social conditions in Botswana are not sustainable, given the country’s high dependency on the revenues generated as the largest component of the GDP, low tax base and increasing government expenditure. Nevertheless, Botswana’s current strategic partnership model is risky and entails detrimental externalities in the future, if the private sector participation does not improve.

## **5.2. CASE STUDY 2: NAMIBIA’S MODEL**

## **5.2.1. NAMIBIA: Brief Historical and Economic Overview**

Ironically, Namibia gained independence from South Africa in 1988 due to United Nations diplomatic intervention. South Africa occupied Namibia during World War I and controlled it after World War II. In Namibia, only two liberation movements are in existence, South West Africa People’s Organisation (SWAPO) and South West Africa National Union (SWANU). In 1966, SWAPO fought for Namibia’s independence and in 1990, Namibia won its independence as a sovereign State with SWAPO governing the country since then.

Historically, SWAPO was *never really interested in the nationalization of mines* in Namibia. Since the German colonial era, all minerals were considered to belong to the State (*cf.* Simuntanyi, 2010). Simutanyi (2010), further explained that the lack of governmental interest in nationalizing its mining industry, evidentially have played a crucial part in determining SWAPO’s policy position on this issue during the liberation struggle. This understanding that the minerals belong to the state survived the South African colonial rule period. In actual fact, during the pre-independence period, large areas of Namibia, including off-shore were leased for (petroleum oil) prospecting. Some natural gas was discovered in 1974 in the Kudu Field off the mouth of the Orange River, but the extent of this exploration finding is only now being determined.

On economic outlook, foremost, the Namibian economy is closely linked to South Africa with the Namibian dollar pegged to the South African rand. In 1993, Namibia introduced its own currency, the Namibia dollar (N$) which is linked to the South African Rand at a fixed exchange rate of 1:1. As a result, the Namibia’s economy is still entwined with the economy of South Africa, bearing in mind that bulk of Namibia’s imports originates from South Africa.

Secondly, Namibia is a low middle income country with an estimated annual GDP per capita of $5,330 but extreme inequalities in income distribution and standard of living are in existence. Namibia leads the list of countries by income inequality with a gini coefficient of 70.7 (CIA)[[9]](#footnote-5). Thirdly, Namibia’s sophisticated formal economy is based on capital-intensive industry (modern market sector) and farming (a traditional subsistence sector). According to UN, Namibia’s current population is 2.1 million.

After Namibia’s independence in 1990 (GDP per capita was $1,661(World Bank data, 2010), the government has pursued free-market economic principles designed to promote commercial development and job creation to bring disadvantaged Namibians into the economic mainstream. To facilitate this goal, the government *actively courted* donor assistance and foreign investment by formulating the liberal “Foreign Investment Act” in 1990. This Act provides guarantees to foreign investors *against* contentious political issues such as nationalization, freedom to remit capital and profits, currency convertibility, and a process for settling disputes equitably.

Foreign Investment Act (hereafter called FIA) is a major component that is responsible for the robust domestic growth, influx of private and/or foreign direct investment and social development in Namibia. From a global perspective, the FIA present Namibia as an investment-friendly economy to foreign investors since they are assured of sizeable governmental protection against future political risk and policy uncertainty. In this case, all investors know the intentions of the government in terms of policy and nationalization.

## **5.2.2. Namibia’s Mining Industry**

Mining is one of the main contributors to Namibia’s domestic growth and economy for a long time. European explorers saw the Ovambo people smelting copper from surface deposits near Otavi in 1851. Following this, in 1855, the first official mining activities were established in the Walvis Bay area. On April 1908, diamonds were discovered in the Namib Desert near Lüderitz, since then, diamond mining gained broad popularity and became the mainstay of Namibia’s economy. The country also is a source of gold, silver, tin, vanadium, semiprecious gemstones, tantalite, phosphate, sulfur, salt, uranium, copper, lead, and zinc.

The mining industry’s contribution to Namibia’s economy is enormous according to existing data (*cf.* IMF, UN and the World Diamond Council). The mining industry in Namibia employs about 3% of the population despite the fact that about half of the population depend on subsistence agriculture for its livelihood. Namibia is the fourth-largest exporter of non-fuel minerals in Africa, the world's fifth-largest producer of uranium, and a producer of large quantities of lead, zinc, tin, silver, and tungsten. Rich alluvial diamond deposits make Namibia a primary source for gem-quality diamonds.

Moreover, Namibia’s mining industry provides crucial revenue towards domestic growth and social development. For instance, between 1990 and 1997, the mining industry contributed almost 25% to the country’s economy with diamond production single-handedly generating over $500 million in export earnings from about 1.7 million carats produced in 2002.

In 2007, the mining industry contributed 12.4% to the GDP, of which diamond mining activities represented about 5%. Namibia government and its economy rely on the extraction and processing of minerals for export, seeing that taxes and royalties from mining account for 25% of government revenue. Conspicuously, Namibia’s economy is *heavily* *dependent* on the earnings generated from primary commodity exports in a few vital sectors, including extraction and processing of minerals, especially diamonds, livestock, and fish.

Furthermore, the Ministry of Mines and Energy in Namibia, has taken steps to revitalize and promote its mining industry by revising mining legislation and formulation of a minerals policy that will further add to Namibia as an attractive investment destination for investors. Diamond Fields International and De Beers both mine for diamonds in Namibia. Namdeb’s predecessor, Consolidated Diamond Mines, was a wholly owned subsidiary of De Beers until 1949. As of 2011, Namibia has five major mining operations, namely; Namdeb Rosh Pinah, Rössing, Tsumeb Corporation and Navacha, these operations generate more than 95% of the mining income.

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## **5.2.3. NAMIBIA MODEL (NAMDEB): Is this a nationalization model?**

Namibia’s strategic partnership to form a joint venture mining company is similar to that of Botswana. In 1994, De Beers Centenary AG (a company of De Beers) entered into an agreement with Namibia’s government. This agreement produce the 50/50 ownership split to form a joint venture called Namdeb Diamond Corporation (Pty) Limited.

With this joint venture and the 50% share in Namdeb, the Namibia government obtained more or less 40% ownership of the diamond industry in the country. Namdeb is currently the largest diamond company in Namibia and it employs approximately 3200 people, making it the largest employer in Namibia after the government.

Namdeb has continued to extract number of diamonds, generating employment and playing a central role in building the social and physical infrastructure of Namibia. In 2006, Namdeb produced 2.08 million carats (*cf.* World Diamond Council). Resultantly, Namibia’s Ministry of Mines and Energy has taken steps to revitalize and promote the mining industry through reviews of mining legislation and formulation of a minerals policy that will further denote Namibia as an attractive investment destination to foreign investors.

Meanwhile, to avoid the “mineral dependency trap”, the Namibia government needs to diversify its source of revenue away from mineral resources to ensure a sustainable domestic, job and earnings – growth

## **5.2.4. Analyzing Namibia’s Model Assessment based on Economic Theories**

“*The government recognizes the important contribution of the mining industry to the social and economic development of Namibia. To achieve a sustained contribution of the mining sector to the economy the government has created a conducive and enabling legislative, fiscal and institutional environment to attract private sector driven exploration and in which mining companies can thrive*” – Namibia’s liberal Foreign Investment Act, 1990

Sam Nujoma (the first President of Namibia from 1990 to 2005) in his Master’s dissertation in 2009 argued that private initiative and capital is needed to stimulate ample development in the mining industry. Horn (2010) conceded that the priority of Namibia’s government after 1990 was to consolidate its stance on the role of private enterprises in the mining industry, at the same time actively promoting and working towards the possibility of joint ventures with private mining companies.

Therefore, the minerals resources policy drafted by the SWAPO government gave clear indication of the government’s position on the issue of mines nationalization. As a matter of fact, the Foreign Investment Act (section, 2b) stipulate that: “*The government recognizes the important contribution of the mining industry to the social and economic development of Namibia. To achieve a sustained contribution of the mining sector to the economy the government has created a conducive and enabling legislative, fiscal and institutional environment to attract private sector driven exploration and in which mining companies can thrive*”.

From his thorough review of the FIA, Horn (2010) underscore the fact that “…*this statement basically says that everything under the ground belongs to the State. The Act also says, that control over minerals may also be extended to clay, sand, gravel and other similar substances. The Act seems clear that the government also wants to play a role. It makes provision for the possibility of joint ventures and for the appointment of a Mining or a Minerals Board which will consist of both members of government and the private sector. So already at the time of independence there was movement towards joint ventures between government and the private sector*”.

Similar to Botswana, the Namibia’s economy is:

1. susceptible to “mineral dependency trap”. Based on the premise that the mining industry in Namibia generates a sizeable portion of the revenue required for economic growth, job growth and social development. Indubitably, Namibia is heavily dependent on the extraction and processing of minerals for export, as a result, the country’s welfare is in a precarious state.
2. exposed to revenue “crowding out effect”. Taxes and royalties from Namibia’s mining industry account for 25% of its revenue, accordingly, the propensity for the government to increase its expenditure on social services is obvious. A high government expenditure and low tax level will ‘crowd out’ private investment. This ‘crowding out’ will inhibit prospective economic growth, social development and increases government reliance on minerals resources (note that *these minerals are non-renewable and exhaustible*) as the only source of revenue.
3. unfavourable monopolized System: In the context of the Foreign Investment Acts, it is obvious that the role of the Namibian government is limited as elucidated by Horn (2010)[[10]](#footnote-6). Realistically, if government policies are too relaxed, the private sectors often use various tactics to over-squeeze profit gained from production and (cheap) labour, thereby creating social externalities. In a monopolistic system, where there too many giant private companies are in existence, the possibility to form cartels that will stifle competition from small companies and enhance inaccessibility to the available markets, is very high. Thus, it will not be surprising, if there are few public companies and/or small companies in Namibia due to a highly competitive market by monopolies and/or cartels, who have created stiff market barriers.
4. vulnerable to financial contagion, imported inflation, very high level of capital withdrawal (given Namibia’s reliability on FDI), currency variability and country risk.
5. not sustainable given the country’s over dependency on its minerals resources (especially diamond). *Ceteris paribus*, generated revenues from mining industry tends to decline as a result of sporadic variability in commodity prices, uncontrollable market / down side risk and exhaustion of mines.

Again, the success of this model is directly depending on the period/time that the public/private sector partnership was formulated. Similar, to Botswana’s case, the partnership between the State and the private sector was implemented at the very beginning, that is, immediately after the State gained independence and not long after independence. For example, in 2001, the uranium company, Namibia Rossing, announced that it would leave Namibia by 2005, and that the uranium fields were more or less exhausted until recently when the company reiterated that its operation will continue (at least) until 2025.

**Box 2**

**Finding(s) from Namibia’s Public-Private Partnership Model**

Namibia successful model (just like Botswana) cannot be classified as “a nationalization model”. According to Horn (2010), “…*Namibian government from the outset took a stance that at least the basic structures of the mining industry should be in the hands of private enterprise. The government of Namibia recognizes that the exploration and development of its mineral wealth could be best undertaken by the private sector. Government therefore focuses on creating an enabling environment for the promotion of a private mining sector*.”

Thus far, Namibia’s government tactical role by drafting the Act as been beneficial because it stimulates long-run foreign investment, enhance job creation, fosters social / infrastructural development and create a conducive environment where foreign mining houses are willing to participate in the economy. Additionally, Namibia’s government is enjoying a strong position within the mining sector, for the past 21 years, conflict of interest have not emerge between the government and (representing the public sector) the De Beers (private sector) in Namibia.

This is in contrast to ANCYL argument that it is imperative for South Africa to reach a developmental state and safeguards its sovereignty by ignoring the concerns of foreign investors to reinforce the State Independence. Namibia implemented the Foreign Investment Act that reassure investors of their protection and address their ‘needs’, this strategic decision is what is attracting large inflow of capital, investments and technical skills needed for an effective capacity building of the State as a whole.

Categorically, from the two case study discussed above, that is the Botswana and Namibia models. It is clear that both countries have been successful in fostering a progressive public/private sector partnership that has benefited their economies and citizens respectively. Obviously, it is very palpable in both countries; the partnership between the government (as people representative and custodian of the available minerals resources) and the private companies (which are mostly foreign investors) is formulated immediately after these countries have gained independence **not** many years after independency. Most importantly, the government both countries formed a 50/50 partnership with the (foreign) private companies with the resolution to guide their investments by ensuring a business-friendly economy.

## **5.3. CASE STUDY 3: Repercussion of a Radical Political Policy: Nationalization in Zambia**

## **5.3.1. Economic Overview: Zambia**

Approximately two-thirds of Zambians live in poverty. Zambia is among the world’s poorest nations taking into consideration the country’s per capita annual income of $1,500. Social indicators have been on a decline, particularly in the measurements of life expectancy at birth (about 39 years) and maternal mortality (101 per 1,000 live births). The country’s rate of economic growth cannot support the rapid population growth or the strain which HIV/AIDS-related issues (such as rising medical costs and decline in worker productivity) has imposed on government resources.

Zambia is also one of Sub-Saharan Africa’s most highly urbanized countries. Over one-third of the country’s 12.9 million people are concentrated in few urban zones while the rural areas are under-populated. Unemployment and underemployment are serious problems in Zambia (*cf.* CIA World Factbook, September 2009).

