

NEVA MAKGETLA: Expansion of Ukraine war will undermine SA's economy

Direct trade with Russia and Ukraine is small, but global prices of petroleum, fertiliser and wheat are rising

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A police officer guards an area around a house destroyed by shelling as Russia's attack on Ukraine continues, in Kyiv, Ukraine March 14 2022. Picture: REUTERS/GLEB GARANICH

Only three weeks on, Russia's brutal invasion of Ukraine has profoundly affected the global economy, which was already upended by Covid-19. SA has little direct trade with Russia or Ukraine, so the immediate effects arise from disruption of global markets. Unless Russia withdraws soon, however, the war could cause a global slowdown, reversing the recovery from the pandemic.

Trade with Russia and Ukraine accounted for less than 1% of SA's total imports and 0.5% of exports in 2020. Copper cable comprised a third of imports from Russia, with wheat, petroleum and fertilisers making up most of the remainder. SA accounted for 0.16% of Russian exports, but 3% of its exports of copper cables. SA imports from Ukraine were even smaller, consisting principally of wheat and other agricultural products and contributing less than 0.1% of Ukrainian exports. SA exported mostly horticultural products to the two countries, with mining equipment and minerals (mostly manganese to Russia and chrome to Ukraine) following at a distance.

While direct trade is small, Russia and Ukraine are important exporters of petroleum, fertiliser and wheat, with prices already rising internationally. Russia produces more than a tenth of world petroleum and fertiliser exports; with Ukraine, it supplies around a fifth of global wheat exports.

The war has already led to higher and much more volatile prices for oil, which is by far SA's largest single import. Petrol prices began rising as the global economy recovered from the pandemic, but the Russian attack accelerated their climb. The oil price escalated from \$50 a barrel in December 2021 to \$75 in December 2022. In consequence, oil jumped to 17% of SA's imports in December 2021 from 12% a year earlier. Then the invasion increased international oil prices by more than 50%, settling last week at almost \$110 a barrel.

Wheat and fertiliser are much smaller imports for SA, at only 2% of total foreign purchases, but they meet close to half of local demand. Strong price hikes in these products could push up food costs. That would deepen inequality, since food absorbs a third of spending for the poorest 30% of households; bread alone, about 4%.

For SA, a broader resurgence in world mining prices due to the war has partially offset the higher cost of oil. In the second half of 2021 prices slumped for three of SA's four main exports — platinum, iron ore and gold. From January, however, coal prices more than doubled, iron ore rose more than 50%, platinum 20% and gold 10% and more.

All of the price spikes on international commodity markets responded primarily to speculative pressures rather than actual economic developments. That makes it hard to gauge the implications for SA in the long run.

A further risk for SA arises from the possibility of a Russian default. That could lead

to higher interest rates for all emerging economies, including SA, which would further tighten the screws on government spending.

The war on Ukraine underscores both the increased volatility of global markets and the growing political-economic risks of relying on fossil fuels. Since the early 2000s international metals markets have tracked a broader asset bubble born from low interest rates and changing retirement mechanisms in the global north. In the same period, contestation over oil resources and petrostate aggression have been commonplace. This war both reflects and aggravates these tendencies and their risks for SA.

That said, for SA by far the biggest risk is that the war expands to Europe or blocks its gas supplies. The EU buys nearly 20% of SA's exports, far more than any other region. A hit to its economy will also affect China and the US, SA's other major trading partners.

Hopefully, Russia will stop the war soon. If it doesn't, the costs for SA will escalate — though they will still be small compared to the devastation and suffering in Ukraine.

- *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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