Mineral-rich developing countries need to rethink trade with China

China's recent economic slowdown has highlighted the need for South Africa and other mineral-rich developing countries, with close economic links to the Asian country, to reassess their trade policies to provide a buffer against fluctuating commodity demand.

Peaceful Mathebula (left) and Tomi Oshokoya (right) receive certificates for their presentation from Professor DK Banwet (middle) in Thailand

“The ‘less’ stringent trade terms and conditions, as well as infrastructural development offered by China, have been hailed as the answer to the key economic challenges of many mineral-rich developing countries,” said Wits University School of Mining Engineering postgraduate student, Peaceful Mathebula, and lecturer, Tomi Oshokoya, in their award-winning paper delivered at the University of Engineering Management congress on disruptive technology and innovation in Bangkok, Thailand recently

However, with lower mineral and metal product exports to China, countries like South Africa have seen a decline in key economic indicators like GDP growth and employment rates.

Lessons to be learned

“As mineral commodity trade relations between developing states and China continue to grow, it is imperative to use this relationship more advantageously – as a platform for the exchange of information and strategies to increase opportunities for all partners,” they said.

It is clear that over the past two decades, many mineral-rich developing countries have become increasingly dependent on the fast-growing economy of China – which averaged a growth rate of about 10%. As a result, the mineral and metal exports of these mineral-rich developing countries have risen sharply as a percentage of GDP, according to the International Monetary Fund. China is currently South Africa's largest trading partner.

Mathebula and Oshokoya pointed out that many mineral-rich developing countries lack the physical infrastructure and institutional frameworks necessary to fully leverage the benefits of growth spill-overs resulting from trade with China. They argued that there are lessons to be learned from China itself in this regard.

Expanding other sectors

For example, part of China's recent economic success is built on its culture of savings and investment in long-term efforts like promoting the manufacturing sector, increasing labour productivity and prioritising technological innovation – especially during buoyant economic times.

"Another key economic driver is China's impressive strategy on research and development expenditure, which is estimated to account for 15% of the world's total spending on R&D," they said. While China currently spends about 2% of its GDP on R&D, the comparable figure for South Africa is about 0,7%.

They recommended that developing countries should use these trade relations with China to expand their knowledge on how to develop other sectors of their economies – including agriculture, industry and science and technology. Beyond trade policy, the authors noted that it was important to also use industrial and minerals policies to steer away from being excessively dependent on minerals and other products with fluctuating global prices.

"New policy directions can provide buffers that will help the economies of mineral-rich developing countries to handle unexpected global economic changes, as well as the aggressive nature of China's approach to her trading partners, in preparation for an another cycle of China's economic advancement," they said.