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It is time to take an objective view of the role of mining

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Picture: ARDBEL

SOUTH Africa has to do much better than its present love-hate relationship with the mining industry. We value mining for giving employment to half a million workers. We need it for contributing half the value of our exports and for bringing in much needed foreign investment. However, then comes Marikana, and we are reminded of mining's use of cheap migrant labour, of the awful conditions in which mineworkers work and live and the role of the industry in perpetuating our dual society of affluence and poverty.

In part, mining's bad image is due to the powerful presence of the Chamber of Mines in the early years of South Africa's industrialisation, when it was feared by the government and labour alike. In part, it is due to the aloof posture of its leaders and the persistent claim that it is a stand-alone player in the economy and polity with a special status as the backbone of the economy. The industry has been seen as an enclave in the political economy of the country requiring special consideration. Even now, the government relies on mineral exports to save us from a deteriorating current account deficit.

It is time to take a more objective view of the role of mining in our economy and society. True, mining's contribution to gross domestic product (GDP) has been falling steadily, contributing only 8.6% to GDP last year.

But it remains a huge factor in the economy and therefore society, providing 500,000 jobs directly, R407bn in local expenditures, 50% to export earnings — contributing 10% indirectly to GDP and 20% of direct and indirect investment.

So what is the actual place of mining in our economy? New data released by the Industrial Development Corporation (IDC) show that 80% of mining inputs are sourced within South Africa. This means that there is a long supply chain of goods and services reaching deep into the rest of the economy making a total impact of R536bn and 1.35-million jobs.

Further, sales to domestic industry rose from R120bn in 1992 to R319bn last year, with the rest of the output exported. So the mining industry is actually fairly integrated into the rest of the economy. If it were to collapse, the effect would be devastating.

There are serious deficiencies, however, as is revealed if one looks at the whole value chain, from exploration, to extraction, processing, beneficiation, fabrication and marketing, with a rupture between processing and beneficiation.

The Chamber of Mines has argued that "mining companies should be given the space to do and excel in what they are good at — mining" and that there is a clear distinction and separation between "mining/refining beneficiation" and "manufacturing beneficiation". So, for many reasons, mining has to a certain extent seen itself as a stand-alone industry resisting outside interference, especially from the government, but also from manufacturing industry.

This stance is illustrated by the decline in local supply of machinery and equipment from 16% in 1992 to 9% last year in favour of imports, which means that an essential link in the supply chain is missing.

Another negative feature is that the chamber insists that our minerals should be sold in the local market "at world prices", in effect at import parity prices, which means that a local manufacturer pays the same price for inputs as a factory in Japan, even though the mineral is produced down the road.

This extraordinary demand is the opposite of what China does, which is to subsidise raw material inputs required by manufacturing, thus reducing the cost of the final product.

Our national interest requires that we build a flourishing manufacturing sector, and that means taking advantage of our comparative advantage in being the best-endowed with minerals in the world, in many instances having almost a monopoly of supply of the best quality minerals on earth. Only then will our factories have a competitive advantage in domestic and world markets. This approach will improve our balance of trade better than exporting ever more of a depleting pool of minerals.

That this is doable emerged at two recent conferences organised by the IDC, the United Nations Economic Commission for Africa and the Institute for African Alternatives. The first conference, titled Experts Consultation on Beneficiation, focused on downstream prospects from mining. The second conference, The Interface Between Mining and Manufacturing, examined the whole value chain from extraction to marketing.

What emerged from presentations by some of our largest companies is that behind all the smokescreen of separation of mining from manufacturing there is actually a considerable amount of integration. The largest manganese mining company in the world has built the largest smelter in the world and sells 25% of its product within the country; the rest is exported worldwide. Another smaller chrome mining company has completed the value chain by using three factories within the country by introducing advanced chemical technology and feeding the local market.

We were briefed by a large engineering firm, which manufactures large trucks for the world market using labour intensive methods, and a considerable amount of locally produced inputs, some of which originate in the mining industry. This company is highly competitive in world markets, beating similar products from East Asia and other regions.

It became clear at these meetings that there are in principle no obstacles preventing far more integration between mining and manufacturing and thus advancing our industrialisation rapidly. We have the technology, excellent engineers, metallurgists and chemists, and the know-how built up over decades of industrial development. We even have an important local market as a base for infant industries, which with initial protection and support could then grow to become exporters. And we have the benefit of a large potential market across Africa, which will move without us if we don't take care.

Of course, we shall have to take skills development far more seriously throughout the education system, and promote the values of an advanced industrial society, where producing goods has higher social status than consuming luxuries.

Above all, the government must come to the party by fixing the railways and ports, increasing energy supply, reducing red tape and regulatory obstacles, controlling corruption and implementing agreed procurement and other policies. These appear to be the main constraints.

We must realise that this vision of further industrialisation is now common currency in the rest of Africa. Given that vast resources of gas, oil and minerals have now been discovered in East Africa and elsewhere, Africa's governments and major institutions such as the African Development Bank, Economic Commission for Africa and African Union Commission, are reviewing the exportation of minerals, oil, coffee, cacao, cotton, timber and other natural resources in raw form in exchange for finished goods, whereby Africa loses on both exports and imports.

If the rest of Africa is examining how to make the most of its commodities, surely South Africa cannot neglect to do the same. And we have so much more in natural, technological and human resources. All we need is a change of mind-set and the will to co-operate across all sectors of the economy to make a big advance in our economy.

• *Turok, MP, was one of the conveners of the conferences at the IDC and is publishing the papers in the next issue of New Agenda, SA Journal of Social and Economic Policy.*