

# [Nationalisation of mines in south africa](https://assignbuster.com/nationalisation-of-mines-in-south-africa/)

30 September 201111 Word Count: 2500 Kopano Seopela 608S2360 08 Fall SA Economy: Nationalising South Africa’s Mining Sector Kopano Seopela 608S2360 Luyanda Period 3 (09. 25) SA Economy: Nationalising South Africa’s Mining Sector Economics 314 30 September 2011 Abstract The purpose of the essay sets out to look at the concept of nationalisation, research it and discuss whether it is an applicable strategy to implement into South African policy.

The importance of the essay is to highlight the future economic outcomes which could incur in South Africa should it be adopted and also look at possible alternative strategies instead of nationalisation. The issue was addressed by making use of lecture notes, unpublished speech addressed, e-journals, online content, textbooks and economic literature.

Conclusions drawn from this essay is that nationalisation is a concept which it’s costs exceed the benefits and with South Africa’s current capabilities, it is not ideal to implement – however a partnership with mining companies and the State could alleviate some of the problems South Africa has. PLAGIARISM DECLARATION 1. I know that plagiarism means taking and using the ideas, writings, works or inventions of another as if they were one’s own. I know that plagiarism not only includes verbatim copying, but also the extensive use of another person’s ideas without proper acknowledgement (which includes the proper use of quotation marks).

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Introduction Since the abolishment of Apartheid, South Africa has graciously re-entered into the global economic community as an emerging economy. When compared to Sub-Saharan African countries, South Africa boasts an incredibly strong economy with plenty of room for improvement. With its resources, South African state officials have considered Nationalisation as a possible solution to alleviate these problems. This has raised much concern about it’s feasibility and has brought attention to this essay which shall form part of the national debate on the import issue, using international experience, theoretical and empirical research.

What Is Nationalisation? Nationalisation is the process of government undertaking state ownership of a business and running it itself. Gillespie states, “ If governments want to completely control a business rather than trying to influence its behaviour via legislation, taxes and subsidies then it should nationalize it (2007: 110). ” Pape (2000: 22) adds further support to the definition by suggesting that nationalisation leads to government or state ownership of entities within the country.

However Mohr, Fourie and associates (2008: 352) state that nationalisation should not be confused with state-owned industries. In the early 1990s the ANC’s election manifesto called for the nationalisation of South Africa’s mines, banks and monopoly industry (Michie and Padayachee. , 1997: 42). The ANC believed that nationalisation would be the key factor of its economic policy reform. However after much international research, this idea was abandoned due to the overwhelming failures of nationalisation implementations abroad.

The call for nationalisation has brought upon frantic debate since its re-emergence in recent times. Many observers agree that nationalisation appears to have few positives attached to it but many negatives to it rendering it as a potential economic failure. Why Is Nationalisation Needed? South Africa is regarded to have one of the world’s most unequal societies. Looking at Gini-Coefficients, “ The dispersion of income and wealth between the rich and the poor is one of the most uneven in the world (Bisekker, 2010). ” This means that South Africa is drifting towards perfect inequality.

With job creation on a decline, unemployment steadily rising, and inequality gap worsening, the call for nationalisation by Julius Malema (2009) is sought to allow every South African to benefit from mines, which are owned and run by the State government. In nationalising the mining sector in South Africa, the State government believes it would have the capabilities of attracting labour-intensive mining industrialists who will process mineral resources and diversify the South African economy. Advantages of Nationalisation Currently in the post-Apartheid era, South Africa hasn’t achieved much to reduce its widening inequality gap.

The call to nationalise the mines is seen as a call to emancipate the South African economy. Julius Malema exclaimed that with the resources obtained, “ Nationalisation of mines is where we will get free education (Prince. , 2011). ” With the proceeds obtained from a mine, which would be used to fund a local university, free education would be possible. Through research conducted and released by KIO Advisory – A BEE consultancy – it stated that “ state equity substantially increases the ability to extract natural resource rents (McNulty. , 2010). ”

