

## “Nationalization is a Direct Enemy to Entrepreneurship and it Kills Entrepreneurial Spirit: The Case of South Africa”

Martin Phineas Begede\*

Department of Curriculum and Teaching of the University of Swaziland, Swaziland

### Abstract

This paper traces the historical background of nationalisation in South Africa and examines the views of the ANC Youth League in the light of the current debate on nationalization in South Africa. It draws lessons from the Zambian experience and put them into perspective. It is observed that nationalisation is usually followed by privatization and then renationalization. The requirement of a 60% stake in mining companies is significantly high and deters investors as they are unable to get a controlling interest in their own companies from the onset. A volatile legislative environment further aggravates the situation.

**Keywords:** Entrepreneurship; Entrepreneurial spirit; Nationalization; Privatization; Capital flight

### The Historical Background of Nationalisation in South Africa

The debate about nationalisation was sparked by a resolution of the ANC Youth League’s 23rd National Congress in June 2008. Matshiqi [1] posits that Kgalema Motlanthe ignited the debate way back in 2006 when he was invited to give a keynote address of the 62<sup>nd</sup> Anniversary Celebration of the ANC Youth League. Motlanthe challenged the ANC Youth League and the nation to debate on the idea of setting up of a mining company to fund free basic education and free higher education for all. Shivambu [2] argues that the issue of nationalisation has always been ANC policy and was in line with the ANC’s Freedom Charter of 1955. He said that past ANC Presidents such as Oliver Tambo, Alfred Nzo and Nelson Mandela spoke about nationalization. There was a strategic retreat about nationalisation during Mandela’s reign because of the transition from apartheid. The Freedom Charter says that mineral resources, banks and monopoly industry shall be owned by the people [3]. However, the current debate on nationalisation is focusing on mines only.

Matshiqi [1] argues those who dispute the ANC Youth League’s interpretation of the clause are myopic since it is clear about transferring the mineral wealth to the people. It was noted that the term “nationalization” is not even in the Freedom Charter [1,4]. Hence the idea that the debate about nationalisation is purely academic and that notably, President Jacob Zuma has insisted that nationalisation of mines is not government policy. The Minister of Mineral Resources is also singing from the same hymn book and has publicly rebuked the call for nationalisation declaring it a non starter even in the long run [5]. However, the ANC has set up a task team to undertake research in this area and it has welcomed debate in this area.

### Nature of Nationalization

Nationalization is the “transfer of privately owned assets into the ownership of the state” [6]. In support of this view, Simutanyi [7] defines nationalisation as, “a process by which a government takes controlling shares and management of privately owned enterprises.” A 51 percent stake in any company gives the state a controlling interest. Hence a company can be wholly nationalised (100 percent) or partially nationalised. The ANC Youth League advocates for thorough transformation of state owned enterprises (SOEs), setting up one mining corporation and adopting an expropriation model. A 60

percent stake in private mining corporations has also been suggested. Strategically, this would be enforced on renewal of mining licenses, and will be included in the compliance scorecard, [2,4] indicated that the Mining Charter would be amended to include a clause which allocates 26 percent stake to historically disadvantaged groups. SOEs have been defined by [8] as, “public corporations owned and controlled by government.” Matshiqi [1] is of the opinion that the state should enter into private –public sector partnerships with potential investors (like what happened in Botswana) and that debate should be centered on the modalities of such partnerships. For the state to totally crowd out private sector investment in this area and replace it with state mining companies is the bone of contention. Sambatha [4] highlighted that the Department of Minerals and Energy had started crafting policy framework for state mining companies way before the debate started. The ANC Youth League and the Department of Mineral Resources have a joint task team which is charged with the responsibility of rolling out these programmes. Shivambu [2] boosts that, “the nationalisation process is already being advanced not only at a conceptual level, but also at a practical and administrative level.”

Sambatha [4] contends that the issue of nationalisation of mines has already been achieved in 2002 when the Minerals and Petroleum Resources Development (MPRD) Act was passed. He rules out the idea of mining monopolies as a feasible and the only option available. However, he asserts that nationalisation should be looked at in the broader context. That is including land, monopoly industries and banks. He is afraid that if nationalisation is done in a piece-meal way, banks may sabotage the financing of nationalized mines in order to prove that nationalisation in South Africa is a non starter.

