



# Resource nationalism and the African National Congress

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## Synopsis

This paper explains the politics of mine nationalization in contemporary South Africa. Nationalization and privatization typically occur in the oil, mineral resources, and state utilities sectors, and they tend to follow one another in a long-term cyclical pattern. The paper explains why the current international environment has encouraged demands for nationalization and other forms of 'resource nationalism' in the South African minerals sector. It goes on to describe how the resurgence of resource nationalism has been influenced by internal factional politics in the African National Congress. It concludes that nationalization is unlikely to be the outcome of current policy deliberations within the ANC.

## Keywords

Resource nationalism, nationalization, mineral policy, South Africa.

## Nationalization-privatization cycles

Nationalization is the transfer of ownership of an asset or industry from the private sector to the public sector. Privatization is the transfer of such an asset from public to private ownership. Since the collapse of the Soviet bloc in the late 1980s, many observers have viewed privatization as an inexorable historical trend. Looked at over the past century, however, it becomes clear that nationalization and privatization have been locked into cyclical patterns in most societies (Kobrin, 1984; Chua, 1995; Chang *et al.*, 2011).

Struggles between proponents of nationalization and privatization in developed countries such as France and the United Kingdom have been extensively chronicled (Hall, 1986; Helm, 1989). Less well known are the nationalization-privatization cycles that have characterized regions such as Latin America, southeast Asia, and sub-Saharan Africa (Chua 1995). As Chua (p. 225) observes, countries in these regions 'have been cycling back and forth between privatization and nationalization for as long as they have been independent'.

The first Latin American nationalization programmes, in Mexico, Argentina, Brazil, and

Peru, came soon after independence struggles in the late 19th and early 20th centuries. They were succeeded by waves of privatization and then further periods of nationalization. In consequence, for most Latin American countries, the 1990s privatization rush was 'the fifth phase of a privatisation-nationalisation cycle' (Chua, 1995, p. 227).

Southeast Asia remained under colonial control until the 1950s. Colonial 'free trade' economies were fairly quickly set aside by post-independence nationalization projects. Subsequent privatizations in the 1990s occurred in countries otherwise as diverse as India, Indonesia, Sri Lanka, and Myanmar. Almost every country in the region has now been through two or three alternations between privatization and nationalization (Chang *et al.*, 2011). Sub-Saharan Africa, with its generally later post-colonial settlements, experienced a wave of nationalization and indigenization in the 1960s and early 1970s (Rood, 1976). This was followed by a strong trend towards privatization in the 1980s and 1990s (Adams, 2008).

## Economic analysis

This paper is concerned with how nationalization-privatization cycles have been explained, and what such explanations can contribute to our understanding of the recent nationalization debate in South Africa. In such explanations, the contributions of economic analysts play an unexpectedly minor role. Economic theorists have not provided stable or consistent advice to policy makers or reformers – and they are unlikely to do so today in what is a time of fresh upheaval in the discipline.

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## Resource nationalism and the African National Congress

There are some points of consensus. Economists mostly agree that a rejection of foreign and 'internal foreign' capital and skills typically accompanies nationalization. Such a rejection usually brings about capital shortages and skills crises and so ultimately results in a forced return to such foreign capital and expertise in a later privatization.

Changing ownership patterns, moreover, carry significant transition costs that economists have highlighted (e.g. Mayer and Meadowcroft, 1985). There are transaction costs associated with legal and bureaucratic reorganization; political and state legitimacy is undermined, which results in lost production and declining investor confidence; and economically destructive political violence may occur. Moreover, nationalization makes future privatizations ever more expensive; and privatization makes future nationalizations ever more costly (Chua, 1995, p. 476).

Beyond such high-level generalizations, economic theory does not offer policy makers much guidance about ownership policy across economic sectors. The conventional general economic arguments in favour of nationalization all lack precision and cogency. Creating 'essential' infrastructure; reducing inequality; controlling natural monopolies; curtailing market price volatility; protecting employment; regulating quality; providing public goods; and exerting macro-economic policy influence: all of these purported general justifications for nationalization are at best contingently, and often only tangentially, related to questions of ownership.

Even during the most recent privatization wave of the 1980s and early 1990s, widespread political assertions about the desirability of privatization were not intellectually compelling. As Mayer (1990, p. 251) observed at the time, the superior productive efficiency of private over public companies had not been demonstrated by empirical studies. While competition evidently makes firms more responsive to consumer preferences, ownership is not directly related to, or dependent upon, market structure. This disjuncture was confirmed by the poorly considered creation of numerous private monopolies during the 1980s and 1990s waves of privatization (Mayer, p. 252).

One inconclusive account of ownership fashions (Mayer, 1990, p. 270) hypothesizes a 'life cycle in ownership patterns', with 'private ownership occurring in the early phases of technological innovation' and 'public control being exercised thereafter as investment considerations diminish in significance in relation to demand responses'. Public ownership is prevalent in industries (such as postal services or railways) in which technical innovation is sluggish, recurrent investment expenditure is low, and demand requirements are unpredictable. Private ownership, by contrast, tends to dominate where technological advances and the requirements of production bring about a need for major capital expenditures.

Since technical innovation leads to private ownership (for example in telecommunications in recent decades), ownership patterns will not be stable. Instead there will be nationalization 'life cycles' as technical progress wanes (Mayer, 1990).

Political leaders have generally found revenue generation to be the key attraction of privatization. The sale of public assets has helped governments to escape public borrowing

constraints. Inadequate accounting conventions in most countries have inflated privatization receipts but failed adequately to account for foregone future revenues.

