ROLE OF STATE MINING ENTERPRISES IN DEVELOPING COUNTRIES: EVOLUTION, CURRENT ROLE AND PROSPECTS

The role of state enterprises in the solid mineral industry of developing countries

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The question what role the State and the nationalized industries should play in the raw material production of the developing countries has been the subject of debates for several decades now.

Numerous outstanding economists and technical experts took part in the debates and no consensus was or could be reached because of the differences in political outlook and values. While the theorists were engaged in debates, life has proved that the weight of the nationalized industries had significantly grown in raw material production.

In the early 1980s the nationalized industries accounted for 41% of bauxite production, 57.8% of copper production and 61% of iron ore production. The experience of the past decades has proved that a single move (ie, the act of nationalization) cannot put an end either to the political tug-of-war or to the theoretical debates, as the viability of any formula can only be demonstrated by its success. The efficiency of the operation of nationalized industries is dependent on several variables and, in a certain sense, it is an indicator of the performance of the economy as a whole.

If we examine wide-ranging nationalization as an objective suggested by economists or put into practice by politicians, we find a broad spectrum of motivations. We outline briefly some of the most salient ones.

(a) The ideological approach claims that the public ownership and control of industries is necessary according to modern political thinking as well as for social justice.

(b) Those advocating decolonization consider nationalization as the fulfillment of just national aspirations as opposed to the endeavours of foreigners (colonizers).

(c) Another motivation is the claim that it is necessary to have control over the commanding heights.

(d) As the utilization of the natural resources yields extraprofit for the operators of extractive industries, it is a widely held conviction that the high revenues should go to the State (instead of private operators,) which represents the society at large.

(e) The exploitation of natural resources is capital-intensive, while the entrepreneurs of the developing countries are usually short of capital.

(f) Export-related interests. These interests have for a long time been of key importance in the economies of the developing countries (economies which usually rely on a single crop or a mineral and which have an underdeveloped structure).

(g) Welfare targets. It is believed and advocated that the State as a model employer can exert an influence by virtue of its own enterprises on the working conditions, wages and welfare provision in the economy as a whole.

The source of these arguments ranges from the optimism of leaders of newly independent countries to radical tenets that date back to the post-Second World War years. When voiced for the first time, these arguments were over-emphasized due, first, to the fresh dynamism of newly emerging countries and, second, to the logic of political strife.

The debate on the use and various features of the nationalized industries is going on with unabated zeal for the the following reasons. Some argue that the best way for progress in the developing countries is to maintain the status quo, in other words, to effect only minor corrections in the ownership relations established under colonial rule. Another development is the fact that, owing to the growing sway of neo-conservative economic theories and political power centres, the advocates of nationalization and those of reprivatization are vying for supremacy again.

Let me draw your attention to two further factors in order to better understand this polemic.

(a) One of the factors is that the governments of several developing countries can nowadays rely on decades of experience concerning the nationalized industries. The dilemma these governments have to grapple with today is not whether to opt for nationalization or invoke the assistance of foreign capital. Instead, they have to come to terms with the daily problems of running nationalized industries.

(b) The other factor worthy of attention is the range of economic reforms that have been introduced in some socialist countries. The efficiency of the operation of nationalized industries has been thoroughly analysed there and the following conclusions have been drawn: it is a negative phenomenon that the work of state-run enterprises is excessively bureaucratic and that they need government subsidies to assure their operation. It has been found that in view of the sharpening competition in the world market, the conditions under which the state-run enterprises work in the socialist countries cannot in the long run be less strict than those prevailing in the capitalist countries.

Another question on which the economists opposing and those advocating the nationalization of industries disagree is which form of ownership is suitable for short-term thinking (that is, emphasis on profits and satisfying the demand of the market) and which ways are appropriate for concentrating on long-term objectives. Based on careful consideration of all the factors every society must decide upon the variety of short-term interests that can be ignored provided a relative equilibrium is the order of the day or — conversely — how many long-term interests it can afford to ignore. If not enough attention is paid to long-term interests, both society and the economy are likely to suffer in the long run.