### Reasons for Nationalization

Generally, countries nationalise companies or industries in order

\*Corresponding author: Martin Phineas Begede, Department of Curriculum and Teaching of the University of Swaziland, Uniswa, P. Bag 4, Kwaluseni, M200, Swaziland, Tel: 0026876454833; E-mail: [mpbegede@gmail.com](mailto:mpbegede@gmail.com), [pmbegede@uniswa.sz](mailto:pmbegede@uniswa.sz)

Received January 31, 2012; Accepted April 19, 2012; Published April 23, 2012

Citation: Begede MP (2012) “Nationalization is a Direct Enemy to Entrepreneurship and it Kills Entrepreneurial Spirit: The Case of South Africa”. *J Entrepren Organiz Manag* 1:101. doi:10.4172/2169-026X.1000101

Copyright: © 2012 Begede MP. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

to gain national control of strategic resources in the economy, and to achieve social and political objectives, that is, for ideological reasons. Furthermore, economies of large scale may be achieved if one large company takes over the industry. It may be socially desirable to protect jobs through nationalization [6]. This is true for the South African government which is in developmental state which seeks to create jobs, improve the welfare of the people and move towards equitable distribution of wealth by correcting apartheid injustices. In addition to these reasons Todaro and Smith [8] stated that SOEs may be created when there is bankruptcy by the private industry and during the early stages of development when savings are still low.

However, Matshiqi [1] says that the state should play an active and interventionist role in a mixed South African economy. The ANC Youth League has put forward the following reasons for the intended nationalisation:

1. To increase the state's fiscal capacity and to improve the working conditions in the mines.
2. To stimulate industrialisation, absorb labour and create jobs.
3. To safeguard the nation's sovereignty.
4. To transform the accumulation or growth path in the South African economy.
5. To transform South Africa's unequal spatial development realities [2].

## Empirical Evidence

In developing countries, SOEs contributed between 7 percent and 15 percent of Gross Domestic Product (GDP). The World Bank study of 24 developing countries revealed that very few of these obtained an operating surplus. A case study of Ghana, Senegal, Tanzania and Zambia showed generally poor performance and a massive drain on the treasury. Labour and capital productivity were also less favourable compared to the private sector. Job creation failed due to a strong inclination towards capital intensity since capital could be accessed at subsidised rates. There was overstaffing in order to meet national employment objectives. Other problems included over centralisation of decision making, bureaucratic management, meager rewards for innovative decision making, and lack of accountability for performance by decision makers. The regimes were corrupt and used SOEs as a means to plunder state resources [8].

## The Zambian Experience

There was a phenomenal growth in SOEs in post independence Zambia. This exponential growth was attributed to "the need to reduce dominance of foreign owned enterprises; economic nationalism; to promote alternative technologies; absence of private entrepreneurs; and political patronage "(Tangri; Mkandawire and Soludo in Simutanyi, 2010).

Zambia's economy showed poor performance because of the "application of inappropriate technology, total dependency on processing raw materials, inexperienced management, misappropriation of resources by officials appointed by government to run them, and operation in monopolistic environment with no competition" (Fundanga and Mwaba; Kaunga in Simutanyi 2010). State resources were used to reward political followers. This is also peculiar in Zimbabwe where most parastatals are directed by retired majors or lieutenant colonels.

Nationalization is usually followed by privatisation and renationalization and subsequent privatization [9]. Zambia is no exception to this cycle. Privatisation is the transfer of Ownership from

the public to the private sector [8]. The disposal of shares has not been transparent and it involved corruption. In some cases investors lacked the capacity to take over the companies but they got away with murder. Usually there is under pricing on disposal. This resulted in immediate failure and renationalization. A good example is the Luanshya mine case which was sold to a company without previous mining experience and was undercapitalised. The company was repossessed and sold to another company [7]. Hardwick et al. [6], argue that this usually results in the creation of private monopolies which benefit a few elite. Labour unions are hostile to privatisation as this threatens their job security.