A brisk overview of development economics orthodoxy confirms the inconsistency and volatility of the policy advice it has generated across decades in the global South. The liberal tradition in economic analysis (which emerged in 18th century Britain and understandably focused on the free interaction of economic actors) has contended across the period with European intellectual traditions that emerged in state-led continental economies.

When development economics was consolidated as a discipline in the 1940s and 1950s, its founders were influenced by the experiences of the Great Depression, the successful industrialization and war performance of the Soviet Union, and a Keynesian revolution that emphasised market failure and active government (Lewis, 1954; Myrdal, 1957; Hirschman, 1958). The structuralist approach to economic development that became the development orthodoxy from the 1950s demanded an active state to accelerate economic development, overcome market failures, and allocate resources for investment -- and it therefore found a significant role for state-owned enterprises.

Such intellectual support for interventionism was reversed after the anti-Keynesian revolution in macroeconomics in the late 1960s and 1970s, the collapse of socialist economies in the latter half of the 1980s, and the emergence of the 'Washington consensus' around the merits of economic liberalization, privatization, and fiscal stabilization programmes.

In this period, a temporary consensus emerged among orthodox liberal economists concerning the costs of nationalization. Nationalization was viewed as an imprudent policy choice that brings with it negative economic consequences. Capital flight, increasing productive inefficiency, bureaucratization, and corruption are all routinely cited as consequences of nationalization. Where markets are cyclical (as with commodities), state-owned companies are unable to shed labour and invest in hard times, because these enterprises are used to soak up unemployed labour and to provide governments with dividend flows during economic downturns. Governments may be forced to borrow heavily to reduce public deficits while state-owned enterprises continue to languish. Privatization, in this view, is seen as a rational response to the negative consequences of previous waves of nationalization.

In recent years, the experiences of the newly industrialised 'developmental states' of East Asia and the emergence of claims about a Chinese 'state capitalist' model have resurrected interest in the role of the state, and state-owned enterprises, in economic development (Edigheji, 2009).

In sum, economic theorists have not provided stable or consistent advice to policy makers about state ownership and they are unlikely to do so in a time of fresh upheaval in the discipline. In such circumstances, economic theory has been selectively drawn upon by political actors rather than informing their policy choices.

### ***Ideological drivers and exogenous events***

Nationalization and privatization have attracted the attention of political activists from left and right. Contestation about

## Resource nationalism and the African National Congress

the appropriate reach of private property ownership has raged across the 20th century and into the 21st. The Marxist tradition, and the wide range of intellectual approaches that have drawn upon it, emphasises the evils of exploitation and alienation in capitalist society. Leftist ideologues have claimed that rational planning can banish inequity and disorder from economic development. Pro-nationalization ideologists have often drawn upon discontent with labour exploitation and unemployment. Ideology has worked both ways – in the aftermath of the Soviet empire's collapse, liberal ideologues rode a wave of sentiment in favour of market allocation and private property.

Privatization-nationalization cycles, however, have not been coordinated across the globe (Chua, 1995). This suggests that global ideological shifts and geopolitical changes can explain only a part of these cycles. Institutional changes that occur at times of crisis and upheaval (Sturzenegger and Tommasi, 1998) often fail to endure. Duncan (2005) finds no link between expropriations in the resources sector and political or economic crises (except at independence).

### **Nationalization and nationalism**

The limited comparative research that is available in this area indicates that non-economic and non-ideological factors have played a decisive role in shaping nationalization projects. Postcolonial political elites have to manage complex class and ethnic divisions. Periods of post-liberation elite accumulation have resulted in the perceived (and often real) enrichment of particular racial or ethnic groups. Minority enrichment provides a focus for political mobilization and for the creation of nationalist movements seeking 'majority' empowerment.

Chua (1995) argues persuasively that nationalization in developing countries has mostly been an expression of nationalism rather than socialism. Such hostile nationalist sentiment has been aimed at foreigners (usually 'Western imperialists') but also at the 'foreigner within'. Such 'internally directed nationalism' (Chau, 1995, p. 359) involves the labelling of specific ethnic or racial groups as exploiters.

In south-east Asia, Chua notes that the 'double targeting' of foreigners and 'foreigners within' has resulted in a proliferation of slogans such as 'Malay-Malaysia', 'Thailand for the Thai', and 'Filipino First', at the expense of national ethnic minorities. In Latin American countries, nationalization movements have included anti-elitist and anti-aristocratic demands. In Africa, European settlers, Indian minorities, and historically privileged African ethnic groups have all become the objects of nationalizing actors' scorn.

### **Why resources?**

These factors have made it possible for pro-nationalization sentiment to be mobilized by astute political entrepreneurs. The cost and obstacles to both privatization and nationalization, however, have impeded transfers of ownership in many sectors. Privatization-nationalization cycles have occurred most frequently in the natural resources and utilities sectors (Kobrin, 1984; Chua, 1995; Chang *et al.*, 2011). Chang *et al.* argue that oil, minerals resources, and monopoly

utilities offer the most easily accessible forms of economic rent that can be tapped for a variety of political and economic purposes.

A number of factors increase the likelihood of nationalization of mineral resources and oil. First, the extraction of resources involves a combination of large sunk costs and significant rents. This makes nationalization tempting in the short to medium term. Second, non-renewable natural resources generate emotional attachments in societies that are 'rooted in the soil'. If they are non-renewable resources, their exploitation is perceived as a one-off extraction of wealth. As the price of commodities increases, demands for expropriation rise and, as Duncan (2006) shows, such demands are more regularly translated into action: nationalization of natural resource industries usually occurs when commodity prices are high.

