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# Resource nationalism doesn't have to be a dirty word — just ask Norway

## Mineral policies must give incentives and include a pact for development or citizens will reap none of the benefit

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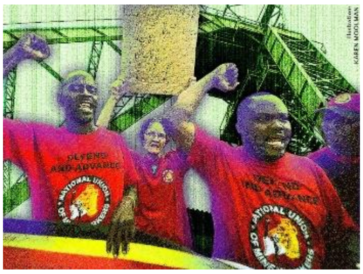

*Nationalisation drives fear in mining corporations. In Africa, resource nationalism is rife but coincides with opportunism and crisis. State intervention usually causes more harm than good. Given the enormity of the investments required to turn rocks into jobs and wealth, we need private sector investment and skills over the long term. The most basic lesson is that a sector and economy cannot grow through declines in investment and production.*

Illustration: KAREN MOOLMAN

Resource nationalism drives fear in mining corporations. But the concept is not inherently negative. Most agree that a country with a significant mineral endowment should reap widespread benefits from its resource. But throughout Africa that is where agreement ends.

Norway is hardly seen as resource-nationalistic. Yet it should be labelled so: state ownership, high levels of oil taxes, and a world-leading fund that stabilises and diversifies the economy while funding a generous welfare system. This framework serves the people, and does so exquisitely well.

When it comes to Africa we are hard-pressed to find a similar example. Here, resource nationalism is rife but coincides with opportunism and crisis. Mining, deeply invested and captive to changing priorities, is an easy target of opportunity. State intervention usually causes more harm than good.

Zambia is a case in point. In the throes of a fiscal crisis brought on by unsustainable government expenditure and declining foreign reserves, the country is on the brink of default. The government, buoyed by high commodity prices, has raised expenditure without setting the foundation for a resilient and diversified economy.

The approach to the dispute with miner Vedanta looks like the wrong resource nationalism. Government's heavy-handedness is doing damage to the country's reputation and will certainly accelerate economic crisis. When Zambia's large government debt was all but forgiven in 2005, it was on a virtuous path. This time around, creditors are unlikely to be impressed.

But Zambia is hardly alone. Many countries have unilaterally changed their mineral policies from incentivisation to sanction, from the Democratic Republic of Congo to Tanzania, usually through decisions not supported by evidence. The expected benefits have failed to come, while costs have been ignored:

- Empowerment demands local capital ownership, which mining companies fund in advance of profits: instead of leading local entrepreneurs, we end up with profit-taking fat cats.
- Export bans are imposed to force companies to beneficiate. In Zimbabwe's ill-fated chrome export ban, production collapsed, and so did that of beneficiated chrome.
- State ownership is intended to translate into retained benefits — no more profits to rich foreigners — but brings failure as government-the-shareholder cannot invest. Economic crisis follows.

In time, governments must return to investors cap in hand in an absurd merry-go-round.

Mineral rents are the surplus value extracted from mineral resources after all the costs and normal returns. Where managed effectively — Norway, the UAE — these are channelled into the diversification of resource-dependent economies and reinvested into the future sustainability of their mining sector.

The people own the resource. But untapped or produced at a loss, that resource is valueless. What is required is a national interest-driven developmental pact that provides for the extraction and allocation of rents in a sustainable fashion.

The custodian state must ensure viable exploration, development and operation. Licensing must be transparent and competitive. Regulation must ensure safe and environmentally sound mining. Taxation must incentivise investment but also ensure that super-profits (mineral rents) are higher rated and directed to the people.

Given the enormity of the investments required to turn rocks into jobs and wealth, we need private sector investment and skills over the long term. Investors need to know the conditions we offer them are stable and competitive so their prospect of being profitable, and even super-profitable, is also our prospect of seeing more salaries, more tax revenues and state investment into our economies.

Unfortunately, this pact seems to be a distant promise. We are mired in dispute and crisis. Lack of compromise between governments looking to squeeze miners of revenues and large corporations seeking to exploit mineral wealth in the most cost-effective way has been destructive to all.

Zambia's storied copper industry is a case study in resources "malapropism". In a 2012 study, Eunomix Research found that if Zambia sustained its production levels of the 1970s through to 2010 it would have been $45bn richer in mineral rents. An update through to 2017 returns a figure of $65bn.

The update compares the performance of Zambia and Chile from 1970 to 2017 — a benchmark chosen as both countries produced the same amount of copper in 1970 — about 700,000 tons (about 10% of global production that year). From the mid-1970s Chile's production expanded and Zambia's tumbled to 250,000 tons in 2000, a miserable 2% of global production. Chile was then producing 4.6-million tons, 18 times more and 35% of global production.

Between 1970 and 2017 Chile generated more than $650bn of copper revenues. Zambia? Only $112bn. Between 1973 and 2003 Zambia's mining contribution to GDP tumbled a staggering 77%. Rents peaked in the early 1970s past 30% of GDP, then collapsed. Zero percent in 2000! Production recovered after 2000, but only in 2010 did it reach its 1972 peak — 40 years later. Chile surpassed this in 1974. Zambia's rents rose again from 2004 and started tracking those of Chile closely as a proportion of GDP.

An oft-repeated explanation is that declining copper prices caused this counter-performance. This is not supported by the facts. In Chile, production growth served as the foundation for growth in revenues and rents. In Zambia, the opposite occurred: collapse in production drove the collapse and near erasure of rents.

Nationalisation in the early 1970s was the primary cause for production's collapse in 1970-2000. It undermined the goal of leveraging mining for growth. Not only did Zambia fail to mine to potential, but the collapse of that industry fuelled a fiscal and economic crisis and impoverished the people. Privatisation returned mining to growth and brought economic recovery. But not for long, as today's crisis clearly shows.

The lesson from Zambia's past should be obvious, but the current policy indicates that neither the catastrophe of the 1970s-1990s nor the post-2000s recovery has been understood by leaders.

The most basic lesson is that a sector and economy cannot grow through declines in investment and production. Economics 101? Perhaps, but a foundation that "we the people" need to ensure our leaders take to heart.

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