The main argument of economists who are highly critical of the operation of nationalized industries is that the state-owned producers of raw materials work at a much lower efficiency than the privately owned ones. The following causes of lower efficiency are usually cited:

(a) The state enterprises have an excessively complex set of aims and many of the requirements they aspire to satisfy are contradictory. It is undoubtedly always a difficult task to attain a complex set of aims, even if the aims are not contrary to one another. However, the real problem might be related either to the multitude of aims or rather to the limits of the means state enterprises are allowed to wield; to abide by tenets of "public morality", state-owned enterprises are expected to abstain from the use of certain means that private enterprises may freely use (for instance, dismiss labour or use various measures to overstrain the workers).

(b) The nationalized industries, management and control systems work inefficiently. This is a serious problem, indeed. Not even the socialist countries have until now been able to evolve effective techniques for the smooth running of the public sector. What is more, the civil service of the recently independent developing countries is relatively young and inexperienced. Furthermore, the skills needed to run nationalized industries are a far cry from those traditionally applied in public administration.

(c) The central control over pricing is another source of difficulties and corporate inflexibility. It is a fact of life that prices that are not dictated by supply and demand never elicit adequately rapid and effective responses. Moreover, when they sense danger, enterprises likely to be affected by a government measure aimed to readjust certain prices, tend to obstruct the implementation of such decisions.

(d) The literature repeatedly refers to the absence of pressure to reduce costs. There is truth in this argument since, in the absence of competition on the domestic market, enterprises in monopoly position are indeed not compelled to cut their costs or decrease their prices.

(e) Several observers criticize state enterprises for inflexibility in passing decisions or taking measures when demanded by changes in the requirements of the given industry. This problem is related, on the one hand, to the distribution of decision-making prerogatives between agencies of public administration and the enterprises; it is quite possible that a major decision on production or pricing presupposes a decision by a government or prior consultation with it. On the other hand, access to information is another related factor. It is very likely that a raw material producing enterprise of a small country — especially in the absence of vertical relations between the business organizations — will have less information on the market situation than, for instance, a transnational corporation that has close links with the world market. It is therefore justified to assume that the source of the problem lies in the size of economic actors, co-operation arrangements and economic might, rather than in whether an enterprise is in private or state hands.

(f) Several experts put the blame for the slow responses and inflexibility of state enterprises on the political power centres and decision-making bodies which excessively interfere in the shaping of corporate policy and on the fact that the principle of meritocracy prevails.

While critics and opponents of the nationalized industries stress the latters' disadvantages, economists who advocate them emphasize the advantages of nationalization. Even advocates of nationalization admit, however, that in the short run granting wide scope for the forces of the market and stressing the profit principle yields benefits. These economists also point out that the political, social and economic benefits of nationalization outweigh the disadvantages referred to above. The advantages are not solely of a commercial and economic character, instead, they are advantages of social and political nature, and can, with time, lend impetus to economic progress as well.

Usually the following non-business advantages of nationalization are emphasized:

(a) To launch economic advance, the State needs some integrating force. This applies, in the first place, to countries where traditions of statehood are weak or absent altogether, and tribes rally the population. State and Church are not yet divided, and ethnic minorities represent sizeable sections of the population.
(b) Provided the members of the management of state-owned enterprises are recruited among the local population, an incentive is created for the indigenous education of technical intellectuals and medium-level technical experts.
(c) The nationalized production of raw materials makes it possible to integrate into the national economy new geographical regions and previously neglected areas.
(d) New jobs are generated and therefore a part of the disproportionately high agricultural population can be redeployed to industry.
(e) Potential is assured for increasing export, which can enable the economy to import sophisticated manufactured goods and know-how.

Although I stress the importance of these advantages, let me once again stress the fact that a weak economy is incapable of carrying out long-term capital projects because often it takes years or even decades before these start to pay off. By contrast, if a country fails to heed its short-term problems, that can provoke an economic crisis within a few years thus jeopardizing the viability of the regime as a whole.

