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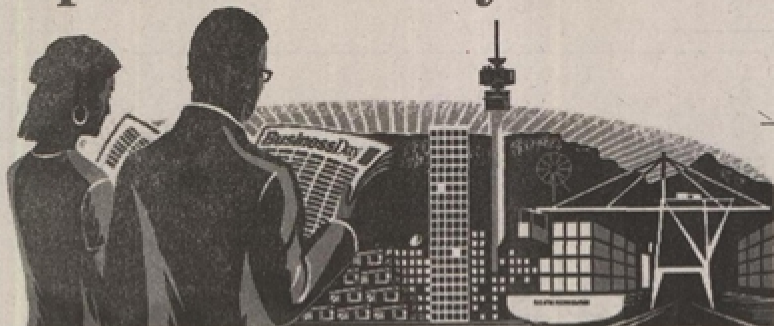
Opinion & Analysis



NEWS WORTH KNOWING SINCE MAY 1, 1985

Industrial fantasy we don't need here

THE Department of Trade and Industry (DTI) is nothing if not ambitious. Since 1994 it has been, through various ministers, trying to craft an imaginary economy out of the one it inherited, not least in the steel business where it is determined to create more affordable products for the local market.

Only through gritted teeth did some senior officials watch as former minister Alec Erwin let go of state-owned Iscor to the Mittals, the Indian steel family, and even then they managed to impose on the deal a cheap rate for iron ore.

That has evidently not worked to the DTI's satisfaction. With every steel price rise comes a cry of frustration from the DTI and, in its most recent form, that cry has become a search, the department told Parliament this week, for an international steel maker to establish itself in SA in competition to ArcelorMittal.

Good luck with that. Steel is a boom and bust business. The Chinese are closing plants and no one else is building. The world is awash with steel. Even if it wasn't, it is hard to make anything like a respectable business case for more capacity here, and quite unfair to lump the Industrial Development Corporation with having to help fund it.

Steel is a global commodity and it is ludicrous to treat it as a strategic product, worthy of special treatment and protection. If price is a real problem, the government could lower import tariffs to deal with it.

No one makes steel now as an import substitute. Nevertheless the bug has bitten the DTI. In the hope of finding a partner, it is studying the construction of an integrated (to make steel using blast furnaces and roll it) plant in Limpopo, and "minimills" (electricity-gulping plants that melt down and roll scrap iron) in Gauteng and the Eastern Cape.

This way, a steel price problem is met with job-creation projects in regions politically important to the African National Congress that could only be sustained by perpetual state subsidies. What a poor excuse for industrial policy.

As we have argued here before, the industrial policy cart is being put before the horse. Mining, our core industrial competency, is mired in politics and barely mentioned in either the DTI's Industrial Policy Action Plan or in the Department of Economic Development's New Growth Path. And even where mining projects are on the table, they are ideologically skewered.

For example, the government plans to build a rail link from the manganese fields around Hotazel in the Northern Cape to Coega in the Eastern Cape. At current prices it would cost about R900 to carry a ton of manganese to Coega and only about R450 a ton to carry it to Saldanha on what would be a flat and fairly straight line. But that isn't going to happen. Saldanha is in the Western Cape, a DA province.

And, anyway, without sufficient electricity a manganese smelter at either port would fail. It is, after all, electricity that will power industrial growth here first and foremost and as we speak the government is only now confirming it is beginning to lay down the "legislative foundations" for the construction of 9,6 gigawatts of nuclear power. Good grief! Even if we ordered the nuclear plants today, the first reactor (of six) would come on stream only in about 2023.

There is so little apparent sense of urgency that many believe Eskom will have to build a third, large, coal-fired power station, in addition to Kusile and Medupi (both under construction and behind schedule), as we will again run out of generating capacity in 2018, even with the two new stations up and running.

It is a good thing to dream of a new industrial future for SA. But it a) has to pay its own way and b) has to be grounded in reality. We are a mining economy. What industry we do have springs largely from that. We need more electricity to get more ore out of the ground and even more electricity to beneficiate it. The administration of President Jacob Zuma will continue to get nowhere if it continues to plan badly and waste time on fanciful plant and infrastructure we don't need.

No harm in being cautious

IS A bubble forming in the market for unsecured lending? Parliament's trade and industry portfolio committee seems to think so, or is at least concerned enough that this could be the case to have organised a special hearing in May so the National Credit Regulator and the Banking Association of SA can make their respective cases.

The newly appointed registrar of banks, Rene van Wyk, set off alarm bells last week when he revealed that the regulator was investigating the pace and causes of the rapid growth of unsecured lending in SA, which banks are doing the lending, and whether the borrowing is being used for consumption or capital spending. On the face of it there seems more than enough justification for his disquiet: the total value of unsecured loans had risen by more than half to over R100bn by the third quarter of last year compared with a year earlier, with unsecured lending representing more than 21% of all new credit compared with less than 8% in December 2007.

It is common cause that SA's big four banks — Standard, Absa, FNB and Nedbank — are the main drivers of the recent growth, having seen Capitec and African Bank in particular leverage that market as part of their spectacular rise.

They are also seeking to replace revenue traditionally generated by the moribund property mortgage market.

But the fact that the mainstream banks are making more unsecured loans doesn't necessarily mean SA is headed for a repeat of the microlending debacle of the early 2000s, when Unifer and Saambou were sunk by an orgy of reckless lending.

The banks insist they are complying with the demands of the National Credit Act, which places the onus on the lender to ensure borrowers are not overindebted, and available figures provide no sign of a rise in nonperforming loans in this market segment. Unsecured loans also remain a tiny portion of banks' total books, so there is no systemic risk should it all go pear-shaped.

Still, as the 2008 banking crisis showed, a little caution can go a long way in such matters, especially in a global economic environment that remains volatile and where a consensus is emerging that the bias on domestic interest rates is towards the upside.