With the call of nationalisation of the mining industry, the programme of action for economic freedom sought for five benefits that would occur from the nationalisation. The benefits are as follows; increased fiscus and more resources, more job for South African, more equitable spatial development, better salaries and higher levels of political and economic sovereignty (Godsell and Spicer. , 2011: 1). According to the Times LIVE (2011), It is well known that the ANCYL has reaffirmed that the State Owned Mining Company would take a minimum of 60% of the existing privately owned mining companies (Times LIVE. 2011). With the mining industry paying a direct corporate tax of R17. 1 billion, and R16. 1 billion being paid to shareholders of these companies, the State acquisition of the mines means that government would be entitled to the dividends paid out (Godsell and Spicer. , 2011: 2). This would add up on to the additional R17. 1 billion corporate taxes acquired, which would go towards the five goals mentioned above. Disadvantages (Costs) of Nationalisation Many countries have tried to sustain the benefits of nationalisation, but few have been able to maintain them (i. e. Botswana, Chile and Argentina).

Being the fifth largest mining country in the world, the ability in sustaining benefits lie in the costs of implementation, the durability of the mineral resources within the economic market and the how long can the resources last. It is important to looked at what the positive and negative consequences of nationalisation could have upon impoverished South Africans. Nowadays economic theorists and observers view the concept of nationalisation as an economic failure. With nationalisation implemented, it often results in “ bureaucracies, inefficiency and political interference (Mohr, Fourie and associates. , 2008: 352). Countries like Japan ended up with these results, which in turn led to the failure of upholding their sustainability. Foreign Investor Disadvantages The call to nationalisation has also led to a decrease in potential investor confidence in South Africa’s mining sectors. This could adversely affect its other developing and exporting sector’s which would hinder it’s growth and goals for creating more jobs. For example, “ a Swiss company, which plans to invest R8-bilion in a mining operation in the country, now wants to put that investment on hold, as it is anxious about possible nationalisation of assets (Malefane. 2011). ” Environmental Disadvantages Whilst mining houses use at least 7% of water supplies, “ 75% of water pollution is caused by these entities (Sharife, 2011). ” This adds to the costs of implementation because it costs approximately R360 billion for the next fifteen years to add treatment for water and the environment. Thus far, the idea of nationalisation seems to have more costs than benefits, and as mentioned above, benefits must be greater than the costs to be financially successful as an investment. Investing In Nationalisation With Compensation

According to economic theory, benefits must be greater than the costs to be financially successful. In order implement the nationalisation of mines, it would cost South Africa R1. 9 trillion in state resources (Godsell and Spicer, 2011: 5) to compensate its stakeholders. This amount does not include non-listed companies however. The R1. 9 trillion resources government would need to fund nationalisation would induce an economic trade-off. This means that the focus on the resource would result in a decrease in infrastructure, the deterioration of health and education and finally the decline in welfare spending.

Investing R1. 9 trillion towards the nationalisation of mines leads to a trade-off, which means other important expenditures would suffer (Godsell and Spicer, 2011: 4). Including listed companies like Anglo-American and BHP Billiton results in double counting, which increases the costs of nationalisation. In the long run investing in nationalisation would result in a debt trap of R40 billion per year South Africa would have to pay (Keeton, 2011). Depleting Commodity Disadvantage Another disadvantage of nationalising the mines is the fact that minerals are a depleting commodity.

Despite the short-term advantages the policy could have, an important concern is where about would Government invest the funds made from mining resources and what strategic steps to take once the mining sector declines and is no longer profitable. This highlights South Africa’s domestic investment-savings problem. For a country to grow, it has to invest a least 25% of its resources (Keeton, 2011). Should the State government decide to undertake at 50 percent control of the listed mines in South Africa, it would still take an amount of $135 billion. This amounts to roughly the entire 2011/12 government budget (Cropley. , 011). International Experience of Nationalisation With many foreign countries that have implemented nationalisation, South Africa has many case examples of where nationalisation worked and where it failed Venezuela On the 1st of January 1976, Venezuela had nationalised it’s petroleum industry (Chang, Hevia and Loayza. , 2009: 44). Despite the minimal resistance from the private sector, the share of the profits had been reduced to 30%. Since the Venezuela had little resources to ensure the successful management of the petroleum entity, several multinational firms had agreed to work under contract to fulfil these needs.

