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The forgotten resource curse: South Africa's poor experience with mineral extraction

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ABSTRACT

Studies of the resource curse as it affects African states abound, yet few deal specifically with the experiences of South Africa. The inability of countries to convert natural resource wealth into income and improved development measures remains highly pertinent and is especially apparent in Africa's largest economy. This paper takes a unique approach to study the resource curse by comparing South Africa's political economy with the existing resource curse literature. Using data from international organisations, studies of poverty and qualitative evidence this paper examines South Africa's experience with mineral extraction. It is found that South Africa has experienced many of the symptoms outlined in the resource curse literature including relatively slow GDP growth, gross inequalities, entrenched poverty and the creation of a rentier state. Overall, it is concluded that South Africa has failed to benefit from natural resource wealth and can be classified as a resource cursed state. Not only has mineral wealth failed to benefit much of South Africa's population, sections of society have actually been harmed through the process of mineral extraction. This paper is the first to examine South Africa in light of the current resource curse literature and to conclude that the state far more closely resembles its sub-Saharan African neighbours than its upper-middle income peers.

Introduction

The paradoxical outcome, by which it is argued that natural resource wealth is in fact a curse, not a blessing, is known in the literature as the resource curse (Auty, 1993; Sachs and Warner, 1995). Discussions of this paradox usually focus on the poorest countries in the world, where despite decades of mineral extraction or oil drilling, there exists entrenched poverty. While elites are able to capture the benefits of this wealth, those who make up the remainder of the population are negatively affected by the presence of natural resources. The resource curse literature has been widely applied to sub-Saharan Africa, where this phenomenon is highly evident in countries such as Chad, Nigeria, Angola and the Democratic Republic of Congo (see Le Billon, 2001; Pegg, 2009; Sala-i-Martin and Subramanian, 2003; Shaxson, 2005). Conversely many middle income and upper income countries, such as Australia and Canada, appear to have escaped this curse as a mineral wealth has provided sound welfare systems, infrastructure and economic growth for most in society.

Studies of the resource curse as it affects African states abound, yet none deal specifically with the experiences of South Africa. Nor does the country appear in the studies of countries seen to have "escaped" the curse – principally Botswana (see Auty, 2001; Pegg, 2010; Poteete, 2009). Instead South Africa is often simply ignored. This paper argues that the experience of natural resource extraction in South Africa resembles that of its sub-Saharan neighbours with mineral wealth having failed significant parts of the country's population. Specifically, the gross inequalities that remain in South African society have left a large portion of the population, mainly characterised by race and geographical location, significantly worse off (Leibbrandt et al., 2010). Descriptions that rely on South Africa's upper-middle income status and industrialised economy are far too narrow to classify the country as having avoided negative outcomes from mineral extraction.

The unique political economy of South Africa, as outlined by Seekings and Nattrass (2002), has led to worsening inequality post-Apartheid and an entrenched working class whose interests are best served through policy that fails to absorb the vast numbers of unemployed. Seekings and Nattrass (2002) highlight the structural power of the working class, trade unions and firms, who combined have contributed to government policy which creates a gap between labour market insiders and outsiders. For these authors, post-Apartheid South Africa has been characterised by opportunities for skilled workers and disadvantage for the unskilled or unemployed.

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This paper argues that according to the most basic definition of the resource curse, South Africa should be the focus of case study research into the resource curse. Furthermore, examining more nuanced definitions, and cited symptoms, there is little doubt that South Africa can be classified as a resource cursed country. The country's economic performance lags behind its non-resource rich peers and while GDP per capita is in line with other middle-income countries its growth has been slower. Additionally, measures such as economic wealth per capita mask the vast and well-documented inequalities facing South African society (Leibbrandt et al., 2010). Even with minor gains in GDP growth, poverty appears stubbornly entrenched. Finally, the negative socio-political effects of resource endowment noted in the literature remain prevalent in South Africa, including; corruption, a loss of natural capital, disaffection in mining communities, mine-related violence and the increasing application of military expenditure to the control of domestic law and order.

Utilising a framework based on the existing resource curse literature and the political economy model presented by Seekings and Nattrass (2002), this paper tests the experiences of South Africa against measures and symptoms said to be indicative of the resource curse. It is found that in many aspects South Africa suffers from the same symptoms as other resource cursed states across the continent. Principally, the majority of the country's citizens are not benefiting from South Africa's mineral riches and in some cases are even harmed through the extraction process. Consequently, this paper makes the case that South Africa does indeed suffer from the resource curse as it is defined in the literature.

Defining the resource curse

Juan Pablo Pérez Alfonso, co-founder of OPEC and the former Venezuelan minister for Mines and Minerals, expressed frustration at the paradoxical outcomes his country experienced with oil extraction, labelling it "the devil's excrement" (Karl, 1997). His counter-intuitive description of Venezuela's experience with natural resource extraction reflects the raft of problems faced by resource rich countries – known as the resource curse.

