



# **SOUTH AFRICA'S ROLE IN BRICS: Implications and effects**

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## LIST OF ABBREVIATIONS

GDP – gross domestic product

PPP – purchasing power parity

SADC – Southern African Development Community

SDR – Special Drawing Rights

UNSC – United Nations Security Council

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# A NEW ERA IN TRADE?

In April, President Jacob Zuma joined his counterparts from Brazil, Russia, India and China for the third summit meeting of an informal group named after the initials of its members – and since known as Brics, signalling South Africa's membership.

The announcement, on December 23, 2010, by Minister of International Relations and Cooperation Maite Nkoana-Mashabane that South Africa had formerly been invited by the Minister of Foreign Affairs of the People's Republic of China, Yang Jiechi, to become a full member of Brics was received with surprise by many commentators, considering its relatively lightweight status.

Minister Yang said South Africa's induction into the Brics grouping would promote the development of the grouping and further enhance cooperation among emerging market economies. Nkoana-Mashabane welcomed the invitation, saying that it was in line with "the role of emerging economies in advancing the restructuring of the global political, economic and financial architecture into one that is more equitable, balanced and rests on the important pillar of multilateralism".

While membership of Brics was welcomed domestically and by other Brics members, there are a number of factors and implications for South Africa internally, as well as on the international stage. Issues that need to be analysed include how the partnership will affect the South African economy in terms of trade with member States and other more traditional trading partners, such as those that do not form part of Brics, for instance the US and the UK.

Having an African member in the grouping will have implications for the continent as a whole. The way in which the group perceives the role of South Africa is also important. Does Brics consider the country to be representative of the whole continent? Does South Africa see itself as being representative? And finally, how do other African countries perceive South Africa's inclusion into Brics?

The following elements are covered in this report:

- What is Brics?
- Does South Africa belong in Brics?
- Effect of Brics on other multilateral organisations
- Analysis of the Brics members



Source: Bloomberg

# WHAT IS BRICS?

A concept formulated by investment banker Jim O'Neill of Goldman Sachs in a prominent 2001 economic thesis entitled “The world needs better economic Brics”, O'Neill was referring to the economically related nations of Brazil, Russia, India and China. O'Neill predicted that these countries would become economic powerhouses; however, he had no idea how powerful and significant the Bric acronym would become.

In the paper he envisaged that over the next ten years, the weight of the Brics, and especially China, in world gross domestic product (GDP) would grow. Further, he argued that with the increase of these countries' economic standing, world policy-making forums should be reorganised to accommodate the emergence of Bric.

The controversial concept exploded within the financial world and made waves within the investment community, which prompted O'Neill to write a follow-up paper in 2003 called “Dreaming with Brics: The Path to 2050.” The paper advocated that by 2039 the Brics group could overtake the largest Western economies in scale.

The term Bric became popular with multinational corporations that were starting to turn to countries outside of the Western world, as well as looking to China as a manufacturing base. Further, the term Bric was politically correct as it was not patronising in the same sense as “the developing world” or “emerging markets”.

Following the coining of the acronym, the Bric countries formed a federation that has met every year since 2009, at which they discuss their roles in the global economy and their standing within existing multilateral organisations.

Although the Bric concept came under a considerable amount of scrutiny on the basis that it was too speculative and calculated economic growth based on the straight-line method, the term truly gained prominence after the global financial crisis in late 2008 and 2009. Most of the Bric countries emerged from the crisis relatively well, compared with their Western counterparts. Their banking system was intact and their economies were growing rapidly. This gave credence to O'Neill's 2050 projections.

## DOES SOUTH AFRICA BELONG IN BRICS?

Brics has the potential to morph into a political club. This is exemplified by the inclusion of South Africa as the fifth member, which appears to have been on political rather than strictly economic grounds. The inclusion of the African State has surprised many, not to mention O'Neill, who cites South Africa's economy of about \$527,5-billion, in GDP Purchasing Price Parity, as modest compared with the powerhouses of the original Bric members who account for roughly half of global economic growth.

Current productivity and population trends in the country also give no indication that South Africa is close to matching its Brics counterparts. In O'Neill's initial reports, several other large developing countries that had the potential to be much bigger economies in coming decades, such as that of South Africa, were excluded. In fact, one report specifically illustrated how unlikely it would be that South Africa could reach the size of any of the Bric countries despite its own potential. This mismatch with O'Neill's Bric economic standards begs the question as to why South Africa was invited to become a member.

