

KOBUS VERSTER: SA steel industry vital to local re-industrialisation

The re-industrialisation of SA's economy must be a policy priority regardless of the composition of the new government. All parties to the negotiations to form a government of national unity (GNU) claim to be acting in the national interest, and a persuasive case can be made that re-industrialisation is in the national interest.

Moreover, the election manifestos of the parties negotiating for a seat in the government all commit to promoting SA industry, so this should be an uncontroversial area of consensus. Yet the new government faces a monumental task.

SA has undergone rapid de-industrialisation, with manufacturing declining from a peak of about 24% of GDP to about 12% today. It will take unprecedented political commitment, policy clarity and single-minded determination among all stakeholders to turn around what is an increasingly dire situation.

De-industrialisation is a global phenomenon regarded as a success by some highly advanced economies seeking to transition to a services- and technology-based economy and leave heavy industry behind. It means the reduction of industrial and manufacturing capacity as a percentage of national GDP. For advanced economies, this a deliberate and planned process, but in the case of SA premature de-industrialisation has been driven by policy failure.

In essence, premature de-industrialisation means middle-income countries such as SA lose or give up manufacturing capacity sooner than their industrialised counterparts and at a lower level of per capita income. This transitioning to a lower-level service economy results in the loss not only of manufacturing as a key economic driver, but a host of other consequences such as skills erosion, loss of valuable technical know-how, increased import dependence, strategic vulnerability and an adverse balance of payments.

Multiple factors have driven local premature de-industrialisation, such as the electricity crisis, decaying infrastructure, ideological national planning, uncoordinated policy and poor implementation. The country's education system is failing to produce anything like the number and quality of appropriate skills required by industry. Rampant corruption and state capture have contributed to the country's premature de-industrialisation by collapsing local and international investor confidence, particularly in fixed capital formation.

What is to be done? Key to the re-industrialisation of the local economy is the sustainability of the local steel industry ("[Headwinds relegate ArcelorMittal SA to penny stock](#)", June 12). The sustainability of the local steel industry is entirely consistent with and supportive of the 2030 National Development Plan as well as successive industrial policy action plans and the more recent infrastructure investment plans.

More specifically, the SA primary steel industry enjoys a value chain that stretches all the way from mining through to the manufacture of some of the world's most sophisticated motor vehicles. Not only are steel's backward and forwarded linkages unmatched, it also underpins the local agriculture, mining, transport and construction sectors. Collectively, these sectors account for about 33.5% of nominal GDP and almost a third of all formal employment.

Beyond the direct contribution to the economy and industrial base, the primary steel sector plays a vital role in the local socioeconomic and enterprise development of the

areas in which it operates, including delivering impactful corporate social responsibility programmes. Contrary to the catastrophic national trend of skills loss that tethers economic growth, the primary steel industry continues to invest in technical education, artisan training and skills development, thereby cultivating and empowering a new generation of appropriately qualified young individuals.

Beyond our borders, the SA steel industry has huge potential to drive industrialisation, economic growth and development in the Southern African Development Community and Southern Africa region more broadly, enhance regional value chains and deepen integration.

Moreover, local re-industrialisation is entirely consistent with SA joining the fourth industrial revolution (4IR). Traditional heavy industries such as primary steel manufacture can and do benefit from the technological innovations that define the 4IR. The adoption of 4IR technology enables steel to be manufactured more efficiently and sustainably across its extensive value chain. Indeed, local primary steel manufacturers already make use of fifth industrial revolution innovations through the application of artificial intelligence in the planning, manufacturing and distribution process.

Similarly, sustaining and growing SA's steel industry is not at variance with the country's ambitions to transition to a greener economy. Both can be achieved under the right economic, industrial, fiscal and developmental policy configuration. But to do so will require not only political commitment but the authentic inclusion of industry in policy conceptualisation.

It is achieving this sweet spot between re-industrialisation and sustainability that the new government should be seized with. After all, this is in the national interest.

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