The term "resource curse" has gained popular acceptance since the publication of Richard Auty's work, *Sustaining Development in Mineral Economies*: *The Resource Curse Thesis* (Auty, 1993). While Auty was the first author to explicitly name this counter-intuitive outcome, Gelb (1988) had previously noted that oil windfalls led to sub-optimal outcomes in developing states. The term is now used widely, both inside and outside of academia and although the prevalence of the resource curse is hotly debated, a common definition can be located. Using a combination of the two key authors, Auty (1993) and Sachs and Warner (1995), the resource curse can be defined as the paradox by which mineral-rich states fail to keep pace, economically, with their non-mineral-rich peers. Of the advocates of the existence of the resource curse, Sachs and Warner are perhaps the most ardent. Their seminal 1995 study, which included 97 countries, showed that over a period of 19 years countries they defined as "mineral rich" saw slow economic growth relative to their non-mineral rich peers.

Other authors have since built on this definition suggesting that lower economic growth leads to sub-optimal outcomes for the citizens of mineral rich states, particularly in the provision of health care and education and access to essential services. In studies since, a number of additional symptoms of the resource curse have been highlighted. Leite and Weidmann (1999) attributed lagging economic growth to the increased prevalence of corruption in mineral rich states. Later work by Auty (2001) expanded on his original research to suggest that the resource curse could be seen in per capita incomes, which grew 2–3 times greater between 1960 and 1990 in non-mineral rich countries. Collier and Hoeffler (2004) argue that in countries where primary commodities make up more than 33 per cent of total exports there is a greater chance of civil conflict occurring. Humphreys (2005) suggests that in mineral rich countries military-spend is between 2 and 10 times that of non-mineral rich countries, even in the absence of conflict. All of these authors contribute to a more nuanced understanding of what constitutes a "resource cursed" state. Lower economic growth, more prevalent corruption, a lack of social services and the increased likelihood of violence are endemic of the paradoxical outcomes associated with natural resources.

The resource curse operates through several economic and socio-political channels. The discovery of minerals and the resulting influx of hard currency often leads to Dutch Disease. Dutch Disease is defined as an increase in the value of mineral exports leading to an appreciation in the real exchange rate through the inflow of foreign currency, making non-mineral exports uncompetitive and locally produced goods expensive relative to imports. The effects are worsened by a shift in labour and capital away from traditional sectors of manufacturing and agriculture to the more lucrative mining sector. It is through this shift that important positive externalities such as learning-by-doing and technology spillovers from manufacturing are also lost (Wick and Bulte, 2009). In addition, the economies of mineral-rich states are forced to deal with significant volatility in government revenues and balance of payment issues that can make budgeting difficult (Shaxson, 2005). Lastly, the presence of mineral rents is said to lead to the creation of rentier states, where there are increased opportunities for corruption, myopic spending, weakening of institutions aimed at ensuring checks and balances and even the increased likelihood of civil conflict.

It should be noted, however, that the resource curse scholarship remains deeply contested, with scholars questioning the deterministic nature of these paradoxical outcomes. Using development indicators rather than GDP to examine the impacts of mining, Davis (1995) suggests the resource curse may be an exception rather than the rule. Eggert (2001) agrees that the resource curse is not deterministic and instead depends on the management of resources in a given country. Sala-i-Martin and Subramanian (2003) analysis of Nigeria's experience with oil suggests that the resource curse operates through poor quality institutions, if this mechanism is rectified, they argue the resource curse ceases to exist. While the debate centres on whether or not the resource curse is deterministic, or whether it exists at all times in all places, this paper takes the view shared by Rosser (2006, p. 7) that natural resource abundance "increases the likelihood that countries will experience negative economic, political and social outcomes". Rosser (2006, p. 7) notes that this view is now "widely accepted by researchers and officials at the major international financial institutions". Further, countries rich in minerals or oil are likely to experience some or all of the outcomes associated with the resource curse. Gelb's revised thesis, which suggests that the resource curse is not deterministic, but rather a "strong recurrent tendency", lends support to this approach (Gelb and Grasmann, 2008, p. 88). Based on this definition of the resource curse, this paper will argues that South Africa has clearly not benefited from mineral extraction in the same manner that Australia, Canada or even Botswana have. Embracing Stiglitz's (2007) suggestion, that resource rich states are often "rich countries with poor people" we edge closer to defining South Africa as resource cursed. In cases, such as South Africa, closer attention needs to be paid to the negative outcomes from resource extraction as they affect particular groups in.

Where is South Africa in the existing literature?

Studies of resource cursed states often refer to the vast number of sub-Saharan African states considered to be suffering negative