Third, policy makers can become dismayed by the proportion of 'windfall gains' from high commodity prices that accrues to private firms, largely as a result of the legal contracts that govern the exploitation of natural resources. Such firms are either foreign domiciled or they are perceived to belong to 'internal foreigners'. Fourth, the dismay of policy makers is greatest where formerly state-owned miners have been privatized in advance of a commodity boom, so missing out (heartbreakingly) on an unexpected expansion of economic rents.

Fifth, an extended commodity price boom, such as that driven today by growth in the major Asian economies, will result in rising exchange rates among resource producers. This can result in 'Dutch disease' and associated de-industrialization (Breisinger and Thurlow, 2008). If mining assets lie in private and foreign hands, the costs of rising exchange rates are born by the non-resource economy, while profits are largely remitted abroad to foreign companies (Breisinger and Thurlow, p. 19).

Finally, various other factors may increase political pressure for nationalization: the prevalence of societal inequality; the 'colour coding' of resource boom beneficiaries by race or ethnicity; and the presence of 'faulty public institutions' that erode the rule of law (Chang *et al.*, 2011).

State-owned enterprises have dominated the resources sector in many countries beyond the Soviet bloc. Finland, Sweden, and Norway have nurtured highly productive state-owned mining companies. Countries such as China, Chile, India, Iran, Sweden, and Poland continue to operate with significant state-owned mining capacity. The demonstrable successes of at least some state-owned mining companies have added credibility to the demands of pro-nationalization lobbies.

The negative consequences that nationalization can bring tend to be forgotten in times of high commodity demand. The expulsion of foreign and 'internal foreign' capital and skills during nationalization projects typically results later in capital shortages and skills crises. Ultimately it obliges governments to privatize in pursuit of renewed foreign capital and expertise investments. State-owned companies tend to serve as employment reservoirs during economic downturns, at which times governments also turn to them for fiscal support. Privatization is therefore a common counter-reaction to the travails of state-owned enterprise in that it once again permits the accessing of skills and capital.

## Resource nationalism and the African National Congress

### Nationalization, resource nationalism, and the ANC

A wide range of factors that have been associated historically with resource nationalism in general, and with nationalization in particular, are present today in South Africa. We should therefore be unsurprised that the environment has been conducive to demands for mine nationalization. This part of the paper explores how political actors within the African National Congress (ANC) advanced their concrete proposals for state involvement in the mining sector and so made use of the opportunities presented to them by the external environment.

There are two proximate explanations for the emergence of mine nationalization on the policy agenda of the ANC. First, it was the product of factional contestation within the liberation movement. The purported mine nationalization policy advanced by the ANC's Youth League (ANCYL, 2010) was intended to undercut the legitimacy of the South African Communist Party (SACP), and to exploit internal and especially generational divisions within the party over economic policy. The choice of the mining sector for this initiative also exacerbated tensions within the Congress of South African Trade Unions (Cosatu) and the National Union of Mineworkers (NUM), organizations that have been at the core of the leftist faction of the ANC.

Second, the mine nationalization proposal was advanced in an attempt to bounce ANC leaders and wider social interests into accepting 'compromise proposals' that have probably included a state-owned mining company, a resource rent tax, and a more aggressively enforced black economic empowerment programme. Some of the project's architects may also have their sights set on a wider reconfiguration of public sector asset governance.

### Mine nationalization and ANC factionalism

Nationalization appeared on the political agenda of the ANC in the second half of 2009. The reappearance of this seeming anachronism came as some surprise to political observers. The liberation movement's Polokwane resolutions of December 2007 were moderate and social-democratic, focusing on 'decent work', social equality, rising productivity, cutting-edge technology, labour-absorbing growth, competitive markets, and efficient management (ANC, 2007). The left advanced mostly modest demands (with the exception of national health insurance, a major development beyond the scope of this paper): a progressive realization of socio-economic rights, fair labour practices, social security for the poor, universal access to basic services, and on-going programmes to defeat poverty.

The conference endorsed 'a mixed economy, where the state, private capital, cooperative and other forms of social ownership complement each other' (ANC, 2007). It accepted that 'the changes we seek will not emerge spontaneously from the "invisible hand" of the market ... the state must play a central and strategic role, by directly investing in underdeveloped areas and directing private sector investment.'

However, the rhetoric of a 'developmental state', purportedly able to 'lead in the definition of a common national agenda, mobilize society to take part in the implementation of that agenda and direct resources towards

realising these objectives', had displaced demands for public ownership. The developmental state will be 'located at the centre of a mixed economy' and 'lead and guide that economy ... in the interest of the people as a whole' (ANC, 2007).

There was to be 'an institutional centre for government-wide economic planning' responsible for 'integration, harmonisation and alignment of planning and implementation across all three spheres of government'. The developmental state was to have greater human and technical capacity and to maintain its strategic role of 'shaping the key sectors of the economy' including 'the mineral and energy complex and the national transport and logistics system' (ANC, 2007).

Polokwane paid conventional obeisance to the Freedom Charter's 'vision of the economic transformation', and resolved to take as its starting point 'the Freedom Charter's clarion call that the People Shall Share in the Country's Wealth!' Notwithstanding this almost reflexive commitment, there was not a single reference to nationalization or socialization in the Polokwane resolutions.