Prior 1970, Zambia was once a middle-income country, thereafter, Zambia slide into poverty owing to the implementation of radical nationalization programme by its government. The subsequent fall in copper prices in the global market exacerbated Zambia’s impoverish condition in the 1970s; Zambia’s economy performance deteriorates quickly owing to an increased government borrowing to offset the dwindling revenue from its mining industry, in particular, from copper exports. For 30 years, copper production declined gradually from a high of 700,000 metric tons in 1973 to a low of 226,192 metric tons in 2000, this negative dive in production capacity stemmed from the poor management of State-owned mines and lack of investment.

Former Zambian President Frederick Chiluba’s government (1991–2001) reversed Zambia’s nationalization policy between 1996 – 2000, to attract foreign direct investment, alleviate poverty and improve Zambia’s domestic growth. As a result, between 1993 and 2000, Zambia embarked on one of the most ambitious and aggressive privatization programmes undertaken by any country in Africa. For example, by the end of 1999 most of the State-owned enterprises (hereafter called SOEs) had either been privatized or liquidated with the exception of copper mines. By 1996 the World Bank made the observation that “*Zambia has the most successful privatization program to date and the experience there offers many examples of best practice*” (World Bank, 1995). Recently, Minister of Mines in Zambia, Maxwell Mwale explicate that; “*the two-decade experiment with the nationalization of the copper mines during the presidency of Kenneth Kaunda was a failure that cost the country dearly*”.

Presently, the Zambian government is pursuing an economic diversification program to reduce the economy’s reliance on its copper mining industry. This initiative seeks to exploit other components of Zambia’s rich resource base by promoting agriculture, tourism, gemstone mining, and hydropower. Additionally, the government is seeking to create an environment that encourages entrepreneurship and private-sector led growth. As a country on its recovery path, Zambia cooperation continues with relevant international bodies (such as IMF) on economic reform programs to reduce poverty, including a new lending arrangement with the IMF in the second quarter of 2004, where IMF suggested a tighter monetary policy to alleviate inflationary pressures in Zambia. Hitherto, severe problems of high public debt and corruption remain persistent in Zambia.

In 2011, the Euromoney Country Risk ranked Zambia as the 127th safest investment destination in the world since the country’s inability to reduce the size of the public debt, its public sector participation (which still represents 44% of total formal employment) and improves the country’s social delivery system.

As a result of the intense privatization processes implemented in Zambia, since 1989, Zambia’s economic growth reached the 6% to 7% target (for the first time in 2007) required to reduce poverty significantly. In addition to this, the favourable maize harvest in 2005 combined with the earnings garnered from agricultural exports, increased the Zambia’s domestic GDP. Moreover, Zambia experienced positive economic growth for the eleventh consecutive year in 2009, with a real growth rate of 4.3% (as projected by the government) but the country’s year-on-year inflation rose above 14% in 2009 because of the rise in fuel and food prices. On the other hand, the country’s rate of inflation has dropped from 30% (in 2000) to single-digit of 8.9% (by December 2007) due to fiscal and monetary discipline and the growth of the domestic food supply.

## **5.3.2. Zambia Nationalization Model: A fatally detrimental aftermath**

In order to grasp the issue of Zambia’s nationalization process and its detrimental consequences, it is imperative to understand the extent of Zambia’s mineral resources wealth and the political ideologies in existence pre – and post – independence.

For the past sixty years, Zambia’s economy heavily relies on the mining of copper and cobalt, despite the positive steps taken by government to diversify the industrial and manufacturing base. Zambia’s mining industry contributed $822 million to the total export earnings of the country.

Zambia is internationally recognized as a major producer of copper and cobalt. The country is ranked as the world’s seventh largest producer of copper, generating 3.3% of the western world’s production and world’s second largest producer of cobalt (about 19.7%). Albeit, other important mineral resources are zinc and lead (obtained from the carbonate-hosted deposits of Kabwe). Zambia is also endowed with significant quantities of selenium, silver, small gold and platinum group elements which are produced as important by-products of the copper mining and processing. Although, more than 300 gold occurrences have been reported in Zambia, gold mining still takes place on a relatively small scale.

Copper mineralization large scale production commenced in the 1930’s with the start-up of Roan Antelope (Luanshya, 1931), followed rapidly by Nkana (1932), Mufulira (1933) and then Nchanga in 1939. Copper production exceeded 400,000 tonnes per annum (t.p.a) in the late 1950’s and reached a peak of 700, 000 (t.p.a) between 1969 and 1976. After the implementation of the nationalization programme, cooper production sunk to a low of 307,000 (t.p.a. in 1995). As an immediate corrective measure, Zambia Consolidated Copper Mines (ZCCM) and other strategic SOEs were privatized to halt this decline. With a total mineral resource of at least two billion tonnes on the copper-belt alone, without a doubt, copper and cobalt production has spurred the country’s economic trend following the country’s extensive privatization programme.

At independence, Zambia’s economy mainly depends on copper mining which account for 90% of its export earnings (*cf.* Republic of Zambia 1996). The country’s leadership was committed to the promotion of economic development and restructuring the economy.

After independence, Zambia inherited an economy which was foreign-owned and dominated. The economy was lopsided, uneven and designed to benefit few affluent citizens (*cf.* Good, 1989 and Baylies, 1981). The nationalist leaders promised to rectify all the inherited inequalities created by colonialism via equitable distribution of the nation’s wealth. During the post-independence era, Zambia’s government imitated the Soviet Union by instituting a program of national development plans under the direction of a National Commission for Development Planning.

The Transitional Development Plan of 1964 (till 1966) was followed by the First National Development Plan of 1966 (till 1971). These two strategic plans were meant to provide major infrastructure and manufacturing investments, both strategic plans worked out successfully, whereas, other governmental plans instituted to duplicate prior success failed remarkably. Initially, Zambia’s nationalization programme was successful because of the availability of copper revenues that were channeled for industrial transformation and rural development. Most importantly, import substitution strategy was clearly stipulated in the national development plans, which allowed the government to rely on both monetary and fiscal policies to promote growth in the manufacturing sector (*cf.* Osei-Hwedi, 2003).

The main switch in the structure of Zambia’s economy came with the Mulungushi Reforms of April 1968 when Zambia’s first president (Kenneth Kaunda) announced the political decision of his government to nationalize all privately owned companies. The government declared its intention to acquire equity holdings (usually 51% or more) in a number of key foreign-owned firms to be controlled by a State-owned company named the Industrial Development Corporation (INDECO). In reality, INDECO as a State industrial holding company was formed to spearhead industrialization.

After publicly announcing the implementation of its nationalization programme, Zambia’s government took over wide range of commercial companies, ranging from retail shops to meat-packing plants and quarrying operations, altogether 28 companies was under the State’s control but Surprisingly, Zambia’s first phase of nationalization, excludes the absorption of copper mines. But the Matero Economic Reforms of 1969 mandated the government purchase 51% shares from mining companies such as Anglo-American Corporation and Roan Selection Trust (RST), leading to partial*-nationalization* of the copper mining industry (*cf*. Republic of Zambia 1969). Afterwards, these two mining companies were restructured to form the Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM), respectively.

According to Turok (1989), Zambia’s nationalization permit the government to amass and control 80% of the economy through State owned entities that were involved in mining, energy, transport, tourism, finance, agriculture, trade, manufacturing and construction. As a result, the state became the engine of growth. The economic growth in Zambia from the 1960s to early 1970s could be deemed as productive (*cf*. Republic of Zambia 1979), nonetheless, this growth was primarily due to high copper production and prices and increases in maize and manufacturing output, as well as increases in numbers of social facilities and physical infrastructure. However, as a point of fact, the country’s nationalization programmes and the import substitution was costly (*cf.* Osei-Hwedi, 2003).

Given the failure of Zambia’s government established SOEs to yield desirable results, the government created a new State-owned entity called the Mining Development Corporation (MINDECO). Meanwhile, government had already established another entity, named the Finance and Development Corporation (FINDECO) to allow the State to gain control of insurance companies and building societies but foreign-owned banks (such as Barclays, Standard Chartered and Grindlays) successfully resisted this hostile takeover (Simutanyi, 2010).

In 1971, INDECO, MINDECO, and FINDECO were brought together under an omnibus entity which is the Zambia Industrial and Mining Corporation (ZIMCO), to create one of the largest companies in sub-Saharan Africa, with the country’s President (Kenneth Kaunda) as the chairman of the Board. The management decides which day-to-day operations of the mines should be carried out by Anglo American and RST, until the board was dissolved in 1973. In 1982 NCCM and RCM was merged to form the giant Zambia Consolidated Copper Mines Ltd (ZCCM).

After nationalization, the SOE sector took off at a brisk pace, with more companies joining the list of nationalized entities as new SOEs were also created. Within a short period, the SOE sector in Zambia grew to a position of such dominance that by 1973, it was estimated that the SOE sector accounted for 53% of total manufacturing GDP while contributing 42% to the country’s employment figure. By 1980, the shares of SOEs in total GDP and formal employment was 56% and 54% respectively (*cf.* Kaunga, 1994; Fundanga and Mwaba, 1997 and Simutanyi, 2010). Concomitantly, the SOEs contributed 14% of the country’s GDP in 1960s and by 1980 more than 80% of the economy was virtually run by the State.

Unfortunately for Kaunda and Zambia, the nationalization programme was ill-timed; this resulted into challenging socioeconomic issues, corruptions, moral hazards and principal-agent problems that were beyond the government’s control as the country’s well-laid plans for economic and national development fell in shambles. The massive increase in the price of oil that began in 1973, led to the slump in copper prices in 1975, in effect, the Zambia’s government export earnings shrunk drastically. For instance, in 1973, the price of copper accounted for 95% of all export earnings, in 1975, this earning performance became halved in value in the global market. Resultantly, by 1976, Zambia had a balance-of-payments crisis and became massively indebted to the International Monetary Fund (IMF). As a way out, the third National Development Plan (1978–83) had to be abandoned as crisis management replaced long-term planning.

By the mid-1980s, Zambia was one of the most indebted nations in the world, relative to its gross domestic product (GDP). The IMF insisted that the Zambian government should introduce programs aimed at stabilizing the economy and restructuring it to reduce dependence on copper. These proposed measures include; (i) the ending of price controls, (ii) devaluation of the kwacha (Zambia’s currency), (iii) cut-backs in government expenditure, (iv) cancellation of subsidies on food and fertilizer, and (v) increased prices for farm produce.

Apparently, Kaunda’s removal of food subsidies caused massive increases in the prices of basic foodstuffs forcing the country’s urbanized population to riot in protest. In desperation, Kaunda broke his government cooperation with the IMF in May 1987 and introduced a New Economic Recovery Programme in 1988. Nevertheless, this programme failed dismally and he was compelled to make a new deal with the IMF in 1989 to rescue Zambia from utter economic and social collapse.

In 1990, with the collapse of communism in the Soviet Union and Eastern Europe (on which Kaunda’s philosophy of Zambian Humanism had been fashioned), Kaunda was forced to make a major policy volte-face; he announced the intention to partially privatize State-owned companies. Since, time was running out for Kaunda, he called for multi-party elections in 1991, where he lost power to the Movement for Multiparty Democracy (MMD). Kaunda left office with the inauguration of MMD leader Frederick Chiluba as president on 2 November 1991.

## **5.3.4 Zambia’s Privatization Process: A Positive Turn Around**

Seeing the debacle of his predecessor, Frederick Chiluba government (1991–2001) after democratic multi-party elections in November 1991, instantly commit its regime to an extensive economic reform. The new government privatized numerous State-owned entities; maintained positive real interest rates eliminate exchange controls and implement free market principles.

In order to ensure that the new privatization programmes succeeds, a number of legislative amendments were introduced, to make it possible to sell some of the State-owned enterprises – most of which also owned other assets (including land and residential properties). A number of these entities were statutory bodies, established under special acts of parliament rather than being governed by the Companies Act. To facilitate the wider disposal of state-owned companies, the Zambia Privatization Act provided for the sale of a percentage of the shares of some companies, especially the large ones to the public through the local stock exchange. Since no stock exchange existed by 1992, it was established by the enactment of the Zambia Securities Act.

As aforementioned, between 1993 and 2000 Zambia embarked on one of the most ambitious and aggressive privatization programmes undertaken by any country in Africa. By 2000, after protracted negotiations ZCCM (the mining conglomerate) was privatized and broken up into small mining entities. Following the privatization of the giant mining company Zambian Consolidated Copper Mines (ZCCM), donors resumed balance-of-payment support. The final transfer of ZCCM’s assets occurred on March 31, 2000. Although, this BOP support was not the answer to Zambia’s long-term debt problems, in the short term, it provides the government some breathing space to implement further economic reforms, but, the government has, however, spent much of its foreign exchange reserves to intervene in the exchange rate mechanism. To continue to do so, the government would jeopardize Zambia’s debt relief that it qualified for in 2000. Ultimately, this debt relief by HIPC was expected to offer a long-term solution to Zambia’s debt situation.

With the privatization of the mines in April 2000, the downward trend in production and exports was reversed as a result of investments in plant rehabilitation, expansion, increased exploration, and high copper prices on the international market. In April 2005, the International Monetary Fund (IMF) and the World Bank’s International Development Association (IDA) provided Zambia significant debt service relief and debt forgiveness under the Heavily Indebted Poor Countries (HIPC) initiative.

Since 2004, copper production output in Zambia has increased steadily owing to higher copper prices and the opening of new mines. Copper production rose to 535,000 metric tons in 2007, but slumping copper prices in late 2008, still put a considerable pressure on the mining companies and government revenue.