Minister Nkoana-Mashabane argues that it is due to South Africa's strategic importance, and not its size, that South Africa has been admitted to the Brics bloc. South Africa has positioned itself as being the gateway to Africa through its relatively developed economy and democratic governing standards, thereby giving it strategic importance. It will be interesting to see how the rest of Africa responds to the self-applied title, especially by the continent's most prolifically populated country Nigeria.

The country has a population of 155-million people and has been described by Goldman Sachs as one of the countries that constitute the “Next 11” group, a phrase used to denote the 11 most populous countries in the emerging world after the Bric countries.

Therefore, if it is population that qualifies Bric membership, Nigeria would be the logical inclusion given that the bloc is looking to expand its presence through an African partner. Then why South Africa, may one ask? What is its appeal? Some speculate that it is South Africa's global political prominence, especially through the multilateral organisations in which it is involved – the nature of which is discussed here.

South Africa has fashioned itself as a champion for Africa on the international stage, and has also been elected to a nonpermanent seat on the United Nations Security Council (UNSC). Upon South Africa's induction to the body, Nkoana-Mashabane said that the country would push for the African agenda and commit to maintaining international peace and security during its term. Further, the Department of International Relations and Cooperation said the country was guided by the multilateral agenda in the advancement for Africa.

The inclusion of South Africa in the UNSC indicates the growing political prominence of the country on the global political stage. It also demonstrates its commitment and belief in multilateral principles and partnerships. However, the UNSC seat is not the only motivation for its admittance to Brics as other African countries, such as Nigeria and Gabon, are also currently nonpermanent members of the UNSC.

It is clear that Gabon has little in common with the Brics nations in terms of economic growth and population. Nigeria, however, is a different story, being the most populous country on the continent, with a steady growing economy superior to that of South Africa (Nigeria's economic growth rate as of the fourth quarter of 2010 was 6.8%, compared with South Africa's 4.4% growth rate). Using this comparison Nigeria is perhaps the more logical fit for the Brics countries?

Although O'Neill views Nigeria as having the most potential for economic growth, analysts see South Africa as more politically important and wielding more influence, particularly through its membership in the G20 – a bloc to which Nigeria has not been invited to be a

member, given the country's political situation, especially on critical governance issues, such as flawed elections and corruption.

Although both countries are involved in regional multilateral organisations, with South Africa operating in the Southern African Development Community (SADC) and Nigeria being a member of the Economic Community of West African States, South Africa may be viewed in a better light through its involvement with India and Brazil in the Ibsa bloc. With Brazil and India being Brics members, indications are that South Africa already has binding political and economic agreements with these countries that promote cooperation and goodwill between them.

## EFFECT OF BRICS ON OTHER MULTILATERAL ORGANISATIONS

### SOUTH AFRICA AND IBSA

Established as a dialogue forum aiming to reach consensus around a number of political, economic and social issues, India, Brazil and South Africa formed the grouping known as Ibsa in 2003, which was formalised by the Brasilia Declaration.

The declaration sites democratic values and their capacity to act on a global scale as being the predominant reasons for the partnership being formed. Additional elements to the partnership include their status as middle powers, their common need to address social inequalities within their borders and the existence of consolidated industry.

Ibsa has a number of initiatives that aim to not only project the status of the member countries on an international stage, but also to promote relations and cooperation among themselves. Some of these areas of cooperation centre around public administration, science and technology, trade and investment, environment and climate change and health, besides others.

One of the flagship elements of the Ibsa partnership is the establishment of the Ibsa Fund. The fund comprises each member country contributing \$1-million a year, and is designed "to contribute to the national priorities of other developing countries" and to assist in the implementation of the Millennium Development Goals. Successful projects include postconflict redevelopment in Haiti, agricultural capacity building in Guinea-Bissau and the refurbishment of health units in Cape Verde.

In essence, the Ibsa partnership has been successful in facilitating trade and cooperation; however, trade barriers

still exist. With the Ibsa members all being members of the Brics bloc, the relevance and importance of Ibsa will come into question. Will the partnership continue to operate within the Brics grouping? Or will it simply be absorbed by China and Russia? These are questions that will be answered in time, but there is no reason why the Ibsa grouping should become obsolete.