### A vulnerable Communist Party

The SACP's convoluted relationship to the nationalization project results from its history as a racial and organizational vehicle. It allowed white and Indian activists to help lead the anti-apartheid struggle at a time when the ANC leadership positions were reserved to Africans. It also helped racial minorities to participate on equal terms in the 'military struggle' against the apartheid regime.

The SACP was an organizational vehicle because only the 'most advanced cadres' were recruited. Membership was a mark of prestige, a guarantee of advancement, and the key to accessing resources for travel and military training. By the middle of the 1980s, the overwhelming majority of senior exile ANC leaders were members.

The SACP therefore lived a curious dual existence. Its members were the 'best and the brightest' and they had unrivalled opportunities to observe at first hand the demerits of central planning. These cadres were therefore imbued with deep pessimism about the prospects of a socialist economy. Since the party had succeeded in getting the ANC to adopt quasi-communist positions on almost every aspect of the struggle, however, the ANC was more unquestioningly 'socialist' than the SACP itself.

SACP leaders' antipathy towards nationalization was evident in 1990 as exiles began their return to South Africa. In July of that year, soon after his return to South Africa, then SACP general secretary Joe Slovo (1990) told a radio audience that 'We do not believe that the transfer of ownership from a board of directors to a board of bureaucrats will solve our economic problem'. Essop Pahad, already an important interlocutor between the party and the nationalist centre of the ANC, observed that 'the extent of [state] intervention must be determined by a whole lot of factors of which we are not even in control'. Jeremy Cronin (1991) noted that 'if you take away from Anglo American a whole lot of the economy, and then give it over to a bunch of bureaucrats, workers have not been empowered, bureaucrats have'.

## Resource nationalism and the African National Congress

Although the SACP leadership had internalized the social democratic wisdom of the time, the party's legitimacy still depended upon its purportedly dialectical materialist understanding of southern African capitalism. The SACP's unaccountable power and disproportionately white and Indian composition meant that much rested on its avowed access to scientific truths about society.

Meanwhile, ordinary SACP members were markedly more likely than the party's leadership to view nationalization as a real, if long-range, policy objective. When the party vastly expanded its once select membership after 2002, a growing proportion of its active base no longer understood the subtlety (or perhaps hypocrisy) of its nationalization-but-not-now agenda. A growing body of opinion understandably believed that a communist party must be committed to some form of public ownership.

### **The Young Communist League**

The re-launch of the Young Communist League (YCL) in 2003 exacerbated these tensions. General Secretary Blade Nzimande called the reestablishment of the YCL 'an historic event' that ended the underground era that started in 1950 with the Suppression of Communism Act. In truth, the SACP leadership failed to plan how to induct a new mass membership into the convoluted intellectual life of the old Party.

As the SACP and YCL became mass organizations in the mid-2000s, their leaderships underwent a precipitous decline in capability. The early 1990s collapse of the Soviet empire had long since precipitated the flight of strategists such as Thabo Mbeki and Jacob Zuma. Along with many others they tore up (or did not renew) their SACP membership cards.

In 2007, the residual SACP became sharply divided by the factional contest between Mbeki and Zuma. The SACP's national conference culminated in the ejection of most of the party's senior government ministers and officials, and in a corresponding loss of political and intellectual capital.

The SACP's rise into a mass movement coincided with the erosion of its real capacity to formulate practical policy alternatives. Ordinary members understandably laboured under the misconception that the party was socialist in orientation, and that socialism must include a commitment to public ownership. Meanwhile, the leadership was reconciled to the long-range character of the communist project, and to its own limited role as a corrective influence or guiding hand behind the evolution of the wider ANC.

The result, by the time of the divisive 12th National Congress of the SACP in July 2007, was confusion. The congress resolved to support 'state-led industrial policy', 'labour-intensive manufacturing' and other social-democratic palliatives. Meanwhile, resolutions were also adopted (SACP, 2007) demanding the nationalization of 'strategic' companies such as SASOL and Mittal Steel, with the 'ultimate objective of nationalizing and socializing the commanding heights of the economy in line with the vision of the Freedom Charter'. (The key word in this resolution, 'ultimate', indicates that the party leadership had no intention whatsoever of realizing this commitment.)

In the post-Polokwane SACP, however, a vastly expanded and economically illiterate membership was asking with some urgency what actions the left should propose for Zuma's administration. Nationalization emerged as the preference of the party's youth wing.

### **The ANC-aligned unions**

The SACP's partner in the tripartite alliance, the Congress of South African Trade Unions (Cosatu), played little initial role in debates over nationalization. Its national congresses have reiterated the federation's commitment to leftist nostrums such as 'state-led interventions in the economy', industrial policy, and collectivist models of ownership. Cosatu's 10th national congress (Cosatu, 2009) did observe that 'only a centrally planned socialist economy can deliver the workers and the marginalised poor from ... the present day economic [and] social culture of slavery and misery', and the same congress admittedly resolved to 'vigorously campaign for the nationalisation of the commanding heights of the economy, under workers' control, as a route to a centrally planned socialist economy' (Cosatu, 2009). Such expressions of emotion, however, were not backed by any systematic analysis of potential mechanisms of, or pathways towards, nationalization or central planning.

Cosatu is undergoing a significant structural change. The federation has historically been dominated by mineworker, industrial, chemical, and textile worker unions. Key leaders of the tripartite alliance – including Gwede Mantashe and Zwelinzima Vavi – began their political careers in the National Union of Mineworkers (NUM). In recent years, however, public sector unions representing teachers, health workers, and local government employees have achieved parity of numbers with their industrial union counterparts. The commanding position of the NUM – evident since 1985 when it sent more than a third of the total delegates to the founding congress – has eroded.