## **5.3.5. Consequences of Privatization in Zambia**

The implemented nationalization programme in Zambia, almost brought the country down to its knees, but the privatization programme endorsed in 1991 is yielding positive results slowly. In 2001, the first full year of a privatized industry, Zambia recorded its first year of increased productivity since 1973. The future of the copper industry in Zambia was thrown into doubt in January 2002, when investor in Zambia’s largest copper mine announced their intention to withdraw their investment.

 However, surging copper prices from 2004 to the present day rapidly rekindled international interest in Zambia’s copper sector with a new buyer found for KCCM cooper mine and massive investments in expanding capacity launched. Copper output increased steadily since 2004 owing to higher copper prices and the opening of new mines. In 2007, copper production rose to 535,000 metric tons. In fact, China has become a major investor in the Zambian copper industry and in February 2007, the two countries announced the creation of a Chinese-Zambian economic partnership zone around the Chambishi copper mine. Today copper mining is central to the economic prospects for Zambia, but concerns remain that the economy is not diversified enough to cope with a collapse in international copper prices.

Zambia’s economy has weathered the bad effects of the global economic crisis and a subsequent fall in world copper prices. High inflation, currency volatility, rising unemployment, and restricted access to capital dampened Zambia’s economic performance in early 2009, on the other hand, copper prices have nearly returned to more stable, profit-yielding levels. The turnaround of Zambia’s economy has been a long and arduous journey due to the damaging effect of radical nationalization process; it took Zambia two decades to emerge out of a quagmire of economy disaster.

**Box 3**

**Finding(s) from Zambia’s Nationalization Programme**

In Zambia’s case, nationalization inflicts damaging effects on the economy. According to Maxwell Mwale, nationalization in Zambia costs the government $1Million-a-day to manage nationalized mines. Nationalization turned Zambia to become beggars lobbying for funds, foreign direct investments influx and debt cancellations from foreign investors, International Monetary Funds, United Nations, World Bank[[11]](#footnote-7).

Owing to privatization, Zambia’s current economic outlook for cooper production output is estimated to be 1 million tons by 2015 and 1.5 million tons in 2020. In 2010, Zambia’s privatized mining sector generated more than $1Million – a – day in taxes and royalties for the government, which the *government intends to use for improving its ailing infrastructure and on profitable projects.* Mwale, concede that since 2004, Zambia’s production capacity has increased phenomenally considering the fact that in 2010 total production output varies between 713000 tons and 820000 tons.

The devastating effect of nationalization has compelled Zambia to devise a new strategy that will ensure a robust domestic growth. The new strategy for the development of the mining industry in Zambia, is to attract and retain private investment. On the premise of the bad experience over nationalization, Mwale (2011) indicated that “*it is not on this government’s agenda to nationalize the mining industry again…the privatization process is bearing fruit as evidenced by the flood of investment into Zambia after privatization. The country is reporting positive economic growth due to the revival of the mining industry*.”

Privatization process in Zambia has enhanced large inflow of capital into economy as former state-run mines were recapitalized by new owners. Notably, Zambia’s tax inflows has soared with foreign exchange earnings increasing significantly following the rise in copper exports, which indirectly have created more jobs.

In summary, the established SOEs in Zambia during nationalization were only efficient for a very brief period before their demise. Kaunga (1994), Fundanga, Mwaba (1997) and Simuntayi (2010), following their in-depth studies, indicated that State-owned mining company and other SOEs failed because of total dependence on raw materials, lack of adequate technology, inexperienced management, total dependence on processing of raw materials, misappropriation of resources, monopolistic environment that lacks competition and bureaucracy.

In Zambia’ case, the nationalization programmes and import substitution in particular, proved very costly and unsustainable resulting in domestic growth decline (*cf.* Osei-Hwedie , 2003). For example, it costs the Zambian government to subsidized fee of US $1Million per day to manage ZCCM - the State owned mining company (*cf*. Craig, 2000 and 2001 & Mwale, 2011).

Secondly, from economic theory perspective, the fall in copper prices adversely reduce government revenues (since Zambia depend heavily on cooper as a mineral resources). This decline in revenue and low production output will put more pressure on government subsidies for nationalized entities, in turn; government expenditure on developmental projects and import substitution industries will decline drastically. Following a ‘ripple effect’ concept, decline revenue will results into inability of the State to import goods, (such as raw material needed as manufacturing inputs); government’s inability to service (repay) its public debts timeously and balance of payment problems.

Moreover, for a country like Zambia with no government savings, lack of both public and private savings basically worsen the country’s economic performance, since there was no ‘monetary buffer’ to augment the low government revenues the fall in copper prices. It is clear, why ANC MP Ben Turok cite Zambia’s disastrous nationalization process as an example for South Africa, saying that *“nationalization of mines in South Africa is impractical, given the need for skilled personnel to run the mines and a favourable economic environment”*

Thirdly, Tangri (1999), Craig (2000; 2001), Osei - Hwedie (2003) and Simutanyi (2011), all found out that during the nationalization era, instead of accumulating savings, Zambia government increased expenditure on social and physical infrastructure, imported luxury goods and vehicles for senior government officials, assisted SOEs and some private companies to ‘manufacture profits’ by manipulating financial statements and compensated workers with high wages, especially, mine workers to build political power base of loyal voters, patronage and nepotism.

Fourthly, Gwynne (1996), Tangri (1999) and Osei-Hwedie (2003) discovered that the extensive state intervention during the nationalization period prompt the emergence of bureaucratization, corruption and uncertainty, these factors wittingly discourage productive private investment and foreign trade initiatives.

Lastly, the failure of SOEs often resort from the fact that import substitution industries proved inefficient and uncompetitive due to high input costs, high monopoly prices, reliance on government subsidies, lack of technological dynamism, and under-utilization of capacity and labour (Gwynne 1996).

## **5.4. CASE STUDY 4: The Repercussion of a Radical Political Policy: Nationalization in Angola**

## **5.4.1. Historical Overview: Synopsis of Angola Political Unrest**

The Portuguese arrived in Angola in 1483 and surreptitiously took over the region. Between 1580 to the 1820s, over a million Angolans were exported as slaves mainly to Brazil and the North America. The materialization of a strong economic growth, abundant natural resources and development of infrastructure from the 1920s to the 1960s led to the arrival of more Portuguese settlers.

Diamonds were first discovered in Angola in 1912 and diamond mining began on a large scale production as the mainstay of Angola’s economy. For the next 40 years after the first diamond discovery, the Portuguese established an alluvial diamond mining, named Diamang – a joint Portuguese - Belgian producer. Diamang was operated as a monopoly by Diamontes de Angola. Other companies operating in Angola’s mining industry includes Catoca, De Beers and Luo.

In 1955, the Portuguese discovered petroleum (another mineral resource in Angola). After this discovery, the Portuguese government granted operating rights for Block Zero to the Cabinda Gulf Oil Company, a subsidiary of ChevronTexaco, in 1955. The discovery of abundant diamonds and oil alone, sufficiently portray Angola as the most powerful and wealth country in Africa. Under the Portuguese rule, Angola began mining iron in 1957, producing 1.2 million tons in 1967 and 6.2 million tons by 1971. In the early 1970s, 70% of Portuguese Angola’s iron exports went to Western Europe and Japan.

Before independence in 1975, Angola had a diversified and prosperous economy, though it was characterized by huge racial inequalities. The main agricultural exports such as coffee, sisal and cotton were produced on European dominated commercial farms whilst the mining sector had became well built technologically producing diamonds, iron ore and oil on a large scale. Also, there was a relatively large and diverse manufacturing sector.

Moreover, in the last decade of the colonial period, Angola was a major African food exporter but now imports almost all its food. Subsistence agriculture provide the main livelihood for approximately 85% of the population, in contrast to the current dispensation where many households in Angola are facing threats of rising food insecurity as cereal production has declined to an all time low, for an example, in 1999 agriculture accounted for a mere 7% of GDP.

Today, after more than 25 years of nearly continuous warfare, the Angolan economy is in disarray and its per capita output is among the world’s lowest. For the last three decades, what was once a diversified economy has been gradually destroyed as a consequence of almost uninterrupted war, as well as, bad policy choices at central political level, all these erroneous decisions resulted in the prevailing escalating macro-economic instability and pitiable social development conditions in Angola. According to the EIU, Angola has 2.1% of real GDP growth and a consumer price annual inflation of 325%, and because of severe wartime conditions, including extensive planting of landmines throughout the countryside, agricultural activities have been brought to a near standstill.

After independence in 1975, the Angolan civil war (from 1975 to 2002) destroyed most of the territory’s mining infrastructure and the re-development of the Angolan mining industry started in the late 2000s. In sharp contrast to a bleak picture of devastation and bare subsistence is the country’s ever-expanding oil production because during the war, the country’s oil sector were mostly offshore. Since oil production was not interrupted, the booming oil sector became a vital strategic sector to the survival of Angola’s economy. For instance, Angola’s oil production now accounts for almost half of the country’s GDP, contributing about 61% to GDP in 1999 and 90% of its exports (oil export is almost at 800 thousand barrels per day). Angola is currently the seventh largest exporter of petroleum to the United States.

## **5.4.2. Angola’s Economic Overview**

According to the *Economist*, Angola is one of the fastest-growing economies in the world due to the fact that between the years – 2001 and 2010, Angola’s annual average GDP growth was approximately 11.1% despite the recovery from the civil war that plagued the country since independence in 1975.

In spite of abundant oil and gas resources, diamonds, hydroelectric potential and rich agricultural land, Angola remains poor and a third of the country’s population relies on subsistence agriculture. Since 2002, when the 27 years civil war ended, the government of Angola has embarked on improving; its ravaged infrastructures, the weakened political and social institutions. Moreover, the soaring international oil prices and rising oil production have led to a very strong economic growth in recent years but corruption and public-sector mismanagement are still prevalent. In 2004 China’s Eximbank approved a $2 billion line of credit to Angola to its mining rebuild infrastructures, this capital injection into the domestic economy resulted into an economic growth of 18% in 2005. As a result, an economic growth of more than 10% per annum was forecasted for the country in 2006.

It is important to note that, Angola’s economic performance is largely determined by the level of the country’s oil production which accounts for over 90 % of exports. Angola is the second-largest oil producer after Nigeria in the Sub-Saharan Africa. The oil sector in particular has benefited immensely from a number of new discoveries placing Angola in the coveted position of having the largest reserve growth in the world and first place among the world’s top 15 oil finders. Out of all the non-OPEC nations, subsequently in January 2007, Angola became a member of OPEC.

Nearly all of Angola’s oil goes to the United States (hereafter called U.S) and China. Angola is the third-largest trading partner of the United States in Sub-Saharan Africa, largely because of its petroleum exports. The U.S. imports 7% of its oil from Angola, about three times as much as it imported from Kuwait just prior to the Gulf War in 1991. To date, the U.S. government has invested about $4 billion into Angola’s petroleum sector. Also, in the first quarter of 2008, Angola became the main exporter of oil to China. The rest of its petroleum exports go to Europe and Latin America.

Another important mineral in Angola is diamond. Diamonds (mostly of gemstone quality) are the country’s second-largest foreign exchange earner, most production coming from alluvial diamonds which are scattered over large areas. Thus, in addition to Angola’s abundance oil resources, Angola is the third largest producer of diamonds in Africa and has only explored 40% of its diamond-rich territory within the country. Angola is the fourth-largest diamond producer in the world, producing some $500million of rough diamonds in 1999 and $739 million in 2000.

However, the diamond mining industry is mired with uncertainty, corruption, production unaccountability and lack of transparency. Post-2000, Angola had difficulty in attracting foreign investment because of corruption, human rights violations, and diamond smuggling. It was estimated that the Angola government loses $375 million annually in earnings as a result of diamond smuggling. In January 2000, the government launched a major shake-up of the diamond industry in an apparent effort to bring diamond sales from the large informal market, which accounts for 60% of all diamond exports under Angola’s central government control into official channels and prevent UNITA leaking diamonds through government-held areas. These changes had some success in raising official revenue to the extent that by mid-2000, diamond production revenue increased to an average of $4m per month, up from an extremely small base of around $10million per year. In late 2000, UN monitoring panel reported that more than $1million of worth of diamonds were leaving Angola illegally daily and UNITA rebels were identified as the responsible culprits for smuggling between 25 – 30% diamonds.

Looking at the contributions of Angola’s strategic sectors to its domestic economy; in 1999, the mining and hydrocarbons sectors together accounted for 70% of country’s GDP whilst these sectors employed about 4% of the workforce. In 2004, the country’s exports reached $10,530,764,911 and petroleum products was the main component of the 2004 export figures with approximately 92%, whilst diamonds production that worth $785 million made up 7.5.% of the 2004 export earnings. in 2004 alone, oil sales generated $ 1.71 billion in tax revenue (a 5% increase from 2003 export earnings) and currently make up 80% of the government’s budget. Also, Angola’s coffee production, though a fraction of its pre-1975 level, is sufficient for domestic needs and some exports.

## **5.4.3. The Emergence of Nationalization**

In Angola, modern diamond mining began in 1912, when the gems were discovered in a stream in the Lunda region in the northeast. In 1917, Diamang was granted the concession for diamond mining and prospecting, which it held until independence. After independence, in 1976 the Angola’s government promulgated a piece of legislation (No. 3 of 1976) to confiscate and nationalize all unproductive and/or obsolete companies owing to the mass emigration of the Portuguese who had the technical skills and expertise required to run these industries. The rationale for nationalization in Angola, like many other African countries was to redress the inequalities of the past and tackle the prevailing economic issues within the mining, manufacturing and industrial sectors in Angola.