Even the advocates of nationalization often point out that the production and sale of raw materials was more successful when government interference occurred only on a few occasions; the enterprises enjoyed greater autonomy and worked at a higher level of organization and expertise; the selection of personnel was more circumspect (sometimes through the hiring of experts from abroad under long-term contracts); the realization of capital projects was more efficient and better co-ordinated and the enterprises had better contacts with the world market.

The economic and political ideas on the aspects of raw material production in the developing countries that I summed up above were, in the main, voiced during the 1970s and early 1980s. Of course, the problems to which these ideas were a response have not disappeared. Yet, beginning in the middle of the 1970s, a new era opened in the world economy: radical changes have taken place shaking the whole world economy in its foundation and all of its components.

To mention just some of these sweeping changes, the question of the natural resources has assumed a global character. Both in managing our natural resources and protecting the quality of the biosphere, we have the duty of assuring proper living conditions for the generations to come.

A decisive change has taken place in the approach of the economists of the socialist countries: today they attach outstanding importance to economic growth and the necessity of satisfying consumer demand; they consider questions of public versus private sector in a thorough reorganization of state-owned enterprises.

In most of the developed capitalist countries, neo-conservative political forces have temporarily gained government positions. They have engineered unprecedented rates of technological development. On the other hand, they subordinate to the profit motive the demand for an equitable distribution of goods, the elimination of unemployment and the improvement of the economic conditions prevailing in the developing countries.

In a new development, the so-called Newly Industrialising Countries have appeared among the developing countries; and experience has taught leaders of the developing countries to differentiate their economic policy. However, some countries, in fact some continents, have got into a difficult or even hopeless situation.

Consequently, against such a background, the developing countries have to evolve an economically rational, bold and courageous raw materials policy. In close connection with this, in view of global interdependence, the responsible forces of world economy are duty-bound to influence and encourage this policy in harmony with the interests of the future generations, giving priority to the protection of the natural environment.

Given the new situation and growth-related problems that the developing countries have to face, it is necessary to examine the situation of raw materials production from the standpoint of both efficiency and supply and demand on the one hand, and the progress of the whole economy on the other. Whether the efficiency of the private or public sector is high or low — however important a question this can be in the case of a small economy — that shall not in itself be sufficient to determine whether an economy is capable of progress

From the viewpoint of economic policy, progress in the Third World countries is highly dependent on the changes that occur in the external economy.

When a newly independent developing country is in the period of launching industrial development, it evidently has to step up its import of capital goods and, if it is a country relying on the production of a single raw material or crop, it also has to widen its import of various consumer goods and farm produce. Hence it follows that it has to increase export, provided it wishes to maintain at least a relative balance of payments equilibrium. In the case of a country rich in natural resources, it is an expedient, and usually the only practical way, to export raw materials. To attain that aim, the country is compelled to boost both production and export of the given raw material. In the first phase of growth — provided world market conditions are favourable — that is apparently possible, because the country's import dependence increases only gradually. Already at this stage, the inherent instability of the commodity markets plays an essential role because the revenue fluctuations have a great effect on the size of export revenues and resources available to pay for the imports.

Later the situation is bound to become complicated for various reasons. Firstly, because reliance on imports is likely to grow and, secondly, because raw material prices fluctuate widely. Moreover, due to the fast pace of technological progress, the terms of trade deteriorate to the detriment of the developing countries. A decline in export revenues deals the heaviest blow to the economic policy objectives because the economic plans, the state authorities' expenditures and investment projects are usually defined on the basis of the immediately preceding period. Consequently, a contradiction emerges between the demand of the market and that of the investors: the first would like to see faster production cycles, while the domestic and external obligations implied by the development plans make that speeding up extremely difficult or impossible. Often the consequence is sale below the market price. Usually, the outcome of such situations is the inevitable reduction of imports, investments and fiscal expenditures. This, in turn, is likely to decrease the standard of living and eliminate a great many jobs. At present, however, a decrease in imports and investments is unfavourable (and dangerous) from the viewpoint of international commerce because the rate of growth in world trade diminished by half compared to the period between 1960 and 1970. At the same time, the export competition between the developed countries has all but reached the level of a trade war.