The NUM has also suffered internal tensions after two decades of fitful progress for ordinary mineworkers. NUM has taken a conservative position on economic policy issues in recent years, calling for education and skills training, an integrated approach to growth, and economic summits with social partners. NUM conferences have scarcely deliberated nationalization, and the leadership has steered conference delegates towards demands for 'meaningful government participation' in the economic life of the country (NUM, 2006).

### **The left faction's vulnerability**

A simplified model of ANC factional conflicts explains the vulnerability of the left to a symbolic demand for mine nationalization. ANC internal politics are fluid and multi-dimensional, and unstable alliances between regions and provinces play a key role in list-creating, leadership, and policy processes. Nevertheless, there are three relatively coherent national-level factions currently in play. The first, which might be called the organized left, includes the broad leaderships of the SACP and Cosatu. The second, which we might label the KwaZulu-Natal (KZN) group, is organized around the ANC and its tripartite alliance partners in that

## Resource nationalism and the African National Congress

province. The third, the faction of the entrepreneurs, is centred in Gauteng but has national reach facilitated by the ANCYL among other agencies.

The call for mine nationalization has exposed the hypocrisy and dissembling of the organized left's strategists, and opened up divisions between leaders and ordinary activists. SACP deputy general secretary Jeremy Cronin has fronted the party's response to the call, most prominently in two articles published in party journal *Umsebenzi* in November 2009. The first article, 'Should we nationalise the mines?' took a robust approach to the Youth League's impertinence by questioning the motives of ANCYL president Julius Malema (Cronin, 2009a). This personalization, clearly anticipated by Malema's strategists, allowed the rapid racialization of the debate and the characterization of Cronin as a 'white messiah'.

The normally adroit Cronin adopted a patronizing tone, first relating the history of the Freedom Charter and then decrying nationalization as a product of the consciousness of the mid-1950s: 'The framers of the Freedom Charter', he insisted, 'were almost certainly thinking of some kind of nationalization as a MEANS to ensuring ownership by "the people as a whole"'. Cronin, like Slovo before him, bewailed 'a narrow bureaucratic take-over by the state apparatus and a ruling party's "deployees"', and explained that 'this is why the SACP also prefers in general to refer to "socialisation" rather than "nationalisation"'. The SACP's longstanding efforts to distinguish nationalization (ownership transfer and bureaucratization) from socialization (democratic popular control), however, have made almost no impact on the movement's policy debate.

The SACP deputy general secretary sarcastically observed that 'nationalising mining houses in the current global and national recession might have the unintended consequence of simply baling [sic] out indebted private capital, especially BEE mining interests'. Nationalization would 'land the state with the burden of managing down many mining sectors in decline [and] burden the state with the responsibility for dealing with the massive (and historically ignored) cost of "externalities"'. Cronin (2009a) also increased the stakes by suggesting (presumably rhetorically) that nationalizing the mines need not involve monetary compensation: 'What about straightforward expropriation without compensation?'

Cronin's second intervention (2009b) was deeply defensive and demonstrated the resonance of the nationalization idea. 'None of this means that we should simply rule out the question of nationalising the mines ... the SACP has never ruled this out. But it does mean that you don't necessarily need to nationalise mining operations to achieve major immediate transformational objectives.' Nationalization 'runs the danger of wittingly or unwittingly serving the interests of monopoly capital in SA and its comprador and parasitic allies'. Malema's sponsors had succeeded in opening up deep cracks between the SACP and the YCL. By early the next year, the YCL openly stated its support for the nationalization of mines (YCL, 2010). 'There has never been ambiguity in this regard. We have always called for not only the nationalisation of mines, but also that of steel, SASOL, and the key sectors of our economy. We will continue to work with the ANC Youth League in this regard ... We believe that

progressive nationalisation should ultimately lead towards the socialisation of the commanding heights of the economy.'

Similar divisions emerged between Cosatu House and some of the labour federation's provincial executives. Cosatu's Gauteng structures voiced their support for the ANCYL's nationalization project in early 2012. National executive and central committee meetings of Cosatu and the SACP have found themselves unable to formulate a unified and coherent response to the ANCYL proposals.

By the start of 2012, the federation had drifted away from the position set out by Cronin and the SACP leadership. Decrying the populism of the Youth League, a June 2011 joint SACP-Cosatu statement argued that nationalization would benefit only a corrupt elite. Yet the faction of the Cosatu leadership that is seeking the eviction of Zuma from the ANC presidency in 2012 (led by Zwelinzima Vavi) is increasingly using nationalization to destabilize the Zuma campaign, as part of a rapprochement with the current anti-Zuma leadership of the ANCYL.

### *The vagueness of Youth League proposals*

The ANCYL's sponsors were evidently interested in promoting a powerful state mining company: this objective is set out very clearly in the League's February 2010 position paper or framework document on the nationalization of mines (ANCYL, 2010). The framework document noted that nationalization 'is not a panacea for SA's developmental challenges, but it should in the manner we are proposing it, entail democratising the commanding heights of the economy, to ensure they are not just legally owned by the state, but that they are thoroughly democratised and controlled by the people.' The paper observed that 'other strategic sectors of the economy should be transferred to the ownership of the people as a whole', and apologized for its 'thematic' focus on just 'the transfer of Mineral wealth to the ownership and benefit of the people.'