The implementation of nationalization programme in Angola resulted in a mass emigration of white Portuguese with the scarce technical skills, knowledge and human capital needed to run the sophisticated mining, manufacturing and agricultural industry effectively in Angola. Immediately, ‘skilled-labour’ crisis emerged after the exodus of Portuguese workers because the indigenous African population lacked the skills and knowledge needed to run the country and maintain its well-developed infrastructures.

After independence, the Angolan government created Sonangol (a State-run oil company) in 1976. Two years later Sonangol received the rights for oil exploration and production in all of Angola. Following the implementation of the nationalization Acts, Diamang was acquired by the State in 1977. In April 1979, a general law on mining activities (Law 5/79) was enacted to give the State the *‘exclusive right’* to prospect for and exploit minerals. Accordingly, a State diamond-mining enterprise, the National Diamond Company (Emprêsa Nacional de Diamantes[Endiama]), was founded in 1981 to control State’s 77% share in Diamang.

In 1984, mining halted in Angola for more than two years because of the civil war, but mining operations resumed in 1986. Nonetheless, UNITA selected the diamond mining industry as a principal target and soon crippled all potential mining investments. By the beginning of 1986, two foreign companies involved in servicing and operating the mining industry pulled out of Angola, and, Diamang was formally dissolved by mid-1986, leaving large outstanding debts. Adding to the investment woes, was the persistent attacks by UNITA on mining centers, disruption of transport routes, widespread theft and smuggling, which caused diamond sales to fall by $33 million in 1985 and to an estimated $15 million in 1986.

By 1987 diamond production had risen to 750,000 carats (150 kg), compared with less than 400,000 carats (80 kg) produced in 1986[[12]](#footnote-8). This increase in production benefited from the rise in the price per carat received for Angolan diamonds in the global commodity market. The resumption of mining in the area along the Cuango River and a decline in theft of stones of higher value in the Andrada and Lucapa areas, also increased the value of diamonds production and sales.

## **5.4.4. The Rationales for Nationalization and the Emergent Problems in Angola.**

 Delgado (2010) cited three reasons for the implementation of nationalization policy in Angola in 1976. First, the government aimed at revitalizing strategic industries that have cease to operate after the independence. Second, the government wants to create a strong political leadership via its control over the economy and its strategic industries. This is a deliberate plan to strengthen the government’s political base and power. Third, the need to acquire substantial funds needed for political purposes.

Angola’s nationalization plan had a shocking spin to it. The nationalization process in the initial phase only targeted companies that belong to Portuguese, this tactical move can be construed as *‘partial and/or discriminatory nationalization’* fuelled by historical inequalities that prevailed prior independence and resultantly, 77% of the capital of Diamond (a Portuguese mining company) was nationalized, meanwhile, other foreign companies were unaffected, for example Swiss Bank Corporation (SBC), De Beers Consolidated (DBC) and Morgan Trust Company (MTC).

Similar to the Youth’s League proposition that a ‘State Owned Mining Company’ should be established to oversee and consolidate other mining industries for proper supervision and utilization of the country’s mineral resources to ensure economic – , revenue – and employment – growth, Angola government consolidated all the nationalized industries in to a unified economic sector (UEE known as State Economic Unities). This process failed dismally and these UEEs became highly inefficient and unproductive. The Angolan government revised this law and disintegrates the UEEs.

The Angolan government tried to make its nationalization plans to be fruitful by promulgating several laws and policies that address custodian, ownership, indigenization, equality, employment creation issues, but the desired economic and social results remained unattainable. For example, State owned entities such as Endiama (a diamond mining entity) and Sonangol (a petroleum mining entity) was created via the implementation of Law No.13/R78 of 1978 and Law No.5 of 1979. In addition, these laws stipulate that; all minerals resources in Angola belong to the State as a sole custodian. Only Endiama and Sonangol were mandated by the State to be responsible for concession and receiving of taxes, royalties and to transfer tax and other generated revenues to the government. This is akin to what ANCYL proposed in their conceptually frame work (*cf*. pg.17, par. 69 of the Youth League’s discussion document).

In 1982, Acts No.20/82 that was formulated by the Angolan government to force foreign investor to transfer technical knowledge to employed Angolan citizens through monitored capacity building and training programmes. Even after the passing of this legislation, Angola was not able to ensure that sufficient numbers of Angolan citizens benefitted from foreign mining companies operating in Angola (Delgado, 2010). In 2003, to alleviate the frustration of a fruitless nationalization policy, the Angola government adopt the “Indigenization” or “Angolanisation” of the mining sector. However, the government’s objectives to ensure that the nationalization benefits “trickle down” to the people was not achieved. Several laws have been passed in Angola yet, only about 32% of the population has access to good water and 35 % has access to health care services, whilst the only beneficiary of Angolanisation are those with university levels of education (*cf.* Delgado, 2010). This is only approximately 3% of the population, in reality, restricting broad-based access to the mining sector.

**Box 4**

**Finding(s) from Angola’s Nationalization Programme**

The social and economic problems that emerged from Angola’s implemented nationalization programme, indubitably yielded more devastating effects on the economy as whole than the benefits accrued thereof. Critical monitoring, operational, economic and social issues such as the rapidly declining productivity in strategic industries, SOEs inefficiency, mineral dependency trap, inadequate managerial and technical skills to effectively manage generated revenues, moral hazards, principal-agent problems, corruption etcetera, compelled the government to start re-privatising all the companies that had been nationalized in Angola.

In Angola, SOEs levels of productivity during the post-independence era, is far less than the output level during the pre-independence era because of inadequate human capital and technical know-how. For instance, prior independence, about 17% of Angola exports were manufactured agricultural products with strong position in the exploration of coffee. After independence, government focused only on the mining sector and neglect the agricultural and manufacturing sectors, as the sole source of revenue. Only exploration in oil and diamonds remained after independence, and constituted the entire volume of Angolan exports.

Moreover, considering the pre – independence era in Angola, the agriculture and manufacturing sectors jointly contributed about 67% to the GDP, whilst the mining sector contributed about 20– 25% to the GDP. On the same analysis, during the post- independence era, that is between 1976 and 1989, almost the all the revenues needed to finance the governmental budget, were generated from the mining and oil sectors only. As a result of Angola’s nationalization programme, between 1990 and 2001, the contribution of the mining and oil sectors to the GDP, have decline to about 18%. Given, the considerable decline of Angola’s mining sector, the government has diversified its resources to the manufacturing and agricultural sectors. For instance, about 70% of the Angolan government’s revenue originates from the non-oil industries, a trend that has been evident since 2002, as oil sector’s revenues have been declining while that of the non-oil sector has taken an upward trend.

In sum, following the failure of nationalization programmes in Angola, also, in an attempt to revamp the failing SOEs and boost the economy growth, the government is now re-privatizing nationalized companies, lobbying for foreign direct investments and wants to attract foreign investors. A positive effort by the government to turn Angola around was the economic reform effort was launched in 1998, after the Angolan economy ranked 160 out of 174 nations in the United Nations Human Development Index of 2000. Since, April 2000, the government of Angola has succeeded in unifying exchange rates and has raised fuel, electricity, and water rates via International Monetary Fund (IMF) Staff-Monitored Program (SMP) that lapsed in June 2001[[13]](#footnote-9). The Commercial Code, telecommunications law, and Foreign Investment Code are being modernized ( in addition to the massive privatization efforts) with the assistance of the World Bank.

In spite of every economic and political effort in Angola, the legacy of fiscal mismanagement and corruption still persists. Additionally, by 2001, the civil war had internally displaced 3.8 million people (on average, about 32% of the population). The political security that resulted from the 2002 peace settlement has led to the resettlement of 4 million previously-displaced person, this in turn, has provided adequate human labour needed in the agriculture sector for large-scale production.

Due to the vast amount of natural resources in the country, the GDP has a current growth rate of 16.3%. The growth that has occurred is due to the end of the civil war and the influx of foreign companies into the country, to set up oil drills and open new diamond mines. *Nevertheless, the current economic growth in Angola, is not sufficient to stimulate visible social economic development among the entire population, where 65% of the population are still living on one dollar – a – day.*

## **5.5. Other Countries that have implemented Nationalization Programme**

As highlighted earlier in this paper, to present robust evidence for and against nationalization, this section presents a brief discussion on countries where nationalization has been undertaken such as Russia, Venezuela, Nigeria and China.

In the wake of the 2008 global recession, the waves of nationalization ideology and practical implementation spread across the globe; countries such as Latin America and Russia embarked on implementing nationalization programmes. Russia decreed a law that instigates the country’s nationalization programme in 2008. This law declared 42 economic sectors as ‘strategic sectors’ which will solely be control by the Russia government, consequently, foreign investors and/or private foreign companies cannot access these ‘strategic sectors’. Moreover, in the mining industry, the Russian government has reduced the level of foreign investment to merely 10% of equity in any Russian entity that controls a mining field containing more than 70 million tons of oil, 50 billion cubic meters of gas and 500, 000 tons of copper.

Similarly, nationalization policy was introduced in Venezuela by President Chavez government since early 2008. Venezuela oil reserves are among the world’s largest and it produces about 2.5 million barrels a day of oil. Prior 2008, the government re-nationalized private companies in 2007, indicating the dire need to utilize the country’s own resources to fight poverty. An extensive nationalization process kicked-off in 2008, when the Venezuela’s government nationalized its oil industry and many other assets including cement, steel, food processing, retails and banks. By 2009, the government have nationalized more companies to address the country’s macroeconomic crisis due to an increasing debts incurred by its SOEs.

 To justify the reasons for nationalization, the Venezuelan government argued that the nationalization policy is vital to reclaim the State’s control over the natural energy resources of Bolivia, ten years after they were privatized. This recent nationalization strategy is the third undertaken in Bolivia because the government believed that the assets of Petrobras ( a Brazilian company) is a representation of foreign influence over Bolivia’s main natural resources, being the second largest natural gas reserves in South America.

President Chavez’s government’s nationalization strategy was perceived as “pro-poor” since it enjoyed massive popularity with Venezuela’s poor majority because of government’s high social expenditure on massive socio-economic projects. Even so, the Venezuelan government is currently facing serious socioeconomic issues owing to shortages of basic goods, high inflation and legal battles. Foreign (western) giant oil companies like Mobil, Exxon, BP, Cargill, Conono, Phillips, and Cemex are on the receiving end of Venezuela’s recent nationalization programme, in reality, the fierce legal battle between the Venezuela’s government and U.S. oil giant ExxonMobil is still a weighty concern for country’s economy. At the moment, the Venezuelan government have not demonstrate any intention of compensating the nationalized foreign companies that invested about $3.5 billion in the country since Bolivia’s oil and natural gas industry was privatized.

Some critique revealed that, Chavez’s intention was to boost his political legitimacy since his popularity has been dwindling among the country’s voters. Of lately, Chavez’s political legitimacy comes from only the supporters who are deriving benefits from his social welfare generosity and not from a positive economic reform, prudent macro-economic management or market-friendly policies. In fact, the current Venezuelan government is perceived to be creating a *‘social wedge’* between the poor working class and the middle class for political support, however, until recently his popularity has began to weaken owing to the deterioration of the domestic economic situation.

On the economic front, Venezuela’s oil output and foreign reserves have shrunk despite the global surge in oil prices in the last 10 years. Unfavourable domestic growth and high inflation rate in Venezuela led to devaluation of the country’s currency. Recently, the IMF forecasted that Venezuela will be the only western hemisphere economy to contract in 2011 with an inflation forecast of 30%, and rising. Yet, Venezuela’s government has nationalized many private entities between 2008 and 2009, with the gold mining and iron production sectors particularly affected. The government of President Chavez has appeared increasingly hostile towards foreign investments as the current government seeks to assert State control over natural resources; hence there are few major multinationals both in the energy and non-field mineral sectors.

Nigeria is another Africa country where the State implements nationalization policy to control its vast mineral resources after independence in 1960. In 1970, the government decided to nationalize all mines, yet, the Nigerian government nationalization programme’s did not produce the desired results, instead, production levels plummeted. Nigeria as a sub-Saharan Africa’s largest oil exporter has been encountering power shortages (electricity), fuel scarcity and reliant on gasoline imports, notwithstanding that the country is producing more than 2 million barrels of oil a day.

On the other hand, since the return to democracy in 1999, Nigeria government has renewed its commitment to attract private investment to the mining sector as a means of stimulating economic growth. For example, by promulgating the Mineral and Mining Act of 2007, Nigeria’s government aimed to restore confidence in the mining industry which has historically been plagued by corruption and excessive bureaucracy.

According to many economists, although, resources nationalism is rampant across the globe, from Russia to Bolivia, with different State governments tightening their grip on oil and minerals resources, mostly in sub-Saharan Africa has lagged behind because the established State companies inherently lack technological know-how. For instance, Nigeria’s NNPC and Angola’s Sonangol.

Equally, in a communist country such as China, where the all ‘strategic sectors’ is owned and controlled by the State. As of 2011, China has 120 State-owned entities remaining since they have privatized thousands of these SOEs because majority of China’s State-owned enterprises were deemed as inefficient and debt-ridden — despite the country’s quick recovery from the 2008/09 global recession.