## Discussion

The proxy argument cannot be ruled out as the motive for nationalisation given that previously Brett Kebble is alleged to have funded fancy lifestyles of some Youth League leaders [1]. Shivambu [2] asserts that these black participants or magnets only have a 2 percent stake in the whole industry. It is premature to defend this argument given the Zambian experience of nationalisation, privatisation and renationalising and privatising. The history of disposal of state assets in developing countries has pointed towards lack of transparent, under invoicing and corrupt tendencies including disposal to investors without both the technical and financial capacity. Hence, nationalisation can be used as a medium for looting [8]. South Africa is no exception to this. The few elite who have the capacity may buy these state assets on disposal. Harvesting the nationalised ventures is the prime reason for the intended creation of nationalised ventures. One can therefore, concretely assert that nationalisation is an enemy to entrepreneurship as it destroys the entrepreneurial spirit.

The existence of a volatile regulatory environment scares investors away. Whilst current investors may either hold on to their existing investments or relocate their capital to safe economies (capital flight). Foreign direct investment, net inflows plunged from a high of \$9.645 billion in 2008 to \$5.354 billion in 2009 and ultimately a low of \$1.565 billion in 2010 [3]. Notably as the debates on nationalisation heats up, the net inflows dwindled. Furthermore, there was a 5.1 percent decrease in production in the mining sector for the 3 months to August 2011 (seasonally adjusted figures) [10].

Worse still in this case, Shivambu [2] is suggesting of amending the constitution in order to facilitate expropriation. The possibility of failure to compensate current investors on expropriation (like in Zimbabwe) exacerbates the situation. Todaro and Smith [8] emphasise the importance of rule of law, establishment of commercial courts, property rights and the procedure of acquiring those right as critical in influencing entrepreneurs in starting new ventures. It is not easy to set up a company and fail to have a controlling interest in that company. Entrepreneurs need that innovative decision making authority in order to swiftly make strategic moves at the point of action. Under these circumstances a forced buy out is highly likely.

The proposed 60 percent stake in mining companies is extremely too high, it scares investors. Zimbabwe is failing to attract investors with only a 51 percent requirement (coupled with a volatile regulatory environment and policy inconsistency). Already a reasonable 26 percent stake in mining companies is provided in the South African Mining Charter [4]. Alexkor, a 100 percent state owned mining company is a disaster [4]. Then why try to expand the magnitude of the disaster by having one big mining corporation? The state is already failing to provide public goods and services as evidenced by the numerous service delivery strikes.

## Conclusion

The writer agrees with Matshiqi [1] in that the state should continue to take its role as moderator and regulatory authority whilst production and sale of mineral resources is left to the private sector. An acceptable shareholding (such as 26 percent) by the historically disadvantaged groups in mining companies will promote investment and correct colonial imbalances at the same time. Empirical evidence largely shows that nationalisation has failed in many developing countries. There is need by the South African government to strengthen enforcement of the existing regulatory environment in order to promote entrepreneurial drive. Corporate social investment tax allowance will encourage companies to give back in communities in which they are operating whilst creating more jobs and investment opportunities.

## References

1. Matshiqi A (2010) The political context of current debates on nationalizing mines in South Africa. In: Nationalising the mines in South Africa: prospects, challenges and lessons from the SADC region.
2. Shivambu F (2010) Keynote address on current debates on nationalising the mines in South Africa. In: Nationalising the mines in South Africa: prospects, challenges and lessons from the SADC Region
3. The World Bank (2011) Foreign direct investment, net inflows, (BoP, Current US\$).
4. Sambatha M (2010) The perspective from a key roleplayer in the sector in Nationalising the Mines. In: South Africa: Prospects, Challenges and Lessons from the SADC Region.
5. Rapoo T (2010) Welcome and introductions. In: Nationalising the Mines in South Africa: Prospects, Challenges and Lessons from the SADC Region.
6. Hardwick P, Langmead J, Khan B (1999) An introduction to modern economics. (2ndedn), Harlow: FT Prentice Hall.
7. Simutanyi N (2010) Experiences of nationalisation from selected Southern African countries: lesson for South Africa: nationalisation in Zambia. In: Nationalising the mines in South Africa: prospects, challenges and lessons from the SADC region.
8. Todaro MP, Smith SC (2009) Economic development. (10thedn), Harlow, Addison-Wesley.
9. Foster CD (1993) Privatization, public ownership and the regulation of natural monopoly. Oxford, Blackwell Publishers.
10. Statistics South Africa (2011) Mining: production and sales (preliminary). Statistical Release P2041.