The analysis was largely banal: 'Democratic, open and decisive legislation will ensure that all Mineral Wealth is used for the benefit of the people ... Nationalisation should be accompanied by thorough transformation of state-owned enterprises ... to benefit the people as a whole ... The Minerals and Petroleum Resources Development Act (MPRDA) was designed to release the monopoly stranglehold of five mining investment houses and allow entry by the aspirant black middle class entry into the mining industry ... [but] has benefited only a small comprador elite' (ANCYL 2010).

Nationalization would supposedly fill treasury coffers, improve working conditions, aid industrialization, safeguard sovereignty, transform South Africa's accumulation path, reduce unemployment, transfer skills, produce cheaper energy, and transform spatial development patterns. Energy security, another ostensible objective, was also explored (by a second anonymous author). A state-owned and controlled coal mining company would directly provide coal for power generation 'without the hustles [sic] of the present coal mining corporations, who are always ready to qualitatively and quantitatively under-supply ESKOM in pursuit of bigger profits' (ANCYL 2010).

## Resource nationalism and the African National Congress

Eventually the paper got to the point by setting out three options, which it labelled (a), (b), and (c), for the future of the sector. 'In no preferential sequence', it suggested, 'the ANC government should, (a) establish a State Mining Company; (b) put in place a democratic, open and clearly defined expropriation (with and without compensation) model; and (c) amend the Minerals and Petroleum Resources Development Act (MPRDA) to allow greater State participation in the exploration, extraction, production, processing, trading and beneficiation of Mineral Resources in South Africa' (ANCYL 2010).

### **An unpersuasive case for nationalization**

Option (b), democratic expropriation 'with or without compensation', would seem to be the 'scare' or bluff that was designed to cower reasoning opponents into making concessions. The legal, economic, administrative, and political complexities of such an undertaking are beyond the capabilities, and even imaginations, of ministers and officials.

The ANCYL paper discussed Section 25 of the constitution (the 'property clause') at some length and concluded that the ANC's interpretation of the section 'should not be narrowly legalistic, and in the process falling [sic] into the scope of counter-transformation and reactionary Constitutionalists, whose interests is [sic] to solidify the imbalances and inequalities of the past ... Concretely, the ANC should utilise its capacity to lead society, parliament and government to re-introduce the Expropriation Bill in Parliament, which clearly spell out how the State should expropriate Mines and other property in the public interest without or with compensation, depending on the balance of probabilities' (ANCYL, 2010). The incoherence of this analysis indicates that option (b) was not seriously being pursued by the sponsors of the framework document.

### **Building the DMR empire?**

Option (a), the creation of a state-owned mineral company, and option (c), amendment of MPRDA, therefore represented the accommodation or compromise that NGC delegates were encouraged to endorse in the ANC's National General Council in September 2010. Option (a), the creation of a single state-owned mining company, had been on the cards for many years. The ANCYL paper proposed establishing such a company, and housing within it current publicly owned assets such as Alexkor, the state diamond trader, provincial agencies with mining interests, and the state's shareholdings in SASOL. 'This perspective', the paper continued, 'is fully aware of the existence of the State-owned African Exploration Mining & Finance Corporation (AEMFC). The functions and mandate of the AEMFC [primarily a coal miner] should be consistent with the principle established here [and] be integrated into the State Owned Mining Company whose responsibilities are outlined above'

AEMFC has fallen under the Central Energy Fund and therefore the Department of Energy. Alexkor has been a DPE entity. 'The State Mining Company', the ANCYL firmly insisted 'will be under the direct supervision of the Department of Mineral Resources' (formerly Department of

Minerals and Energy). The framework document therefore repackaged the longstanding ambitions of the minerals department and created a context within which the broader political and administrative power of the department could be further enhanced.

According to the ANCYL, the new state entity would 'own and control' South Africa's mineral resources, maximize national economic gains, contribute to national development, and develop and maintain strong environmental and safety standards. The company would develop mineral resources 'in a careful and deliberate manner', and it would 'not be run like a private business corporation whose extent of progress is solely measured through the amount of profit generated'.

Proposed beneficiation policy was also a longstanding interest of the DMR. The department has been at the forefront of beneficiation policy despite its limited capacity to coordinate investments in research, trade, energy, and skills policy, as beneficiation policy requires if it is to have any chance of success. The DMR's recent proposals instead demand wide and discretionary licensing conditions for precious metals use, in effect extending its disastrously inefficient and politicized licensing empire to downstream industries.

### **Corporate welfare**

Proposal (c) was to 'amend the Minerals and Petroleum Resources Development Act'. This act has hitherto compelled companies applying for mining rights to have 30 per cent ownership and control by historically disadvantaged South Africans. The ANCYL framework document proposed that this should be amended to a requirement for a 'partnership with the state owned mining company, wherein the state owns not less than 60 per cent of the shares and right of determination ... The amended Act should apply to new mining licences and all those who seek to renew their licenses.'

The new state entity might well act as SACP deputy general secretary Cronin predicted by rescuing over-leveraged miners from their own bad decisions, and shifting to the people as a whole responsibility for the mines' environmental legacies. (The people shall share in the country's toxic wastes!) At the September 2010 National General Council of the ANC, prominent businesspeople Tokyo Sexwale (Mvelaphanda Resources and Human Settlements minister) and Bridget Radebe (Mmakau Mining) supported the Youth League's call, adding weight to both the 'bail-out' and Zuma-destabilization explanations for the nationalization proposals.