## **6. BRIEF ANALYSIS OF TWO STATE OWNED ENTITIES IN THE MINING INDUSTRY**

Government State Owned Enterprises (SOEs) such as South Africa Airways (SAA), South Africa Broadcasting Corporation (SABC), Transnet, Eskom, ACSA, Denel etcetera, are facing diverse and difficult challenges at the board, managerial, operational and performance levels. It is a common knowledge, in reality that the low or (in some cases) poor performances of these SOEs are quite telling. There are widespread evidence of corruption, bureaucracy and nepotism at the management and board levels. To amass valuable evidence, all which is required is to analyze daily reports, financial statements, dividend payouts of these SOEs to determine their performances and social costs to the government.

There is nothing to write home about regarding the performance of most SOEs in South Africa since these companies tend to report financial losses more than revenues. Often, due to poor financial management and wrong strategic decisions, most SOEs are always at peril of underperformance, that is, huge financial losses are typically reported. In an extreme case, these SOEs appear more often than not, to be at the brink of bankruptcy and unable to pay the wages and/or salaries of their workers, whereas, at the management or top positions; hefty salaries (usually in millions), huge stock options and performance bonus would be allocated. This type of social cost put the government at critical positions, if they do not bail these SOEs out in time using the generated revenues, their closures might be devastating. Therefore, in order to keep the workers employed and keep the SOEs running as a public entity with a profit, government usually inject large capital (at the expense of tax payers) into the these failing SOEs with the anticipation that a positive turn around will materialize. Such telling consequences have been the case of SAA, Eskom, and Transnet etcetera. On the other hand, there are few SOEs such as PetroSA that are doing well.

Firstly, if the South African government will yield to the mounting pressure of the existing nationalization debate in a favourable manner, then, it is possible to use the performances of established SOEs based on their historical performance hitherto, as a yardstick to safely foretell the probable performance of what the performance of new nationalized entities would be like. Note that, this comparison is only utilized to construct a vivid picture in one’s mind of how the future of South Africa will look like, if nationalization programme is implemented.

 Secondly, at this point, it is imperative to ask a critical question that; *what will happen, if nationalized entities failed to yield the anticipated (positive) results as expected by the ANCYL and the government?*

Thirdly, *if post-nationalization, there is a mass failure of the established SOEs, how will the government cope with the financial, political and social pressure?*

Still restricting the discussion of this paper on nationalization to the South Africa mining industry, the performance of two State-owned enterprises (SOEs) are depicted here as a ‘real life experience’ that superseded any conceptual analysis. This section of this paper reviews the undeniable evidence as per the performance of these SOEs, within the highly competitive mining industry in South Africa. The two SOEs that will be discussed here are; African Exploration Mining and Finance Corporation (hereafter called AEMFC) and Alexkor (Diamond mine)

**6.1. African Exploration Mining and Finance Corporation (AEMFC)**

South Africa government currently owns two mining companies, namely; a diamond miner Alexkor in the Northern Cape and AEMFC.

AEMFC was created in 1944 (arises out of the apartheid government’s as a subsidiary of the Central Energy Fund) and remained dormant as a SOE until 2007, when it was revived by the Department of Minerals and Energy (DME) that is now called the Department of Mineral Resources (DMR). AEMFC is part of a stable of more than 30 entities within the Central Energy Fund (CEF) with the largest being PetroSA.

Although little / no information on AEMFC is publicly available, in the CEF annual report to March 2009, African Exploration and Finance Corporation was described as non cash generating and funded through a CEF loan. In the CEF’s annual report in 2009, it was mentioned that AEMFC’s projects were at exploration or feasibility-study phase. AEMFC balance sheet lists assets of R33 million and a R37 million CEF loan, in addition, the available information on AEMFC financial performance revealed that AEMFC made a loss of R14m in the past year, up from R10 million in 2009[[14]](#footnote-10).

In 2011, President Jacob Zuma re-launched the AEMFC as a new ‘competitive’ State mining company, which is expected to produce 800 000 tonnes per year of energy coal (with production increasing to 1.68 million tons a year) at its first mine and synthetic crude oil from other mines in 2013. The South African government revitalization efforts on AEMFC caused the State owned entity to acquire a new project which is the R130 million Vlakfontein coal mine (employing 120 people) as its first venture in 2011. The Vlakfontein coal mine is expected to become one of the top-five coal producers by 2020. As an effort to rejuvenate more mines in South Africa, President Zuma said that *“the role of the State could not simply be to enforce regulation, but it needed to be actively involved in the mining industry to ensure that its interests were advanced”.*

Looking at the future, AEMFC was granted 27 prospecting rights it applied for in 2010, and the entity is currently taking steps to obtain prospecting rights for platinum group metals and base metals as well. Mining at the Vlakfontein coal mine is expected to continue for about 15 years and between 150 and 200 people will be employed during the construction phase, while 120 will be employed during the operational phase. Furthermore, AEMFC predicted that from the third quarter of 2013, to be employing 1 000 people in the production of synthetic crude oil from coal.

**6.2. ALEXKOR (The State - Owned Diamond Mine)**

Unlike its counterpart AEMFC, historic performance of Alexkor has been dreadful since its inception as a public entity in November 1992. The State is the sole shareholder of Alexkor with 100% equity. While Alexkor, as a commercialized State asset, is not perceived as a strategic asset in the national sense, it has significant strategic importance for the Namaqualand region (*cf.* Alexkor’s website).

Alexkor’s core business entails the mining of diamonds on land, along rivers, on beaches and in the sea along the north-west coast of South Africa. These activities are complemented by geology, exploration, ore reserve planning, rehabilitation and environmental management whilst the non-core business activities comprises of residential services, community services, outside engineering services, external transport services, guest houses, fuel station and an airport. Alexkor’s distinctive competencies are its quality of diamonds; over the life of the mine approximately 10,000,000 carats of gemstone quality diamonds have been recovered region (*cf.* Alexkor’s website).

In terms of performance, the history of diamond miner Alexkor’s gradual deterioration provides an eloquent negation to the ANCYL argument for nationalization, because over the years, this State-owned diamond miner Alexkor has consistently suffered huge financial losses, meanwhile, its contribution to government revenue and cash flow is minimal. Due to Alexkor’s poor financial performance, this company’s social impact on poverty and inequality is yet to be seen, if one considered the extensive legal battle between Alexkor and the Richtersveld community from 1998 to 2007. This case was settled with a huge amount of R190 million in reparation while the State-owned diamond mining assets held by the Alexkor mining company being granted to the community.

Prior losses by Alexkor prevented it from developing new business due to lack / little access to capital, in fact, the board of this SOE cited in the company’s 2007 prospects that: “*Alexkor experienced a further deterioration in financial performance during the 2007 financial year where the company continued to operate at a loss…the continuous losses reported in the previous financial years are mainly attributed to a lack of capital investment in prior years to address the operational challenges related to mining on an inferred resource, continued use of ageing plant and earth-moving equipment and poor sea conditions…this situation has been worsened by the ongoing subsidization, using income from mining operations, of the company’s non-core assets comprising ABT, Alexander Bay Town, the airport and the hospital* ” (*cf.* Alexkor’s annual report).

In 2009, due to Alexkor’s financial woes, the SOE could not undertake recapitalization as its capital expenditure was almost dry (standing at an estimate of R1 million). The company’s huge losses continue rising, with R77 million loss in 2009 in comparison to its small operating profit of R6 million in 2008, which failed to offset the losses of R23 million in 2007, despite an injection of government cash of R33 million in 2007 – compared to an operating profit of R11 million in 2006.

In the race to rescue Alexkor, the government initially put out a tender for a 51% stake in Alexkor given the enormous debt that the SOE has already incurred, but the newly appointed Public Enterprises Minister in 2001, Alec Erwin refused to endorse the proposed privatization strategy. The news of this failed privatization strategy caused several capable managers to leave Alexkor. As a result of mass resignations, Alexkor’s turnover dropped dramatically to a nadir of R109 million in 2007 in comparison to turnover of R264 million in 2004 and R152 million in 2005. Alexkor’s revenue plummeted by two-thirds in the space of a few years when the global commodity markets, including the diamond market were booming.

Meanwhile, the gradual demise of Alexkor resulted into shedding of staffs. The total staff compliment dropped from 1,126 employees in 2008 to 680 employees in 2009, despite being a State owned mining company. Arguably, the Alexkor’s financial losses, staff lay-offs and unproductivity placed an enormous fiscal, monetary and social burden on the South Africa government. By all account, Alexkor performance was not impressive.

By 2009, Alexkor’s financial crisis became worrisome despite several management changes to stimulate a positive turn-around has failed. In 2009, Alexkor accumulated losses stood at R275 million even as the entity was facing significant environmental rehabilitation liabilities.

On the basis of the disastrous trajectory of Alexkor financial and management misfortunes, the debate on nationalization spurred other political parties (such as the Democratic Alliance, DA) to vociferously argued in Parliament that, the failure of Alexkor is an indicative (a classical case) that the State lacks the managerial capacity, technical knowhow and business acumen to control strategic mineral companies. As a matter of concern, in March 2011, the Auditor-General report presented in Parliament indicated that *“The company (Alexkor) has insufficient cash resources to meet its operating cash requirements for the foreseeable future…there is significant doubt about the ability of the company to continue as a going concern in the longer term without the establishment of the Pooling and Sharing Joint Venture, as determined in the deed of settlement with the local community, and commencement of sustainable mining activities”* [[15]](#footnote-11). This statement strengthens the opposition party (to the ANC-led government) arguments against nationalization. In fact, Eustace Davie (the Director of the Free Market Foundation) maintained that *“…for the good of everyone, especially the poor, the mines should remain in private hands”.*

Against all odds, in September 2011, Alexkor (for the first time in five years) posted its first gross operating profit of R11.3 million and a net profit of R84.2million (almost $11 million) for the financial year ended in March 31, comparing this significantly positive turn around to the operating loss of R6 million in 2010 with a net profit of R36.1 million. This significant profit was attributable to surge in the global diamond prices from 2009 onwards; high diamond trading volumes; increase in South Africa’s diamond production that rose from 4.8million carats in 2008 to 7 million carats in 2009 owing to increase in global diamond demand. In addition, better cost management and the legal settlement by Alexkor contributes to the reported profit. But, the State-owned company (as of September 2011) could only employed 106 people on a full-time basis compared to its 691 full-time employees in 2000.

In weighing the evidence for and against the implementation of nationalization programme in South Africa, the brief overview of AEMFC and Alexkor is very significant, taking into consideration how long State SOEs remain unproductive whilst operating on huge losses in a rigorously competitive mining market that is risky as result of irregular price volatility and at the expense of government subsidies which eventually impose an indirect burden on taxpayers. From the “real life” and historical performances of Alexkor and AEMFC as State SOEs redirect one’s thoughts to the question posed earlier? *What will the State do, in a situation that all nationalized mining companies become redundant, unprofitable, operate at significant losses and failed to generate the revenues required for social development, domestic growth and investment on capital-intensive sectors to create jobs as indicated in the New Growth Path and Industrial Policy Action Plan 2?*

## **7. ADVANTAGES AND DISADVANTAGES OF NATIONALIZATION: Theoretical and Real Life Evidence**

The assessment of the advantages (pros) and disadvantages (cons) of nationalization must be critically evaluated based on real life experiences and sound theoretical reasoning. Imperatively, all evidence and arguments should and must not be based on emotions or text book examples. Therefore, to discuss the pros and cons of nationalization, it is of a great importance to identify theoretical and empirical findings that depict the instances where nationalization has been deemed as a successful and/or a failed strategy. An in-depth analysis of this nature must be done in a logical manner that will give the readers the “big picture” before getting into the details.

More so, for governmental strategic decision(s) and policy making purposes on the contentious nationalization debate in South Africa, it is vital to pay attention to real-life experiences and outcomes of other countries after implementing diverse nationalization programmes. It is widely accepted that *“experience is the best teacher”*. Thus, South Africa government can capitalize on the bad and good experiences of other countries that have embarked on nationalization, to make a sound decision to will turn out to be “a lasting legacy” for all South African and many generations to come.

## **7.1. Advantages of Nationalization**

Many studies have shown that the amount of resource rents derived from the State-owned and controlled industries in Venezuela, Chile, Bolivia, Norway and many other countries, significantly contribute to the State fiscus to fund many of the social-development interventions which the State provides to its citizens (*cf.* Chang, 2007). Amongst other advantages, nationalization tends to steer a country towards the ‘development state’ via the development of sufficient legal and economic power (as seen, in the cases of Angola, Zambia and Venezuela). Often, countries that implement nationalization programmes usually develop the predilection to thoroughly refine and strengthen their legislative structure by enacting different types of laws, legislative bills and Acts that would allow the citizens to enjoy the benefits of nationalization via exploitation, beneficiation and exportation of available mineral resources. Additionally, the government of nationalized countries are inclined to wielding large amount of power; that is, the State government could compel foreign investors and/or international companies to do what they want.

