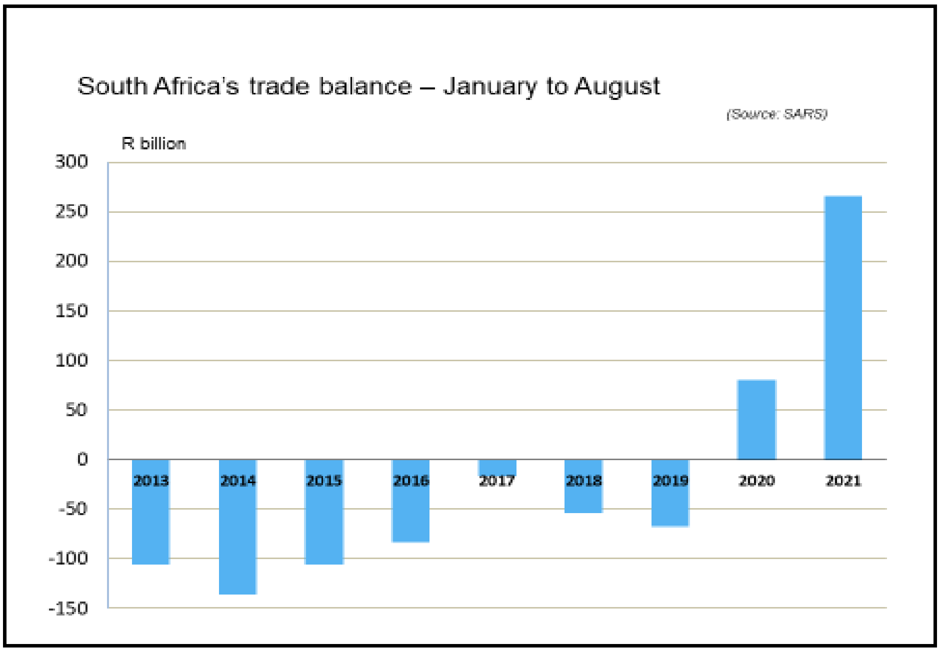
RECORD TRADE SURPLUS, BUT WILL IT LAST?

By Dr Roelof Botha, Joint Managing Director, GOPA Group SA (7 October 2021)

The impact on South Africa of the current upward phase of the commodity super-cycle (discussed in the *To the Point* of 22 July) has become even more relevant. This has been demonstrated in no uncertain terms by the latest trade data released by the SA Revenue Services, with the country's exports for the first eight months of the year rising to an unprecedented new level of R1.1-trillion – 43% higher than last year, which was also a new record.

In the process, South Africa's trade surplus swelled to R265-billion, a monthly average of more than R22-billion. The latter is a paradigm shift from the average monthly trade deficit of R6.8-billion that existed between 2013 and 2019.



All of this is, of course, good news for the economy. A strong balance of payments serves to defend a country's currency against undue depreciation and assists in keeping inflation in check.

Furthermore, mining companies have paid record dividends this year after making unheard of profits, whilst the tax bonanza associated with these profits has provided government with the funds to extend the payment of the Covid grant to around six million unemployed people.

Unfortunately, however, the current rosy scenario for the country's international trade will not last forever. Downswings are an uncomfortable reality of all commodity cycles and the next one may be around the corner. Once South Africa falls victim to persistent price weakness for its key commodity exports, the trade balance will inevitably swing back into deficit mode.

Undue reliance on mining exports

There are two dimensions to this potential problem. The first, and most obvious aspect is the country's undue reliance on exports of minerals and precious metals, which accounted for 56% of total exports between January and August. When base metals are added, this figure rises to 65%.

However grateful the country should be for the valuable contribution made by exports of higher value added products, especially processed food, chemicals and vehicles, it should be quite apparent that the only way to reduce the undue reliance on mining exports lies in the beneficiation of such products.

A second issue is the fact that the spectacular performance of mining since 2020 has been driven mainly by price. The first seven months of 2021 have witnessed an unprecedented rise in the value of South Africa's mineral sales, namely from R308-billion in 2020 (which was also a record) to almost R500-billion – an increase of more than 60%.

This masks the general inertia of the sector, which has mainly been caused by the refusal of the Department of Mineral Resources and Energy (DMRE) to accommodate the pragmatic and informed views of the Minerals Council, which acts on behalf of the mining companies.

There may be some light shining through the tunnel, however, as the Gauteng High Court recently put paid to some of the problematic provisions in the so-called "Zwane" Mining Charter, by declaring that the latter was not binding legislation, but rather an instrument of policy.

Commenting on the landmark judgment, the Minerals Council reiterated its full commitment to the transformational objects of the Mineral and Petroleum Resources Development Act (MPRDA), but also stated that certain provisions in the act were not conducive to long term investment and inclusive growth in the mining sector. These provisions have now been set aside, which will enhance legislative certainty and should stimulate much needed foreign and local investment into the mining industry at large.

The motivation behind the Minerals Council pursuing the matter in court, which lasted two years, was the conflict that existed between ideological and economic policy objectives contained in the Charter. In an earlier judgment, a court also found that the DMRE was obstructing the very goals of mining sector growth and development that it was supposed to facilitate.

Capital formation urgently required

A significant increase in capital formation is a prerequisite for the expansion of mining activity. The sector is unique in the sense that new mining investment is usually dependent on exploration, as well as research and development, which are costly and subject to a plethora of regulatory requirements. Policy certainty is therefore an important prerequisite for capital formation in mining.

The DMRE now has the opportunity to augment the favourable market conditions for mining by forging a partnership approach with the Minerals Council, in order to streamline the regulatory environment and incentivise new investment.

The first steps would be to refrain from appealing the High Court ruling and to prioritise pragmatism above ideological objectives.