### **Public asset integration**

The proposal suggested that the state miner would act, in effect, as a BEE partner. It was not made clear how its activities would be financed. One possibility was that the creation of a new state-owned miner would provide a rationale for reorganizing the governance of public sector assets, most notably those safeguarded by the Public Investment Corporation (PIC). Former DMR director general Sandile Nogxina floated the idea that a 'level of integration' is required between the state miner and the PIC (a change

## Resource nationalism and the African National Congress

that would presumably require amendments to the PIC Act). The public sector entities on whose behalf PIC invests are unionized workers' pension and provident funds. For this reason, the left has been wary about amendments to the PIC's investment mandate and governance.

### From Durban to Mangaung

The ANCYL's initial mine nationalization proposals therefore appear to have been primarily symbolic or instrumental. They were motivated by ANC factional politics and by the desire of various interests within and outside the ANC to secure 'compromise' alternatives such as corporate welfare and an expanded DMR empire. They may also have been introduced in order to justify the accessing of public sector assets for 'developmental' and other purposes.

The ANC initiated an unusual mining sector policy review process in the run-up to its 53rd elective conference, held in Mangaung in December 2012. At its September 2010 NGC in Durban, the ANC had decided to investigate the ownership of mineral resources and to defer a 'final' decision to the Mangaung conference.

### The process

Responsibility for overseeing research around nationalization was delegated to the ANC's National Executive Committee by the NGC. Immediately after the NGC, the NEC resolved to appoint researchers to 'investigate successful models that could be considered on the role of the state in mining', promising a report to the NEC on the work in the last quarter of 2011 'in preparation for our policy conference in 2012'.

The NEC is the ANC's sovereign decision-making body between conferences. The NEC delegated responsibility for research and analysis to its Economic Transformation Committee (ETC), a subcommittee of the NEC. The ETC is one of the most stable and influential deliberative bodies within the movement, and it has played a central role (under former chair Max Sisulu) in both entrenching conservative fiscal policy and in the development of Black Economic Empowerment policy.

The committee's policy chair, at the time of this review, was Enoch Godongwana, the then Deputy Minister of Economic Development, who had been a member of the NEC only since 2007. Godongwana has a background in the labour movement, having served as general secretary of the National Union of Metalworkers of South Africa (1994-7) before moving into Eastern Cape Provincial government, serving ultimately as MEC for Finance after 2004. The committee's 25-strong membership included planning minister Trevor Manuel, SACP deputy general secretary Jeremy Cronin, provincial premiers Zweli Mkhize and Ace Magashule, and liberation movement intellectuals Joel Netshitenzhe and Valli Moosa. The steering committee created to oversee the activities of the research team and to formulate an analytical response for the NEC comprised only the members of the ETC (and not, as the ANCYL proposed, representatives from other committees and alliance partner bodies).

The ETC presented its first report on the ANC 'research' initiative in early 2012 in the 'SIMS' (State Intervention in the Minerals Sector) document (ANC, 2012). Research was

conducted on the role of the state in minerals in 12 countries: Chile, Norway, Sweden, Finland, Zambia, Brazil, Venezuela, Namibia, Botswana, Malaysia, China, and Australia. The research team comprised Dr Paul Jourdan, formerly of the Department of Trade and Industry and Mintek, Professor Pundy Pillay of the University of the Witwatersrand, and Professor Margaret Chitiga-Mabugu of the Human Sciences Research Council.

The ETC used the SIMS report to formulate proposals that were considered at the ANC's policy conference in June 2012. That policy conference instructed the NEC to prepare further analytical materials for the landmark elective conference in December 2012.

### No prospect of nationalization proper

The composition of the ETC and that of the research task team both indicated that radical proposals for nationalization were highly unlikely to be forthcoming. Influential ANC and trade union voices, moreover, demonstrated no enthusiasm for expropriation with or without compensation. Research team member Jourdan (2010) had previously argued that nationalization 'could have extremely negative impacts on growth and development, including negative perceptions by investors, massive increases in debt to finance expropriation and a decline in operational efficiency resulting in job losses as a result of the generally poor record in running state-owned enterprises'. Objectives such as increasing fiscal capacity, industrialization, spatial development and job creation could, he claimed, be better achieved by a variety of other policy measures (Jourdan, 2010).

Former presidency policy head and planning commission member Joel Netshitenzhe has remained an influential voice for the rational centre of the ANC. He has observed that the key obstacles to investment in South Africa's minerals sector in recent years have been 'infrastructure bottlenecks, long lead-times in acquiring machinery, the volatility of the exchange rate, insufficient capacity within the then DME in the early days of MPRDA implementation and slow processing of environmental impact assessments ... The challenge, quite clearly, is not whether the mines are in state hands or not ... Even if the mines were owned by the state, without a sector plan, there would be no strategic logic to activities in the sector' (Netshitenzhe, 2010). Netshitenzhe also pointed to the problem of 'capacity and integrity' of deployed ANC cadres in a sector that has 'high lootability' (Netshitenzhe, 2010, p. 21; see also Netshitenzhe, 2011). The NUM meanwhile argued that the MPRDA already gives effect to the Freedom Charter's call for nationalization, and that 'full scale nationalisation' should be avoided in favour of a 'strategic fund/strategic equity model' of nationalization (NUM, 2011).

The ANC's policy process remained quite strongly insulated against populist uprisings or politicized mobilization. The Mangaung conference of the movement, as we shall see, was not presented with an opportunity to contemplate highly destructive proposals for change.

