South Africa

South Africa's flirtation with Moscow risks billions of dollars in US

exports

Diplomatic crisis over alleged arms shipments to Russia threatens Pretoria's prized tariff-free trade access

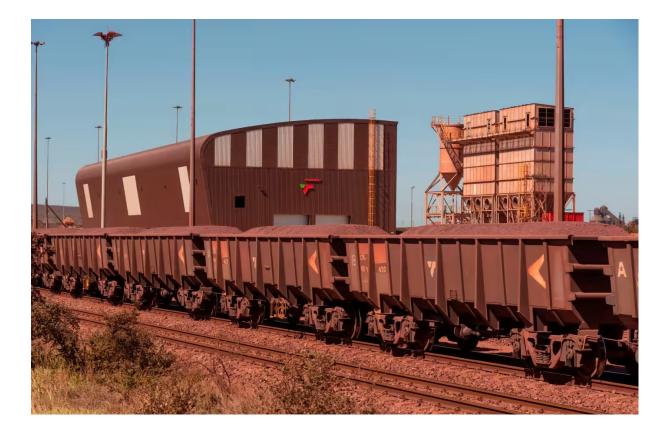
Joseph Cotterill in Johannesburg 10 HOURS AGO

More than \$15bn worth of exports that sustain a critical part of South Africa's manufacturing industry is on the line as Pretoria battles the fallout from a US accusation that it covertly supplied arms to Russia.

President Cyril Ramaphosa insisted this week that South Africa has not been "drawn into a contest between global powers" as he promised an inquiry into fresh claims that <u>arms had been placed</u> on to a sanctioned Russian vessel at a Cape Town naval base last year.

But a sharp sell-off in South Africa's currency and government bonds over the country's most serious foreign policy crisis in years has pointed to the lopsided economic stakes for a country that on average sent less than 1 per cent of its exports to Russia over the past five years.

Even as Ramaphosa's ruling African National Congress attacked the US for encroaching on its sovereignty, South African businesses were sounding the alarm over the country's prized participation in the African Growth and Opportunity Act, a US law that grants duty-free terms to specific nations.



Railway wagons carrying iron ore for export at Saldanha Bay © Peter Titmuss/UCG/Universal Images Group via Getty Images

"The prospect of a loss of tariff-free access to US markets . . . is now a very real risk," said Business Leadership South Africa, an industry group. "When our current eligibility is reviewed, we should expect that South Africa could fail the access test of not threatening US national security interests." South Africa exported more than \$15bn worth of goods to the US in 2021, according to the US commerce department.

While analysts do not expect South Africa to be immediately ejected from Agoa, Pretoria's future participation in a deal that is up for renewal in 2025 was already in doubt. "South Africa technically does not qualify because it's an upper middle-income country, so the US made a special exemption," said Thabi Leoka, a South African economist.

Agoa is vital to sustaining South Africa's carmakers and the industries surrounding them, from ports to parts suppliers. More than four-fifths of the vehicles made for export in South Africa go to Europe or the US.

Although China has surpassed the US as South Africa's overall biggest trade partner, Chinese imports largely reflect demand for commodities such as chrome or iron ore, rather than more sophisticated wares that leave more value in the South African economy.

And yet <u>South Africa</u> has allowed US discontent to simmer for months, not just over whether the country's official non-alignment in the Ukraine war has concealed covert aid to Russia, but also a lack of co-operation on anti-terrorism efforts, to the ANC going cold on US offers of financing a green transition.

"The arms issue is just one example of a much deeper dissatisfaction in Washington DC with South Africa," said Peter Attard Montalto, head of capital markets at Intellidex, the South African research firm.

If the Kremlin has been toasting these tensions, it is unlikely to have been with South African sauvignon blanc.

Only 0.2 per cent of South Africa's overall exports went to Russia last year, versus 9 per cent to the US, according to Wandile Sihlobo, chief economist at South Africa's Agricultural Business Chamber. Ten per cent went to China.

"Russia is one of the least important export markets for South Africa's total merchandise," Sihlobo said.

It is not just trade links at stake. Enoch Godongwana, South Africa's finance minister, has said that while he believed US sanctions on his country were unlikely, the financial flows that could be affected it they did impose curbs were "massive".

South Africa's reputation as a financial centre has already been knocked by its placement this year on an international "grey list" for falling behind on fighting financial crime.



Employees work on manufacturing a car at a Volkswagen plant in the country's Eastern Cape province © Michael Sheehan/picturealliance/dpa/AP Images

Yet there are few signs that these signals are being picked up inside the <u>ANC</u>, which showed its scepticism of US ties through an official resolution last year that accused Washington of provoking war in Ukraine.

South Africa's army chief visited Moscow this week even as the arms-to-Russia furore rumbled on, while an ANC delegation met with Vladimir Putin's United Russia party last month. Putin could yet visit South Africa while under indictment by the International Criminal Court for alleged war crimes, after an invitation from <u>Ramaphosa</u> to attend a Brics summit in August.

Some of this can be put down to the ANC's historic links to the Soviet Union, but the lack of any real economic interest stemming from the ties has led some to ask whether

the ANC is setting policy on the basis of Russian money influencing the party itself.

"There's evidence that the ANC is benefiting from its relationship with Russia from a financial perspective . . . but they're doing this at the cost of the economy," said Leoka, the South African economist.

In particular, Chancellor House, an ANC linked-company, has a stake in the consortium that owns mining group United Manganese of Kalahari with a company backed by Viktor Vekselberg, a Russian businessman who was sanctioned over what the US claims are close ties to Putin. Vekselberg denies wrongdoing. The company in which he has a stake owns 49 per cent of UMK, under the threshold at which sanctions would apply to the mine.

UMK gave R25mn (\$1.3mn) to the ANC in 2022, spread over two financial years, according to regulatory filings, of which R15mn was a donation in kind ahead of party elections in December. A cash shortage last year left the ANC struggling to pay staff salaries.

Analysts say the real prize for Russia from ties to the ANC would be access to resources deals and contracts. Former president Jacob Zuma sought to give a nuclear power tender to Russia's Rosatom worth tens of billions of dollars, before the South African courts thwarted it and Zuma was himself ousted in 2018.

"The promise of future rent extraction [in resource deals] is probably more important than current cash flow considerations," said Intellidex's Attard Montalto.

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