Secondly, nationalization generally leads to creation of many SOEs to offer required services [public goods] that profit-seeking private sectors are unwilling to undertake (such as roads, postal services, public transport, basic educations, hospitals) because of small profitability capacity and remote geographical location. Establishing SOEs characteristically offers an easy route for the government to provide basic social services that will benefit the poor and the poorest-of-the-poor. For an example, private entities will not want to establish or operate their companies in the rural areas. Likewise, a private hospital will not offer its services to patients that are regarded as poor in monetary terms. Chang (2007) conceded that, the endeavours of government to keep SOEs operational make sure that the most vulnerable groups in the society have access to security, basic amenities and social goods. Conversely, the creation of SOEs causes ‘social returns’ to be larger than ‘private returns’ and reduce the monopolistic power of giant companies, which in turn, creates a competitive market.

Thirdly, nationalization produces more “middle class” in an unequal social system. In the case of Angola, to provide the avenue for knowledge transfer, technical skills development and internal capacity building, the Angolan government forced international companies to train its citizens. The private – public partnership between the government of Bostwana/Namibia and De Beers has been successful in generating positive social and economic spin-offs by providing large revenue for these governments to embark on (foreign) educational sponsorship for its students abroad.

 Fourthly, nationalization encourages the revitalization of obsolete or dormant entities to become productive and efficient. This process, in a short-run, leads to an increase in production output of strategic industries owed to the revitalization of existing State-owned enterprises.

Another reason why government often opts for nationalization programmes is to increase the economic participation rate of ordinary citizens as a result of high propensity of the government to invest in capital intensive sectors and labour intensive projects to create jobs (which could reduce a high unemployment rate); improve the society’s standard of living by earning more personal disposable income ( in effect, alleviate poverty) and allow local investors with potential to acquire ownership of strategic companies within the manufacturing, mining and oil sectors (in effect, reducing foreign investor’s dominance). Ceteris paribus, an increase in the participation rate of the economically active population will stimulate domestic growth.

Naturally, nationalization inherently design to redress racial, income and status inequalities by empowering all [the previously disadvantaged or marginalized] citizens equally. In effect, nationalization will lead to formation of a powerful workers’ Union.

## **7.2. Disadvantages of Nationalization**

Looking at the ‘real–life’ nationalization aftermaths in countries where nationalization programmes have been implemented corroborate the conjecture that economic growth often decline in the long run. According to Brown (1990), Boyer(2007), Hicken et.al (2008) and Rosa et.al(2008), government ownership is common in the poor(est) countries, but the weak operational and financial performance of these SOEs (in the long run) retard financial system development and restrict economic growth, mostly due to their impact on productivity.

Firstly, SOEs (in most cases) are unproductive, inefficient and accumulate huge debts by accruing huge operational losses as a result of bureaucracy, diplomatic deployments of politicians with no adequate managerial skills and business acumen. In addition, the governmental system of nationalized countries are predisposed to lack of accountability and transparency since governments have monopoly power over available information such as publishing earnings and royalties (*cf.* Delgado, 2010). A typical example will be the case of Angola, Zambia and Nigeria, amongst others. This evidence echoed the argument of Louw (1999) about South Africa and other countries that, nationalized industries have the tendency to consume government revenues rather than supplementing it.

Secondly, countries where nationalization programmes are implemented habitually encounter an unsustainable economic growth as a result of ‘crowding out’ private investments that are necessary for domestic growth, social development and building infrastructure capacity as private sector participation diminishes (*cf.* Urbach, 2011; Roy, 2006).

Thirdly, the persistent woeful financial and operational performance of State owned enterprises typically place an enormous burden on the government to constantly them bail out. Government keeps failing SOEs operational by imposing higher tax rates on taxpayers and through subsidy. Hence, the survival of SOEs has a tendency to compete with the poor for government funds. State governmental priorities for fund allocation will become skew since the government want to save SOEs from bankruptcy, permanent closure and from increasing the pool of unemployed EAPs. Ultimately, government’s priority to provide sustainable public goods and deliver adequate social services would be re-aligned in favour of SOEs than poor communities, this in turn, creates an environment for social unrests and political protests for service delivery[[16]](#endnote-5).

By and large, nationalization usually provides a breeding ground for and perpetuates nepotism, patronage and corruption. A scenario of *“robbing Peter to pay Paul”* by government via shifting funds is common. A furtive glance into the economic and political landscape of Africa countries, *interalia* Zambia and Angola. The State was extorting funds from profit-making SOEs to meet various government obligations, propaganda, political popularity and public officials’ luxurious lifestyles royalties.

Considering the fifth rationale against nationalization, it is being established that nationalization programmes always causes conflict between commercial, political and social objectives (*cf.* Turok (1989), Osei-Hwedie (2003) and Simutanyi (2010)). For instance, in Zambia, SOEs chief executives were appointed by the State President. The employment conditions of these executive plus their huge salaries were based on political connections or governmental networks. Against this background, Zambia’s SOEs became to be overstaffed, made little or no money, and were maintained by huge State subsidies[[17]](#footnote-12).

Another consequence of nationalization is that, when strategic sectors like the mining, manufacturing and oil sectors are nationalized for the sole purpose of generating revenue to: meet burgeoning social demands, provide social development and infrastructures, in any country usually cause the State to *“neglect or isolate”* other sectors such as the tourism and agricultural sectors (*cf.* Delgado, 2010). Logically, generated revenues from any sector have the propensity to decline overtime owing to various exogenous and endogenous factors. In this type of status quo, the State government runs the risk of getting squeezed out of funds quickly to incur excessive public debts. Given the impact of “ diminishing effects” on the State funds coupled with large public debts, in a country where strategic sectors are nationalized, the balance of payment will deteriorates as the budget deficit widen, this in turn, puts the welfare of the economy and the entire population in a precarious state.

Similarly, nationalization restricts foreign direct investments inflow into the economy. Foreign investors perceive countries with nationalization policy as unfriendly. Furthermore, these foreign investors are unwilling to accept a smaller equity percentage as a token of an investment opportunity in foreign countries owing to low profitability capacity and investment returns. Since, foreign investors bring along sophisticated technology and invest heavily in R&D that could be beneficial to the development of any domestic economy, their resolution to avoid nationalized countries, hinders technological and economic advancement.

In most cases, massive emigration of skills, technical expertise and technology follows the implementation of nationalization programme. This negative factor is far more debilitating than “brain drain” because valuable technical skills and human capital investment necessary for high productivity and economic growth would be lost to other countries.

In addition, huge capital outflow as a result of nationalization disrupts the functionality of the concerned country’s economy. Venezuela, Zambia, Angola, Nigeria are few examples out of many, where huge capital outflow led to depreciation of domestic currency and the collapse of local Stock Exchange (in the case where foreign investors have larger share of gross market capitalization). According to Azar Jammine in his analysis, if nationalization is implemented, the Rand value will weaken. In the short run, this weak rand is favourable to manufacturers; however, it will cause an increase in interest rate which will put an upward pressure on inflation in the mid/long run. Obviously, the poor will be insulated because they have no financial debts with financial institutions but the middle class that have loans will be disadvantage. Moreover, higher interest rate slows down the economic growth and increase job losses.

Most importantly, nationalization always leads to “dependency trap”. All countries where nationalization has taken place, even in countries where there is a successful private-public partnership, the government tends to rely heavily on the revenues generated from the beneficiation, exploration and exports of the available minerals resources. Namibia and Botswana governments have identified this ‘dependency trap’ based on the reliance of the State on its diamond mining industry and they are trying to diversify, nevertheless, Zambia was not so fortunate, nationalizing its cooper industry failed dismally, crumbles the country’s domestic economy, growth rate and impoverish Zambia citizens. By falling into the ‘mineral resources dependency trap’, nationalized countries usually fail to diversify, hence, people’s welfare and the economy’s growth rate rests on an uncertain state.

On one hand, nationalization programmes in Africa countries and other developing countries, in most cases, not only fail miserably but the aftermath puts the economy, the political regimes, financial systems and the populace in a detrimental state such as low rate of life expectancy, poor service delivery, deteriorating infrastructures, concurrently high inflation and unemployment rates, huge public debt, devalued local currency, low/lack of human capital, insufficient capital, depletes foreign reserves, increase in country risk and crimes etcetera. It has been establish (ibid.) that these countries eventually re-privatize SOEs to ensure an effective economic reform. Usually, Africa countries where nationalization has been implemented often request the assistance of IMF, UN and the World Bank for debt relief and/or bail out.

Conversely, nationalization (with compensation) is astronomically costly. Even if, nationalization is via expropriation (no compensation), the legal battles between the State and foreign companies will be long and costly. In either case, the State will need huge funds to acquire all privately-owned entities, which will put monetary pressure on the State, the BOP and increase public debts. Zambia is an example of this scenario; it cost the State to keep ZCCM running at a subsidized fee of US $1milliom per day.

Finally, in Africa countries (Zambia, Angola, Nigeria etcetera) and elsewhere, beneficiaries of nationalization process are the government (to solidify political power), bureaucrats and the middle class. The benefit of nationalization *“never trickles to the poorest of the poor”* (that is, the man on the street), thereby, widening the gap between the income and social status of the middle class and the poor in the society, this creates a ‘new inequality’ phenomenon.

 After nationalization, workers union customarily become more powerful and demand increase in wages for their workers, this eventually drive up labour costs. To meet union’s demand, the State government borrows aggressively whilst accruing large public debts.

## **8. COUNTING THE COST: Food for Thought on Implementing Nationalization Programme in South Africa**

Based on all evidence, if nationalization is implemented in South Africa, it will be a short term fix to a permanent problem. That is, government revenue will increase in the short run (say about 5 years) to meet social demands but the pressure to keep the established SOEs that are operating at a loss open, in addition to; an increase in wage negotiations by the unions (note that, significant increase in labour cost and high operational cost inherent to mines) and investment in labour intensive projects, will undoubtedly exert an enormous burden (both monetary and political pressures) on the State. As a responsible government, the propensity for the government to borrow funds at high interest rate will increase, resultantly, government public debts becomes astronomically high as the country’s budget deficit becomes larger. In effect, prices of goods and services will be distorted due to the emergent of an upward inflationary pressure.

In the meantime, it is a given, that a rise in national budget deficits normally follows a fall in global markets and commodity prices, making it hard to justify any capital injections, which will be billions of Rands, into State owned mines, when they most need it. The introduction of nationalization programmes in Zambia, Angola, Nigeria, Venezuela and elsewhere, have shown that corruption, nepotism, mismanagement, lack of technical knowhow, overstaffing and failed SOEs as a result of *‘free-riding’* and *‘principal-agent’* problems are characteristically the product of nationalization. Thus, should mismanagement or corruption lead to poor maintenance of nationalized mines, production capacity of these mines will shrink drastically, impacting negatively on any expected revenue and profitability by the State.

Then again, the critical question is; *how will nationalized mines survive in a highly competitive industry that requires huge capital for exploration, beneficiation and production?* Overtime, mines capacity to produce tend to decline if input costs (such as labour and electricity) are high. South Africa mines depend heavily on Eskom for an uninterrupted electricity supply, but an increase in wage demands by unions and a pricey electricity bills from Eskom could shorten the expected life-span of productive mines. Major (2010) estimated that, in the South Africa mining industry, labour cost on a guesstimate is about 50% – 55%.

Moreover, government should bear in mind that, the maintenance of mines is particularly expensive (Alexkor is an example). Therefore, huge capital will be required to keep all State owned mines operational, as well as, for expansion. South African government as a capital provider for nationalized mines must be extremely well-off because in an unfavorable business cycle, mines often turn to their investors for capital injections.

On one hand, nationalization “with or without” compensation is likely to prompt the exodus of foreign investors out of South Africa, this will lead to massive ‘capital withdrawal’, which in turn, might cause the domestic Johannesburg Stock Exchange (JSE) to collapse. The resulting ‘ripple effect’ of a slump in JSE’s performance would paralyze South Africa’s sophisticated financial landscape, many strategic companies and SOEs are likely to become prone to bankruptcy and job shedding. Meanwhile, job shedding by SOEs and small miners as an attempt to cut operational cost and reduce losses will aggravate the prevailing persisting high unemployment rate in South Africa. In actual fact, Branson Centre of Entrepreneurship study found that 45% of South Africa’s black youth are unemployed and South African Institute for Race Relations (SAIRR) have predicted that half of black South Africans aged 15 to 34 will never work in the formal economy due to low level of literacy and sluggish economic growth, which cannot fully absorb all the existing economically active citizens.

On the other hand, the ensuing slump of the JSE as a result of capital flight, will wipe out potential dividends, investment earnings, premiums, pension and provident funds. These financial losses will become a disastrous financial loss of epic proportions. Consequentially, large numbers of ordinary citizens and civil servants will lose their retirement investments. According to Dr. James Motlasi (Former President of NUM), “*mine nationalization without compensation would spark revolution because of the large number of South Africans who would lose their pensions…nationalization with compensation is a non-starter, because the government does not have the R2-trillion-plus that it would cost to buy the mines*”.

## **8.1 Envisaged Consequences of Nationalizing Mines by Expropriation or Compensation**

In accordance to section 25 of South Africa Constitution, in the case of asset seizure by the State via expropriation, the State can exercise its sovereign right to confiscate properties owing to public interest; however, owners of the assets/property seized by the State must be compensated at the “market value of such property”. So, compensating mine owners would result in the State having to raise colossal sums of money to give to foreign investors. Like in the case of Zimbabwe, if property expropriation by the State is implemented, extensive legal battles, international retaliation and trade embargo will occurred and/or be placed on South African exported goods. Ultimately, political sanctions by developed countries and other global organizations would be imposed on South Africa leaders.