### State Intervention in the Minerals Sector (SIMS)

The ANC discussion document on State Intervention in the Minerals Sector (SIMS) tells us more about the liberation

## Resource nationalism and the African National Congress

movement's policy process than about the design of a benevolent mining regime (ANC, 2012). SIMS had some positive features. It advanced credible proposals for a resource rent tax (RRT) – although this idea was discussed in the state presidency in the era of Thabo Mbeki and so it was hardly the research team's discovery. Jourdan (2011, p. 44) had already proposed a 'mineral resource licensing regime' for all African states that would include a 'rate of return' resource rent tax (RRT). Godongwana has voiced support for a similar intervention, and informal proposals also circulated in the presidency policy unit during the Mbeki era. RRTs are orthodox instruments. It will obviously be important to design a flexible system that can endure changing conditions while also reserving sufficient returns for investors to compensate them for capital employed and for risk. RRT has the merit of being a relatively non-distorting tax that could be administered by the South African Revenue Service. It could in principle be used to diversify the economy and to compensate other sectors for resource boom-induced high exchange rates, perhaps through the creation of a sovereign resource wealth fund (another SIMS proposal). The document also sensibly encouraged further state involvement in exploration, research and development, and infrastructure.

Less positively, SIMS also rubber-stamped a proposal that was set out in the ANC Youth League's phoney nationalization drive. Pension monies managed by the Public Investment Commission are protected against the wolves even when they are invested in mining companies. So too are (or should be) the pension and provident funds of ordinary mineworkers. SIMS suggests that such assets, set aside to provide for the sunset years of ordinary folk, should be transferred into special purpose vehicles in the service of supposedly developmental objectives (ANC, 2012). In reality such instruments could be abused to fund corporate welfare for the politically connected.

Lukewarm but tangible support for the consolidation of state mining assets into a state-owned mining company may be significant. Although NUM, like the ANCYL, has argued that private investors should be obliged to partner with such a company, Netshitenzhe (2010) expressed an emerging consensus that such a vehicle's asset base 'be expanded or reduced through normal processes of acquisition and disposal provided for in the country's statutes and without imposing an unnecessary burden on the fiscus'. There is strong opposition to the creation of a company that might act as an instrument of corporate welfare for politically connected mine owners, or for the diversion of public assets (such as pension fund monies) to fund speculative or patronage-fuelled investments.

### **Mangaung**

It appeared in the run-up to Mangaung that the abandonment of nationalization proposals could be traded against a wish list of interventions that have been presented by assorted interest groups within the ANC, government, and trade unions. Mining companies, it appeared, might be obliged to make contributions towards the energy and transport infrastructure they need to export their production; they might be obliged to partner the state in beneficiation interventions; they might have to accept a minimum wage

system; they might be required to ratify a more comprehensive form of mining charter that sets out ambitious social and political objectives; and they might be forced to commit themselves to deeper black economic empowerment, community development schemes, and contributions to sectoral research and development institutions.

The Mangaung outcome always seemed likely to be messy and not altogether comfortable for a mining industry already labouring under difficult administrative, political, and economic constraints. However, when the conference opened on 16 December 2012 on the campus of the University of the Free State, it became clear that nationalization had been decisively excluded from consideration. Jacob Zuma's opening political report to the conference reflected the complex balance of political forces he now confronts. In an important change of direction, he laid down the law on economic policy. Pre-conference speculation suggested the youth league would make nationalization central to debate. But Zuma refused to utter the word or to 'delve' into the reasoning for rating agency downgrades.

He told delegates South Africa could not afford to alienate potential investors in an unforgiving global economic climate. In an indication that the voices of business people had been heard, Zuma insisted the ANC needed unity of purpose in economic policy and a reduction in policy uncertainty.

Economic policy debate at the conference centred upon a document prepared by the ETC that rejected 'wholesale' state ownership and proposed only 'strategic nationalisation' where a firm rationale for it could be established. Instead of pursuing changes of ownership, the conference endorsed a resolution stating that 'the state must capture an equitable share of mineral resource rents and deploy them in the interests of long-term economic growth, development and transformation'. The conference delegated to government the task of developing appropriate taxation and excise mechanisms to realise this very broadly conceived ambition, and Deputy Finance Minister Nhlanhla Nene promised that any such changes would only be introduced after careful consultation with the mining industry.

The conference also favoured proposals that particular minerals might be designated as strategic in order to advance developmental policy goals. It resolved to support more active minerals beneficiation, the consolidation of public mining assets into a state mining company, improved safety and sustainability, and new broad-based economic empowerment initiatives. The nationalization scare, at least for a time, was over.

### **Conclusions**

The deliberation about nationalization that occurred during an extended ANC policy process brought a number of positive consequences. After all, calls for nationalization – in a period of heightened anti-capitalist and anti-colonial sentiment – were managed. There were, however, costs that resulted from policy uncertainty. And there are risks that accompany any politically charged policy-making process. Symbolic policy choices can be harnessed to political leadership struggles in the ANC and its tripartite alliance partners, and the outcomes therefore cannot be reliably predicted.



## Resource nationalism and the African National Congress

The broader global environment continues to be one in which demands for the fairer exploitation of natural resource endowments will resonate with political activists and ordinary citizens. The politics surrounding the extraction and exploitation of mineral resources are therefore likely to remain complex and sometimes heated.

Mining companies will need to develop effective partnerships with the governing party and with the trade union movement to ensure that such pressures for change do not translate into ill-considered policy change. Resource nationalism is a global phenomenon that is bigger than any political movement. It will take a partnership between social actors to ensure that any negative repercussions that might flow from it are managed, and that the discontents that fuel it are mitigated.

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