It should not be forgotten either that in connection with the current technological revolution, energetic efforts are made to substitute certain raw materials, and there has been a spectacular headway in inventing technologies characterized by substantially low levels of energy and material consumption.

The question is justified then, what can the raw materials producing industries of the developing countries do in order to improve their world market positions?

In the field of production the best response is to cut costs and improve the quality of raw materials.

Regarding the organization, it would be of key importance to strengthen or restore the vertical lines of connection between co-operating enterprises and thereby to break the wall between producers and the market.

It would be necessary to initiate and/or step up activity in marketing and market research: research institutes of all the countries concerned could join efforts to that end. This market research should cover both changes related to the production techniques of the raw material concerned and the features of the economies that are actual or potential users of that raw material.

Efforts are needed to open up new markets and work out new arrangements under which further new markets can be discovered for the producers. Suffice it to say that in the future, the member countries of the *Council for Mutual Economic Assistance* (CMEA) are likely to purchase more raw materials from outside the CMEA than before. Even before the question of convertibility of their currencies is resolved — and the chances are better than they have been for the past forty years — I am sure it is possible to identify commodities suitable for countertrade arrangements to be concluded between the developing and CMEA countries. The socialist economies have fairly developed industrial capabilities and advanced mining and exploration capacities.

It is desirable to co-ordinate the activities of the raw materials producing countries, even if the producer cartels have until now not proved to be viable: with the exception of the Organization of Petroleum Exporting Countries. It is obviously impossible to reach agreements that please all parties if short-term interests are conflicting. However, it is still possible to hammer out reasonable compromises, which at least keep the parties well informed and offer "second-best" options. Viewed from a long-term perspective, it would be beneficial for both the producer and consumer countries if commodity agreements were signed based on an honest compromise between parties of differing interests.

The interests of the industrially developed countries often come into conflict because some of these countries are themselves raw materials producers and even more so because they badly need markets for their goods. On the one hand, the scientific and technological revolution has unleashed tremendous production capacities, new techniques and capabilities, while, on the other hand, the population of the advanced countries is not growing. The rapid growth in the total population of Earth is notoriously due to the population boom in the Third World. Still, it is the advanced parts of the world where we can witness the multiplication of productive, service and research capabilities as well as financial resources.

Let me also remind you that in most of the developed countries, the rate of redistribution of the national income has decreased and unemployment increased. As a consequence, the domestic purchasing power has declined. In some of the newly rich countries, there is a lower level of consumption than in those who have been rich for a long time. For that reason, commerce has been the main incentive for the growth of their national income. It can be concluded that, in order to assure their continued progress, the advanced countries need markets, which are at present closed to their export goods due to the economic difficulties and increasing indebtedness of the developing countries. Finally, the advanced countries, just like others, must protect their natural environment from pollution caused by production and consumption, otherwise mankind will have to face an environmental catastrophe in the forthcoming decades.

It is in the interest of the entire world to protect the human environment and thereby the interests of the next generations. Various international organizations and agencies play an outstanding role in this activity. Given the present political pattern of the world, consisting of nations of differing interests, this aim can only be attained through intensive international co-operation and joint efforts to implement certain regulations. It is impossible to dissolve the nation states and establish a supranational ruling power (a world state). Yet, in order to ward off the dangers to the future of mankind, it should be possible to work out and implement norms that are binding to and verifiable by each and all.

At present, such global interests are attached not only to pollution control and the controlled reduction of armaments but also to the maintenance and broadening of international trade relations. The time is past when a country could develop on its own, independent of the international community.

This is why it is imperative to work out trade and price agreements for the production, sale and utilization of commodities which — in a spirit of mutual understanding and equity — would enable one party to develop and the other to utilize the technological revolution. For the world as a whole, that would mean a guarantee of real human living conditions for future generations to come.