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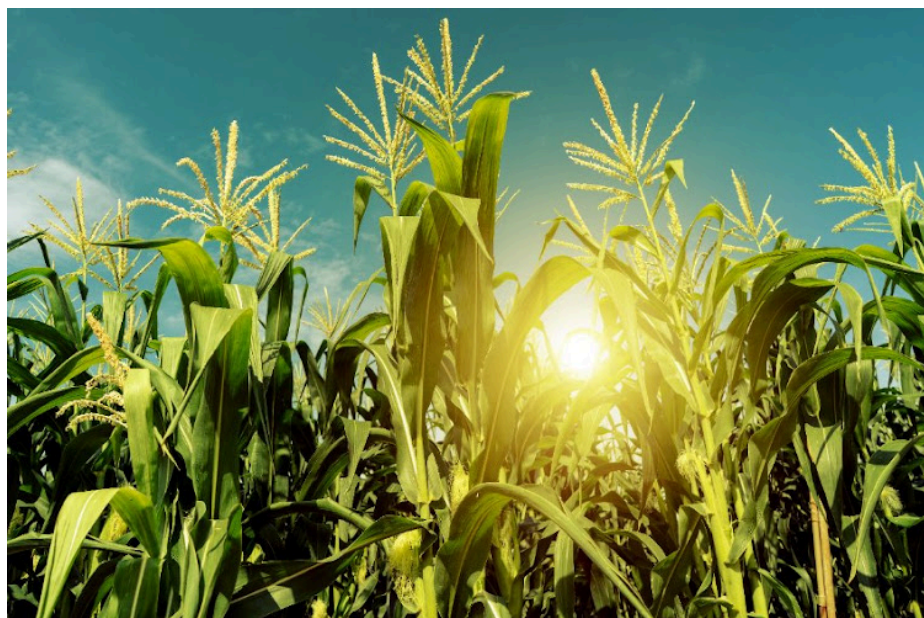
NEVA MAKGETLA: SA's commodity dependency contributes to inequalities

We need to find ways to diversify the economy in terms of production and to create opportunities

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For the past 30 years the mining chain has contributed 60% of all SA exports, and agricultural products another 10%. That commodity dependency has largely defined overall growth, while shoring up the profound inequalities entrenched under apartheid. Yet often economic policies in effect ignore it.

Internationally, commodity dependency — especially on mining products — is generally considered a mixed blessing. The standard criticism is that it leaves countries vulnerable to extreme global price swings. For instance, the dollar price of coal climbed sixfold from 2020 to 2022, then plummeted below its 2020 level in early 2023. That is an exaggerated version of the rollercoaster mineral and some food prices have seen since the start of the Covid-19 pandemic, after a decade of stagnation.

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Commodity exports form SA's main link to the world economy, so their ups and downs largely define our economic fortunes. From 1995 to 2003 world mining prices were almost flat, and GDP growth averaged 3% a year. From 2003 to 2011 the prices of SA's main mining exports — platinum, iron ore, coal and gold — jumped more than 20% a year in dollar terms, and the economy expanded just more than 5% annually. This brought the most sustained growth over the past half-century. Then, from 2011 to 2019 world mining prices dropped more than 5% annually, and GDP growth fell to half a percent a year, lagging behind the population.

As these figures show, SA is in a classic abusive relationship with world commodity markets. When global metals price soar, things look really good. When they fall again, both businesses and government policy look anxiously for other economic opportunities. But then they pick up, and efforts at diversification lose their allure. Even public investment has chased metal prices over the past 30 years, though it is supposed to be countercyclical. In constant rand it climbed 4% a year in the late 1990s; escalated 11% annually during the boom from 2003 to 2011; then shrank 4% a year through 2020 as mining prices fell.

It is easy to downplay the importance of the mining and agricultural value chains because they contribute only about a fifth of GDP. Moreover, according to Quantec estimates their share in formal employment has dropped from 25% in 1995 to 15% through the 2010s. Job shedding mostly resulted from the consolidation of commercial farms, which led to mass evictions of farmworkers. In addition, downsizing in gold cut mining jobs — except for platinum the other mines are mostly open-pit, which requires relatively few employees.

More broadly, the commodity sectors tend to perpetuate SA's deep inequalities. Both agriculture and mining are highly concentrated, largely thanks to the dispossession of African farmers over the past 200 years. About 30,000 commercial farms account for virtually all agriculture. A handful of conglomerates control the largest of the 400 mines registered for iron ore, coal, platinum and gold.

Returns from mining and agriculture are particularly unequal in functional terms. Since 1995 the share of remuneration in value added in agriculture, which employs one in 10 formal workers, has fluctuated at about 40%. The remainder goes to owners and investors. The figures are similar for metal refineries and slightly higher in mining. In the rest of the economy, in most years compensation accounts for more than 55% of value added.

It is easy to describe the problems with commodity dependency. The challenge is to find ways to diversify the

economy, not only in terms of production but also in ways that generate opportunities for the majority of South Africans. That requires more innovative thinking about what kinds of products and producers to support. It also means accepting far-reaching disruption to both public and private systems such as infrastructure, finance and licencing, which have long been designed to prioritise the needs of mining and commercial agriculture.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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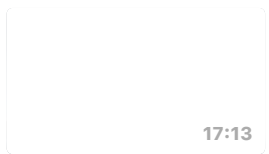


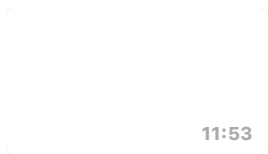






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