However with the petroleum industry being a key source of income for Venezuela, the economy was heavily tied to this. This means with, “ Unprecedented oil prices continued to fuel strong economic growth (Chang, et al. , 2009: 44)” this would allow government incur high income. As mentioned above, this is what South Africa would aim to do with the implementation of nationalisation of the mines. However, with South Africa’s low domestic savings rate, and it’s net consumer reputation, increased revenues would lead to an increase in spending and consumption, stimulate potential corruption, and furthermore induce inflation within the economy.

This followed happened in Venezuela. This highlights a critical question of what would happen during economic downturn in the mining sector globally. As in Venezuela, Real GDP declined, levels of unemployment increased, inflation continued to rise, and “ autonomous state-owned oil companies took on excessive debts to maintain their planned investment strategies (Chang, et al. , 45). As mentioned above, should global economic trends go against the price of gold in South Africa, this would result in a decline in the revenue government would hope to make and influence the foreign investors confidence in mining due to policies mentioned above.

A decline in FDI would occur and would be adverse for South Africa as a whole. This raises questions of the government’s role of running the mines, the tax system that will be implemented and how the external economic conditions affect South Africa. Botswana Botswana has taken a different approach to increasing the welfare for it’s people. With diamond resources it had available, the Botswana government formed a partnership with De Beers. According to Sapa (2010), “ The diamond industry was the lifeline of Botswana’s economy and for over 40 years, De Beers had enabled the country’s population to enjoy a higher standard of living. By realising the profitability of diamond mining in Botswana, it’s Government realised during negotiations that a greater proportion of the financial benefits should flow towards the public sector rather then the privatized sector (Colclough and McCarthy. , 1980: 151). With De Beers in a monopoly position it would be able to stabilize prices of diamonds. With outlook of diamonds looking positive, De Beers and the Botswana government formed a successful partnership.

This brings light into the debate of privatization versus nationalisation, and also provides an alternative outreach, which is a partnership between private mining houses in South Africa and government. It is critical to consider that the partnership strategy adopted by Botswana and De Beers is not a model solution for developing countries looking to nationalize its sectors of industry. Botswana was special case thus this relationship should not be seen as a one-size fits all approach of nationalisation (Marais. , 2011). Is Nationalisation Applicable To South Africa Today?

As mentioned above, the feasibility of nationalisation according to economic theory is only applicable when the benefits exceed the costs. In South Africa, should an environment with minimal costs and near to zero infrastructural constraints, South African mines could create an additional 200 000 jobs from now and 2020 (Matthews. , 2010). South Africa’s state owned enterprises like the SABC, SAA, ESKOM, and Denel have often been doubted in their performances. With weak accountability systems in place accompanied by mismanagement this adds to the challenges the State would have in running the mines.

However in response to this doubt the only change that will occur will be State ownership of the mines. This means that people currently operating the private mining activities will not be removed from office. Another challenge facing South Africa is that “ most of the Black Economic Empowerment (BEE) beneficiaries of The Minerals and Petroleum Development Act and various Mining Charters are neither mining experts, nor engineers (ANCYL. , 2010). However in the real world where infrastructural costs are present in South Africa due to its lack of skills and technological capacity this would result in an increase the costs of mining.

To excavate deeper into mines more water is needed and as mentioned earlier the environmental disadvantages would only contribute towards a greater cost. Conclusion In conclusion, the call for nationalisation of mines has brought upon debate of privatization versus nationalisation, does South Africa have the necessary capabilities to successfully implement it, and most importantly is nationalisation the strategy, which will provide the South African economy emancipation and provide for all. As noted above, the benefits of nationalisation need to exceed the costs for it to be financially successful.

With the costs such as the payment of mining companies, environmental maintenance, and the R40 billion perpetual payments, the potential of scaring off potential investors, acquiring land resources, and the R1. 9 trillion required, it illustrates the potential risks of investment. Accompanied with these costs are the lack of expertise and knowledge of individuals representing BEE beneficiaries, the lack of faith in State-owned companies (SAA, Eskom, etc), the poor savings rate adds to the challenges added.

With many attempts of nationalisation in foreign countries proving to be strategic economic failures, could the possibility of a partnership instead of pure nationalisation alleviate South Africa as it did in Botswana. It is important to consider the partnership idea is not a model answer for developing countries, however it provides better insight in the running of a State-owned mining company. With minerals being a depleting commodity, it is important to also consider the strategies that could be implemented after nationalisation should it be implemented. Bibliography/References

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