According to current affairs magazine the Diplomat, the future relationship between Brics and Ibsa will be influenced to a large degree by the relationship between India and China with regard to Africa. India is wary that China wants to close down Ibsa, as it has no control over the group and sees India's involvement in the grouping as a threat to its policy to secure great resource access in Africa. India also wants its own diplomatic space free from the influence of its large neighbour. In addition, India views South Africa as key to counter China's strategic moves in Africa.

It would, therefore, seem that the existence of Ibsa is a bone of contention between the Asian powers. However, it is likely that the group will remain in existence and operation, owing to its solidified bonds of cooperation between the member States. Further, there are a number of operations and projects employed by the group that provide substance to the Ibsa partnership, as opposed to the newly formed Brics that has yet to formalise policies and areas of cooperation. Therefore, despite internal rivalries within the Brics groupings, particularly between India and China, Ibsa is unlikely to be affected by this and the trilateral partnership is likely to remain an important basis of cooperation between India, Brazil and South Africa.



# ANALYSIS OF THE BRICS MEMBERS

Profile of Brics countries					
	Brazil	Russia	India	China	South Africa
Area (km2)	8 514 877	17 098 242	3 287 263	9 596 961	1 219 090
Population	203 429 773	138 739 892	1 189 172 906	1 336 718 015	49 004 031
Population growth rate	1.134%	-0.47%	1.344%	0.493%	1.1%
GDP (Purchasing Price Parity)	\$2.19-trillion	\$2.23-trillion	\$4.05-trillion	\$9.87-trillion	\$527.5-billion
GDP growth rate	7.5%	3.8%	8.3%	10.3%	3%
GDP per capita	\$10 900	\$15 900	\$3 400	\$7 400	\$10 700
Imports	\$187.78-billion	\$237.3-billion	\$327-billion	\$1.31-trillion	\$77.04-billion
Exports	\$199.7-billion	\$376.7-billion	\$201-billion	\$1.51-trillion	\$76.86-billion
Current account balance	-\$52.73-billion	+\$68.85-billion	-\$26.91-billion	+\$272.5-billion	-\$16.51-billion
Foreign exchange reserves	\$290.9-billion	\$483.1-billion	\$284.1-billion	\$2.622-trillion	\$45.52-billion
Number of mobile phone users	173.86-million	230.5-million	670-million	747-million	46.44-million
Number of internet users	75.98-million	40.85-million	61.85-million	389-million	4.42-million
UN Human Development Index ranking	73	65	119	89	110
Gini Coefficient ranking	10	52	79	53	2
Birth rate (per 1 000)	17.79	11.05	20.97	12.29	19.48
Urbanisation	87%	73%	30%	47%	62%
Literacy rate	88.6%	99.4%	61%	91.6%	86.4%
Unemployment rate	7%	7.6%	10.8%	4.3%	24%

Presented in the chart are the key indicators comparing social and economic aspects of the Brics countries. In a number of the indicators, including GDP, export and import capacity and population size, South Africa is dwarfed by the other bloc members. While Brazil, Russia, India and China are experiencing unprecedented levels of economic growth, South Africa is languishing below its internal growth target of 7%, averaging around 3%. As a result, the country also has a relatively large unemployment rate of 24% due to historical factors and low levels of economic growth.

Many of these indicators suggest that South Africa is economically out of its depth and in essence the 'odd one out' when it comes to growth rates. According to research and capital advisory firm Frontier Advisory CEO Martyn Davies, however, South Africa should not be viewed in isolation and should be seen more as a gateway into the Southern African region and even the rest of Africa, suggesting that the 's' in Brics should ultimately stand for SADC.

## THE BRICS' GLOBAL SIGNIFICANCE

	Rest of the world	Brics
Population	56.95%	43.05%
GDP (PPP)*	74.32%	25.67%
Export volume	84.82%	15.17%

Calculation is that of Creamer Media, based on figures derived from the International Monetary Fund (April 28, 2011).

\* PPP – purchasing power parity

The table indicates the importance of the Brics bloc in the global context. The Brics countries account for close to half of the world's population, a sizeable proportion of global GDP and hold a majority of the world's foreign capital. Brics countries also command 15.17% of the global export volume, which is indicative of the growing economic and political importance of the bloc. China itself makes up 12% of the world's export volume.

## PROJECTED GROWTH OF THE BRICS

	2010	2015	2020	2030
% of global population	43.05%	44%	*	37.1%
% of global GDP	18%	23%	31%	*

\* Data not provided

Xinhuanet, Foreign media speak highly of Brics summit. (April 17, 2011).

