

NEVA MAKGETLA: SA's mixed fortunes with the global steel value chain

The growing reliance on exports of steel-related products has done little to promote inclusive growth

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A man loads steel at a port. Picture: REUTERS

In the past 20 years SA has developed a new dependency on exports of commodities used in steel production. It showcases the adaptability of SA mining, but also the costs of banking heavily on mineral exports. While bringing in critical export revenues in the short run, it has ultimately contributed to SA's profound inequality and vulnerability to cycles and structural changes in the world economy.

From 2003 to 2013 sales of steel inputs — iron, manganese and chrome ore, plus ferrous alloys — to China rose from 1% to 10% of SA exports. After world commodity prices crashed in 2011 revenues from these products fell sharply. In constant terms exports of steel inputs peaked at \$12bn in 2011, then fell to \$6bn in 2015 before recovering to \$8bn in 2019. Through the 2010s they fluctuated at 7%-10% of SA's total export revenues.

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More recently, the pandemic and the Russian invasion of Ukraine brought a series of speculative price spikes. In early 2021 iron ore prices rose to more than twice 2015 levels, but had fallen about 20% by mid-2022. SA's revenues from exports of steel inputs climbed to \$9bn in 2021, but are likely to fall again in 2022.

SA's increasing reliance on exports of steel-related products has done little to directly promote inclusive growth. A handful of mines, mostly foreign-owned, account for the bulk of production. Taken together, iron, manganese and chrome ore production employs only about 55,000 workers, mostly in open-pit mines. That is just a tenth of SA miners and 0.4% of all jobs.

The mines rely heavily on dedicated Transnet lines to get products to the coast, with almost no domestic processing. Only about 10% of SA's iron ore is refined locally.

Production of steel inputs has also generated a hugely lopsided dependence on China. In 2002 China accounted for about 20% of SA's overseas sales of steel inputs; in 2010 it was 60%; a decade later more than 70%. Steel inputs climbed from less than half of SA's total exports to China in the early 2000s to three quarters in the late 2010s.

A tenth of SA's total exports go directly to China, almost exclusively raw materials, but that accounts for under 0.5% of China's total imports. For steel inputs alone SA exports rose from less than 5% of China's total imports in the early 2000s to about 7% after 2015, then dropped back to 4% in 2021.

The dependence on China reflected the extraordinary growth of steel production there over the past two decades. China's share in world steel escalated from 5% in the early 2000s to more than 50% today. As a result, imports of ferrous ores and alloys climbed from 1% of its total foreign purchases in the early 2000s to 8% in 2021.

The profound restructuring of global economic relationships now under way threatens this relationship. China reported that its growth rate gradually halved in the 2010s. In response, it relied more on debt to drive growth through investments in infrastructure and housing.

Since 2020 it has seen sharp fluctuations in growth combined with rising financial fragility, while key trading partners in the global north have imposed new restrictions on its exports and on hi-tech imports. These developments inevitably affect Chinese demand for steel inputs and other commodities, and by extension SA exports.

In short, revenues from exports of steel inputs have been vital to SA trade in the past 20 years. But the price has been high, as SA has seen slower growth and higher inequality than peer economies. To ensure more sustainable benefits, the rents from SA's mineral exports have to be directed far more consistently to diversify the economy, find new export products and markets, strengthen investment in human capital, and open new opportunities on a mass scale for working-class South Africans.

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