Conversely, Allan Gray investment firm pinpoint that foreign shareholders owns more than half of South Africa’s biggest mining companies, hence, if the South Africa government implements the ANCYL nationalization model by amending section 25 of the Constitution to allow nationalization “without” compensation, the State would still have to buy out foreign investors. On the other hand, if government nationalize mines “with” compensation, it will have to pay foreigners and locals such ARM, Mvelaphanda and others substantial sum of money to take over their mines.

Louw (1999), argued that even as an alternative, if the government decide to negotiate prices of mines or the rate of compensation, how will the government go about it? via promulgation of new laws or arbitration? Also, suppose that the State decided to implement ANCYL’s nationalization model with compensation, how will the negotiation process be facilitated? Is the buyout going to be discrete or in the open market? Either way, asymmetry information and selfish interest will cause mine owners (especially those with obsolete and stripped mines) to inflate mine prices, given the rise in demand for mines by the State. This distortion in mine prices will compel the government to exceed its budge expenditure in favour of nationalization. Alternatively, even if the State decides to endorse a joint venture partnership model of 50/50 split or the 60/40 split, the procurement costs of mines will still be very high. From a critical point of view, it is evidential that nationalization process in South Africa will be a rigorous that would be very expensive, demanding and laborious.

## **9. CONCLUSION**

Although, nationalization *per se* is not inherently bad or good. But, from the above (out of economics text books) realities, it is evident that the negative ‘spillover effect’ of nationalization outweighs its advantages. Thus, any [developing] country with the intent to nationalize its strategic industries such as the mining industry, must meticulously analyze and anticipate all other possible alternatives that could address its prevailing macroeconomic issues and social imbalances.

Another issue that this paper has clarified is that the ANCYL *cannot categorically utilize* Botswana, Venezuela and Norway as an example of countries that have successfully implement nationalization programmes for the betterment of their respective economies and citizens.

Foremost, as indicated earlier, the strategy implemented in Botswana (same as Namibia) is that of 50/50 split joint partnership between the State government and the private company concerned. This strategy is contrary to the 60/40 split proposed by the ANCYL in its conceptual frame work. Additionally, Horn (2010) acceded that said “…*what you see here is that the Namibian government from the outset took a stance that at least the basic structures of the mining industry should be in the hands of private enterprise. The government of Namibia recognizes that the exploration and development of its mineral wealth could be best undertaken by the private sector. Government therefore focuses on creating an enabling environment for the promotion of a private mining sector*.” By and large, the successful private-public partnerships formed by the governments of Namibia and Botswana respectively, were orchestrated ‘immediately after’ gaining independence ‘not during’ the course of democratic regime.

Secondly, as a matter of fact, it is evident that in Zambia, nationalization was a disaster as large capital and skills left the country suddenly while the country’s mines collapsed in tandem. In some countries, where nationalization has taken place, the aftermath results are mixed, for example, Norway’s nationalization strategy is successful because the country is a ‘developed country’ with a low population, quality education, high literacy level and advanced technology, including the implementation of sound political and macroeconomic policies. On the other hand, despite the introduction of nationalization by the Mexican government, the government is still losing huge oil revenue due to corruption, ambiguous political policies, lack of technical skills and technology ecetera, whereas, other countries are reaping huge profits from oil. Similarly, in the United Kingdom, unprofitable State-owned coal mines are kept operational at the expense of tax payers by the government.

Truly, Venezuela has implemented an extensive nationalization programme, yet, the benefits derived hitherto, are only for a short period of time considering the country’s current economic outlook. **Moreover, whatever success the Venezuelan government has gained from its recent aggressive nationalization programmes, these success are marred by the prevailing high and food shortage that the country is grappling with.**

Given, the ample evidence of the common debilitating effects of nationalization on ‘developing and/or Africa’ countries, the questions to ponder on (if the implementation of nationalization is being considered by any country) are: **(i)** What is the present outlook of countries that have implemented nationalization programmes either in the past or recently? and **(ii)** What are the predicted economic outlook for the future of such countries?

Thirdly, it is *grossly unfair* to compare a ‘developed’ country that has a small population of fewer than 5 million people with a corresponding high literacy and intellectual level in terms of educational standards like Norway to a ‘developing’ country like South Africa with more than 40 million people and low level of literacy, when an example of how nationalization benefits will *trickle down* to the poor is being strenuously argued. In other words, Norway’s nationalization success should not come as a surprise because the country is inundated with high intellectual capacity, technical skills and business expertise to manage their SOEs and the population is relatively small. Thus, it is obvious that the nationalization benefits will ‘trickle down’ to the poor (even the poorest of the poor), as it is.

Actually, for Norway to be categorized as a ‘developed’ country by the world standard, many rigorous analyses were carried out. This analysis encompassed the country’s economic growth, financial system, domestic currency, foreign reserves, the extent of wealth accumulation, level of literacy, life expectancy, social development capacity etcetera. Experts have argued that, the Norway’s North Sea oil is a highly profitable asset because the production process is less complicated than many of South Africa mines.

Following the ANCYL’s President’s admonition that “ …*researchers needed to keep ‘political realties’ in mind*”, this paper has critically review nationalization thoroughly without any prejudice, political influence or text book theories and ideologies. The ample evidence presented here, are real and practical.

Furthermore, considering the Youth League’s public assertion that “*Nationalization of Mines by the ANC-led government is neither a technocrat, nor academic exercise but a political and economic transformation programme expressed in the Freedom Charter…A depoliticized research outcome, which ignores the politics of the national democratic revolutionary agenda will not find resonance in the Africa National Congress…We raise a point this point because neo-liberal politics and economics were previously smuggled into the ANC through what so called the independent research and expertise” of the national democratic revolutionary agenda*”[[18]](#footnote-13).

This paper put forward the argument that, no country (either developed or developing), no business and institutions (either private or public) can be profitable, dynamic and progressive without undertaking a thorough and adequate empirical research, which includes profiling of real-life events to avoid fatal political, business and social aftermaths. Emphatically, it is impossible to implement nationalization policy effectively in South Africa without considering the seriousness of severe macroeconomic and social inequalities that the country is currently facing. No country can achieve economic growth and adequately utilize its available mineral resources to improve the lives of its citizen and address inequalities without initiating an extensive research coupled with critical analysis.

Meanwhile, the urgent need for economic transformation, emancipation and social development as indicated by the ANCYL should be seen in good light, considering the glaring inequality between the minority white South Africans and the South African blacks in the business and education world. The dominance of foreigners on the JSE and within certain strategic sectors are disturbing whilst majority of South African blacks are: poor, living in shacks and informal settlements (with no electricity, water, access to health care and quality education), working in informal sectors (just to survive the economic hardship). In the light of these serious social challenges with a high inflation rate, ever-increasing unemployment rate (among the black youths), high rate of poverty and lack of access to basic amenities, a responsive government and any rational individual will react immediately to find effective solutions that will address these macroeconomic and social issues, to avoid possible political unrest, social protests and economic disruptions that might materialize in the future.

Realistically, nationalization is a serious business and entails a lot of strategies. The question is; *Is South Africa government ready for nationalization in the light of real-life evidence?* Clearly, risk is an inherent to mining and South Africa mines are risky, for mine worker and the environment. If mines are nationalized, the next time there is a serious accident, government will be accountable, not Harmony or one of the other large mining companies. Yet, large mining companies are far more experienced at risk and safety management than the state.

Although, South Africa mining industry contribution to the GDP has been declining over the last three decades or so, still yet, this resilient industry survived many hardships of mismanagement, promulgated mining rights and bills and global down turns, yet, SA mining industry continue to generate significant revenues, create jobs, attracts FDI, and of recent, it has become a major contributor to the Broad-Based Black Economic Empowerment (BBBEE) amounting to about 150 billion BBBEE deals (or 33% total BEE deal) over the past eleven years.

The question here is; *Should we now destroy the order of economic functionality and vitality of the mining industry by implementing nationalization policy?* Looking at the nationalization cost argument, analyst have estimated that the implementation of nationalization programme will cost the South Africa government between 2 billion and 3 billion rands. On hindsight, *where will such a huge capital come from?* The estimated value of $2.5 billion (R17.5 trillion) mineral resources wealth embedded in South Africa mineral resources, revealed by the Citigroup in their research, is only on paper[[19]](#footnote-14). The exploration, beneficiation and sales of minerals have not taken place, *if South Africa nationalize its mines and the exodus of critical skills, engineers, technological experts with business acumen emerged, what will be done then?* Obviously, people cannot be trained overnight to effectively and careful mine all the mineral resources that are deposited underneath the soil in South Africa.

Finally, at the centre of all this contentious debate is the ‘poor’. Originally, the intention of BEE (or BBBEE) was to enhance transformation that will benefit all South Africans; still, this policy has failed to achieve its main objective of equitable wealth distribution, thus far, the benefits and/or economic gains of BEE has failed to trickle down to the poor. The result of BEE is the emergence of black South Africa “middle class” that have become bourgeois, the so-called “black diamonds” and socialites. The ‘poor’ and the ‘poorest of the poor’ which constitutes the majority of black South Africans have been left out of the entire picture. Suttner (2011) in his argument against the call for nationalization captured this clearly in his statement that “*Experience has taught us that not everything in the name of the poor is actually about the poor. Patronage, which subverts democracy and economic development, is not new, but it may now operate on a much wider scale and converges with high level of corruption. This is not just undermining bit it attacks the poor and the hard won democratic gains of 1994*”.

Louw (2011) indicated that, if an individual wealth grows by 10% per annum, his/her wealth accumulation will double every seven years. In a simple arithmetic, given the conjecture that wealth compounds (by the rule of 72), at a growth rate of 10%, people are twice as rich in ten year. Based on the fundamental notion that, growth is highly redistributive, the rich will definitely get richer and the poor getting rich faster. He posited that nationalization in South Africa will be the same as making the poor, poorer over a very short period of time, thus, **every single cent the government will spend on nationalization is a cent that could have gone to the poor.**

Former President Nelson Mandela, Walter Sisulu, Oliver Tambo, Chief Albert Luthuli, and countless others went to prisons, become exiled from their native land, fought tirelessly under the harsh Apartheid regime with their blood, sweat and lives to ensure that South Africa is liberated. This is an exceptional historical legacy that all South Africans (especially the Youths) are now enjoying. The question is; *Will nationalization in South Africa leave the same legacy? Who will be responsible, if and/or when nationalization backfires? What will posterity judge the leaders of this century on?*

## **10. SUGGESTIONS FOR POLICY AND DECISION MAKERS**

On all balance of evidence, the nationalization debate is gaining ground quickly in South Africa. Nationalization is not inherently bad or good, it favours some countries, whereas, it destroyed others terribly. South Africa case is a classical case, in the sense that, the country is sitting on golden eggs, which are the copious mineral resources underneath the soil whilst South Africa faces difficult macroeconomic and social challenges. At this junction, meticulous suggestions and/or recommendations are presented in this section of the paper. These suggestions are feasible and practical in nature for the government, policy makers and decision makers to use.

Foremost, the State government must be proactive and be decisive to give a definite direction or course of action to resolve the nationalization issue swiftly. The concerns of the ANCYL, the South African youths and proponents of nationalization for the purpose of redressing inequality, the persisting high rate of unemployment, inaccessibility to basic public services by the poor and the poorest-of-the-poor in the rural areas, sluggish transformation that has failed the majority black South Africans etcetera, must not be undermined.

Secondly, it is imperative that the government convene a robust, thorough and productive round-table discussion to engage all interested parties. It is equally important that the issue of nationalization is carefully debated with intense analysis to question all the pros and cons, answer all anticipated questions and weigh all scenarios, for example, ‘if’ an alternative programme such an equal public/private partnership like that of Namibia and Botswana is feasible instead of nationalization. In this discussion, experts, industrialist, captain of industries, politicians, scholars and academicians should be considered as panel delegates.

Thirdly, ‘suppose’ the nationalization of mines is a feasible option, before its implementation, based on the real-life evidence presented in this paper on Angola, the government must strategically ensure a successful transition, to retain critical human capital and technical skills needed to run these nationalized mines. Additionally, to avoid sticky situations, the South Africa government should foster a friendly interaction and/or negotiation with foreign owners and private mining entities, for instance, Anglo America contribute regularly about 2% to 2.5% to the country’s GDP, paid more than 10 billion rand in taxes in 2009, and is assumed to be the largest private sector employer with about 110,000 employees and contractors.

Fourthly, given the stark evidence that some private mining companies have fallen short in a number of operational responsibilities such as beneficiation, capital expansion, in comparison to competitor economies like Australia’s industry contribution to skills and industrial development. Undeniably, there is a need for more local beneficiation, some mining giants such as Anglo American have put projects in place to empower the previously disadvantage black South Africans. However, this transformation and empowerment process has been very slow. One suggestion which policy makers might want to take into account is to enforce the existing MPRDA using a systematic monitoring and scrutiny process, as well as, endorse a beneficiation policy bill that would be applicable.

On the fifth recommendation, ‘if’ nationalization is not a preferred option, government can structure the existing tax regime to enhance revenue collection; this in turn will allow the government to collect differential rents for above grades and windfall profits. Government should consult its tax analysts and experts to review the possibility of structuring the resource rent tax (RTT) in addition to the existing corporate tax as a percentage of profit. Jordaan (2011) indicated that a resource rent tax (RTT) would be triggered after an ‘expected’ [Treasury bond plus a margin] return on investment has been achieved. Moreover, a resource rent tax would provide the government its share of the differential rents embodied in rich and/or amenable mineral deposits. Altogether, the development of physical infrastructure will free the potential of other resources such as in agriculture, forestry and tourism industries[[20]](#endnote-6).