Brics countries are set to enhance their significance in the medium to long terms by increasing their contribution to global GDP. Their global population proportion will peak in 2015 at 44% and thereafter decrease, with projections based on current growth rates. This will increase the Brics' GDP per capita.

## BRICS SUMMIT 2011 – OUTCOMES

Brics leaders met in Sanya, China, on April 13, 2011. According to the joint declaration released by the

members, the main aim of the Brics partnership is to contribute significantly to the development of humanity and establishing a more equitable and fair world. Under the theme "Broad vision, shared prosperity", the group reached broad consensus on strengthening cooperation, as well as promoting coordination on international and regional issues of common interest.

On a political level, the Brics countries expressed their strong commitment to multilateral diplomacy, with the UN playing the central role in dealing with global challenges and threats. However, the Brics countries also called for the comprehensive reform of the UNSC, with a view to making it more representative of emerging and current power balances.

Economically, the group pledged to promote sustained economic growth through cooperation in finance and trade matters. This, they have argued, will contribute to the long term and balanced growth of the world economy. Further, Brics supports the role of the G20 playing a bigger role in global economic governance and international economic cooperation.

The more controversial elements of the summit involved discussion around the US dollar as a global reserve currency. The Brics called for a broad-based international reserve currency system that would mitigate the effects that the greenback is having on markets. Brics members

argued that, owing to the US' large trade and budget deficits and their policy of quantitative easing, the dollar is too volatile to be a leading reserve currency.

Brics' Heads of State welcomed discussion around the formation of a new global currency, specifically with regard to Special Drawing Rights (SDR). SDR is the accounting mechanism used by the International Monetary Fund and comprises a basket of currencies including the dollar, the euro, the Japanese yen and the British pound. Some experts contend that SDR could possibly replace the dollar as the international currency reserve, although the proposal has not been embraced as a tenable solution by international financial markets.

The Brics members, however, could not reach consensus on whether the Chinese yuan should be included in the basket, owing to its inability to be exchanged except for investment and trade purposes.

Nonetheless, the development banks of the five Brics members agreed, in principle, to establish mutual credit lines in their own currencies as opposed to that of the US dollar. The technicalities of this agreement, however, have yet to be discussed.

Other areas of cooperation discussed in the declaration included food security, climate change, infrastructure development and public administration.

## THE WAY FORWARD

South Africa's role in the newly formed Brics bloc is untried and untested. The dynamic that the African country will play within the grouping is yet to evolve. It is, however, widely speculated that the country has been included owing to its "gateway" status to the African continent, and also because of its political stature in the international community.

A key test of the Brics bloc is whether it will be able to promote intra-trade between the Brics countries. For South Africa this means that the country will have to tackle a number of structural issues regarding its internal trade capacity to become more competitive in global markets.

There is a push to conceive the Brics partnership as a partnership with the entire SADC region, however, as South African National Planning Commission member Mike Muller argues: "The regional integration train is a victim of the region's faltering institutional and physical infrastructure". Muller says what is needed "is some evidence that regional integration will actually bring some benefits".

South Africa, therefore, needs to invest in its own, and the regional infrastructure, as well as reduce intra-African trade barriers for the country to provide any meaningful contribution to Brics and enhance its competitiveness

on the international stage, and prove that it deserves its place in Brics.

To this end African leaders signed an agreement in June this year to launch talks on the continent's biggest free trade bloc to create a single, continent-wide market potentially worth \$1-trillion by 2013.

The so-called Grand Free Trade Area will straddle 26 countries, stretching from Cape Town to Cairo. The bloc will bring under one roof such distinct economies as those of South Africa, Egypt, Angola and Ethiopia. It will also include countries facing or struggling to overcome instability, such as Libya, Madagascar, Sudan and Zimbabwe. Countries, which fall out of the ambit of the three blocs, will be invited to join once a free trade area is established.

South Africa stands to make considerable gains with tariffs likely to be cut when the bloc is formed.

Tariffs in the Common Market for Eastern and Southern Africa and the East African Community are twice the SADC's average, a condition South Africa is hoping to change, especially since its exports to both groupings have doubled in recent years.

Nonetheless, the proposed bloc faces significant obstacles including tariff barriers; poor infrastructure; weak supply chains; and economies often reliant on natural resources.

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## **South Africa's role in Brics: Implications and effects**

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