Conversely, government should encourage the participation of black South Africans in the domestic financial market in terms of savings and investments. That is, local companies must utilize the advantage of South Africa’s sophisticated Stock Exchange to raise needed capital, equity and listing since an increase in domestic participation in South Africa’s investment and capital market, will reduce the dominance of foreign and/or private investors. More companies like African Rainbow Minerals should be established. In addition, the government ought to consider listing the State Owned diamond mine on the main board of the Stock Exchange.

Also, the government must amplify the rate of its intensity to invest in the creation of new SOEs within the mining industry such as AEMFC and Alexkor. Such investment endeavours will eradicate or reduce the monopolistic power of giant mining companies. Adding to this, it is imperative for the government to appoint qualify and skilled black Chief Executive Officers, Chief Financial Officers, Mangers (etcetera) with business acumen and vision to run State owned entities, knowing fully-well that the abundant South African minerals are exhaustible and non-renewable, as well that, accurate exploration assessments and R&D must be put in place. In a practical sense, all the $2.5 billion (R17.5 trillion) value of South Africa minerals are underneath the soil, thus, to convert this into money, these minerals must be carefully and skillfully mined. Any wrong mining technique/s can and would be disastrous.

Furthermore, the government should enforce (with an iron hand) by means of imposing strict legislation on foreign (mining) companies to undertake their assigned corporate social responsibility. It is a common knowledge, that some mining companies view corporate social responsibility as a charity or a humanitarian exploit. It has been suggested that, it is very crucial to consider implementing corporate social responsibility as a vital component of government developmental and economic policy agenda to ensure service delivery, social development and the betterment of rural communities. For instance, when an entity that procures an approved tender that entails labour-intensive projects such as road, bore holes, hospital or bridges etc, the government must ensure that these companies carry out their assigned projects *properly* and empowering the concerned communities by creating job opportunities. Ultimately, South Africa government must devise clauses that will force companies to improve their surrounding communities indirectly even as they execute their tender contracts.

Another suggestion is that, the government should formulate the option of making a percentage of the State revenue available as an investment capital in developing mining communities. Equally, important is the education and enlightenment process that must be provided to the people living in/or surrounding mining areas, with the effort to build their skills and empower them to participate in the management of the available resources. In addition, communities should have a stake in mining entities that will enable them to sit in the Boards of these companies to gain insight into the operational and managerial function of mining companies. An example of this beneficial process, is the partnership between Alexkor and the Richtersveld Community via their joint venture (Richtersveld Pooling Sharing Joint Venture, PSJV), signed recently, where Richtersveld Mining Company is formed with 49% interest in PSJV and Alexkor is holding the reaming 51% interest. These strategies have been confirmed as feasible, so government should step up such an effort to work.

In going forward, the government and the Department of Mineral Resources should amend the legislative rules regarding the procurement of mining rights to make certain that rights are given to potential investors with a genuine interest in owing a mine for developmental purpose and not for exploitation sake and/or ‘get rich quickly’ avenue. In order words, potential black BEE candidates must undergo thorough screening exercise before awarding them mining rights to avoid, if not, to reduce the rate at which black mine owners are failing to manage their mines.

Additionally, government should stipulate a clause to the 26% BEE ownership in the MPRDA that BEE mine owners must give back to their respective communities in terms of social development, education sponsorships, building infrastructures, hospitals, roads and the employment of unskilled South Africans. This process of ‘giving back’ to communities should be a continuous process not a ‘once-off’ philanthropic activity. Likewise, this process must be micromanaged, monitored and ensure that it is real, by the government and the DMR.

In sum, this research paper suggest that policy makers should put the ‘poor of the poorest’ (not the middle or upper class) in mind when making the final decision on nationalization in South Africa. The State must ponder on an alternative strategy and “think-out-of-the-box” to find possible ways that the $2.5 billion (R17.5 trillion) mineral abundance ‘in situ’ can be use effectively to combat poverty, unemployment, racial inequality and socioeconomic issues facing South Africa.

Finally, the introduction of nationalization in the mining industry in South Africa must not be done in haste as a result of political ideology and/or beliefs.

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**Electronic Media, Newspapers & Other Sources**

**To conserve space, verifiable references and/sources electronic garnered from several media publications, articles and foreign/national newspapers are available on request.**

**END NOTES**

1. Authors are staffs of the Economic Analysis Directorate Unit, Free State Provincial Treasury, Bloemfontein.

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**\***The views and opinions in this extensive research **are not** that of the Free State Department of Treasury. This paper present only a balance evidence that have been empirically, theoretically and historically verified. There is no biasness, external and/or political influence or ideology. Except for the references explicitly indicated in the text, and such assistance the authors have acknowledged, this extensive research is entirely the author’s own work. ©All rights reserved - September 2011 [↑](#footnote-ref-1)
2. In August 1953, the South African Congress Alliance(later renamed ANC)and its allies, namely the South African Indian Congress, the South African Congress of Democrats and the Coloured People’s Congress proposed the first idea to draft a unique document that will explicitly indicate their core principles and that of the masses, to show their desire for freedom, democracy, a non-racial society, land reforms, labour rights and nationalization. This uniquely drafted statement was adopted as the Freedom Charter in June 26, 1995 during the Congress of the People (COP) conference in Kliptown, Soweto. [↑](#footnote-ref-2)
3. A developmental State is the State where government plays a significant role with a powerful influence in economic planning and control. The US political scientist named Chalmer Johnson popularized this term / definition in the early 1980s after he examined the rise of Japan in his book titled “Miti and the Japanese Miracle” [↑](#endnote-ref-1)
4. For interest sake, retailer Massmart Holdings is the company with the fourth-highest number of foreign investors, namely 61.02%, followed by Truworths International with 56.69%. Another two South African retail groups, foreign hold 41.4% of Shoprite Holdings and 35.5% in Foschini Group. A total 25.5% of the shares in Mr Price Group is in foreign hands, as is 23.3% of Woolworths Holdings. Foreigners also own 16.4% of the shares in Spar Group and 10.13% of Pick n Pay Stores . If, Walmart plans to acquire a 51% stake in Massmart, it will probably have to buy more than two-thirds of its shares from foreigners. Another popular company among foreigners is Naspers, which had a foreign shareholding of 49.32% at the end of October. Of those Americans, hold about 60% (or 30% of the total shareholding). [↑](#endnote-ref-2)
5. Alistair Sparks is a veteran journalist and political analyst who have written three books which chart the history of South Africa through the end of apartheid. Read published article, titled: “*What Nelson Mandela thought about nationalisation*?”.

Browse URL: <http://moneyweb.co.za/mw/view/mw/en/page295025?oid=530896&sn=2009+Detail&pid=292690>

OR URL: <http://www.citizen.co.za/citizen/content/en/citizen/business-news?oid=173322&sn=Detail&pid=146865&Mandela-on-nationalisation>) [↑](#endnote-ref-3)
6. Titled: “Calm down. The ANC is not about to seize mines”. This article featured in the *Times Newspaper* [↑](#footnote-ref-3)
7. Adam Smith uses the metaphor in Book IV, chapter II, paragraph IX of *The Wealth of Nations.* In *The Wealth of Nations*, Smith provides an example that illustrates the principle:*“It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages”*

By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an **invisible hand** to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. Smith argues that a preference for the use of “domestic” industry over “foreign” industry to gain individual profit constitutes an “invisible” and benevolent hand which promotes the interests of the nation and society at large while at the same time enriching the individual. The individual may have a selfish motive but the use of domestic industry and labor enriches and promotes the interests of society as a whole.(Access URL: Smith, Adam. ["2"](http://www.econlib.org/LIBRARY/Smith/smWN1.html#B.I%2C%20Ch.2%2C%20Of%20the%20Principle%20which%20gives%20Occasion%20to%20the%20Division%20of%20Labour%2C%20benevolence). [Wealth of Nations](http://en.wikipedia.org/wiki/Wealth_of_Nations). <http://www.econlib.org/LIBRARY/Smith/smWN1.html#B.I%2C%20Ch.2%2C%20Of%20the%20Principle%20which%20gives%20Occasion%20to%20the%20Division%20of%20Labour%2C%20benevolence>. Retrieved 2007-12-08) [↑](#endnote-ref-4)
8. Look at the paragraph numbered as 2.3., in his presentation paper for the workshop on “Growth and Diversification of Mineral Economies”, organized by UNCTAD in Cape Town, from 7th to 9th November, 2000*. This document is available on request or search the internet.* [↑](#footnote-ref-4)
9. See the World Factbook by Central Intelligence Agency (CIA), titled: “*Distribution of family income - Gini index*”. This World Fact book was updated on January 24, 2008. A value of 0 represents absolute equality, and a value of 100 absolute inequality. Inequality in income or expenditure / Gini index, Human Development Report 2007/08, UNDP, accessed on February 3, 2008. Because the underlying household surveys differ in method and in the type of data collected, the distribution data are not strictly comparable across countries. [↑](#footnote-ref-5)
10. The government participates with de Beers in appointing a Mining or Minerals Board consisting of appointees from the Namibian government who are predominantly from the private sector. In terms of the representation of the Namibian government on the Board, it is not government bureaucrats who are appointed. The government and de Beers are jointly responsible for appointing the Managing Director, usually a Namibian and someone who can be trusted with the policies of the Namibian government. For the rest – the administration, the exploration, and all the mining activities – it is left to the experts in the private sector, while the government plays an insignificant role. [↑](#footnote-ref-6)
11. In April 2005, the International Monetary Fund (IMF) and the World Bank's International Development Association (IDA) provided Zambia significant debt service relief and debt forgiveness under the Heavily Indebted Poor Countries (HIPC) initiative. Zambia was the 17th country to reach the HIPC completion point and has benefited from approximately U.S. $6 billion in debt relief. In July 2005, the G-8 agreed on a proposal to cancel 100% of outstanding debt of eligible HIPC countries to the IMF, African Development Fund, and IDA. Zambia is among the beneficiaries of this additional multilateral debt relief. Zambia also completed a Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF for the period 2008-2011. The Zambian Government is pursuing an economic diversification program to reduce the economy's reliance on the copper industry. This initiative seeks to exploit other components of Zambia's rich resource base by promoting agriculture, tourism, gemstone mining, and hydropower. The government is also seeking to create an environment that encourages entrepreneurship and private-sector led growth (CIA World Factbook, September 2009 and U.S. Dept. of State Country Background Notes, September 2010) [↑](#footnote-ref-7)
12. During the Angolan civil war the diamond mines where constantly being fought over making it unsafe for miners to work due to land mines planting everywhere. This made it difficult to extract the diamonds but did not prevent the MPLA or UNITA to use the diamonds to help fund the war. [↑](#footnote-ref-8)
13. The programme sets out wide-ranging market reforms, intended to establish macroeconomic stability, promote poverty reduction and dismantle the state controls and economic distortions that have facilitated widespread corruption and inefficiency. The main focus of the reforms is to bring an end to extra-budgetary expenditure and unauthorized payments, lower import tariffs, promote parastatal privatization, overhaul the tax structure, complete an audit of the oil sector and increase social sector spending. A central assumption of the agreement is that economic gains and poverty reduction can only be made if there is financial transparency and the government is serious about its commitments. [↑](#footnote-ref-9)
14. See the article published by BusinessDay Newspaper, titled: “State-owned Coal Corp takes first step towards operation” on 8th, October 2010. Access via URL: <http://www.businessday.co.za/articles/Content.aspx?id=123249> [↑](#footnote-ref-10)
15. Read the article by Business Day Newspaper on 11th March 2011, titled, *Alexkor report ‘a warning on nationalisation’*. [↑](#footnote-ref-11)
16. Louw (1999) put forward an argument that, even if, in an unlikely event that a nationalized entity is efficient and free of corruption or debilitating political patronage and manipulation, other unavoidable disadvantages tends to outweigh benefits. [↑](#endnote-ref-5)
17. A South African example: In a recent media report, the ANC is in dire need of talents to fill crucial positions such as qualified researches (with PhD) and directors and mangers in Luthuli House. According to the ANC secretary general he admitted that *“In the process, we are discovering…positions that are surplus and add very little value. We also identified positions that are filled almost as welfare. The question is that we have not started answering is what to do with surplus staff as this is premature*”.– An extract from the article published by the Star Newspaper, on 21 September 2011, titled: “*Luthuli House in dire need of talent – but low salary*”. **This article begs the question that; if overstaffing is putting intellectual pressure on a governmental body, prior the introduction of nationalisation programme in South Africa, what will happen if various private companies become nationalized?** [↑](#footnote-ref-12)
18. An extract from an article published by Business Report, titled: *“ANCYL rejects nationalisation research”* [↑](#footnote-ref-13)
19. Dr.James Motlatsi, former President of NUM on nationalisation in South Africa, said that, “*nationalisation with compensation is a non-starter, because the government does not have the R2 trillion plus, that it will cost to buy to mines*”. See the article published by Mining Weekly online on 1st April 2011. Article title: “M*ine nationalisation without compensation will spark revolution*” [↑](#footnote-ref-14)
20. Dr. Paul Joordan, the former head of MINTEK postulates this insightful and useful strategy. [↑](#endnote-ref-6)