



Building Better BRICS

South Africa's Inclusion into the Bloc



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The fourth BRICS summit in New Delhi, India, commences today, the 28th March 2012. South Africa's President Jacob Zuma will iterate the country's position as a representative and major force amongst the African countries at the summit, and, further to this, will seek support from fellow BRICS countries for the New Partnership for Africa's Development infrastructure development programme.

Introduction

South Africa is now a member of the BRICS group of nations, a bloc of the world's key emerging economies. South Africa's invitation to join BRICS in December 2010 came after President Jacob Zuma visited all four BRIC members (Brazil, Russia, India and China) during the course of 2010. These diplomatic visits, focussed on lobbying China, resulted in South Africa's admission into the group.

The acronym BRIC was initially coined in 2001 by Goldman Sachs investment banker, Jim O' Neill, in a paper entitled "Building Better Global Economic BRICs". Jim O' Neill, in his paper, predicted that the four emerging countries would become the economic powerhouses of the world. This concept gained momentum since its inception and continues to play an increasing role in shaping the global economic landscape.

Since the coining of the term BRIC, the four countries formed a federation that meets every

year beginning in 2009. The meetings consist of discussions surrounding their roles in the global economy as well as their standing within the existing multilateral organisation. There is currently no binding agreement between the countries, but their common attendance at summits and cooperative steps to improve trade relations signifies the level of formality between them.

In line with the New Growth Path (2010) and the National Planning Commission's National Development Plan 2011, this document will serve as an information tool to further Government's objectives in promoting trade with emerging economies and creating decent work opportunities that may arise as a result of South Africa's inclusion into BRICS. Labour-absorbing industries stand to benefit the most from the inclusion in the short run, and at a later stage, capital intensive and knowledge industries are bound to benefit greatly.



Profile of BRICS Countries – Economic Significance

The table below depicts a comparison of key economic and social indicators of the BRICS countries. A number of indicators show that South Africa is lagging behind, displaying its economic shortfall in comparison to the other BRICS

countries. This is especially evident when looking at the Gross Domestic Product (GDP) growth rate of 3% and the sizeable unemployment rate of 24.7%.

Profile of BRICS Countries

	Brazil	Russia	India	China	South Africa
Area (km ²)	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	1.13%	-0.47%	1.34%	0.49%	1.1%
GDP (PPP)	\$2.19 trillion	\$2.23 trillion	\$4.05 trillion	\$9.87 trillion	\$527.5 billion
GDP Growth rate	7.5%	3.8%	10.1%	10.3%	2.8%
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	\$275.5 billion	-\$16.51 billion
Foreign exchange reserves	\$290.9 billion	\$483.1 billion	\$284.1 billion	\$2.622 trillion	\$45.52 billion
No. Of mobile phone users	173.86 million	230.5 million	670 million	747 million	46.44 million
No. Of internet users	75.98 million	40.85 million	61.85 million	389 million	4.42 million
UN HDI ranking	73	65	119	89	110
Gini Coefficient ranking	10	52	79	53	2
Birth rate (per 1000)	17.79	11.05	20.97	12.29	19.48
Urbanisation rate	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%	24.7%

Source: CIA World Factbook 2011 (extracted from Creamer Media report) and IHS Global Insight 2011



China

According to The Wall Street Journal and latest International Monetary Fund forecasts, China's economy will surpass that of the U.S. in 2016. Its GDP growth rate of 10.3% is higher than any of the other BRICS countries and is projected to continue increasing at a steady pace.

China currently holds a fifth of the world's population, ahead of all the other BRICS nations. It is the only BRICS country that is sure to become a dominant economy with significant technological and military power.

South Africa's relationship with China is strong and the government is actively promoting business investment in China. South Africa and China have reached consensus on a number of issues relating to climate change, energy, telecommunications, and other global issues.

Brazil

Brazil's healthy growth rate of 7.5% and relatively low unemployment levels make it the largest economy in Latin America. The key to Brazil's good fortune is the fact that its economy is domestic demand driven resulting in foreign crises having little impact on the economy. This impressive upturn in Brazil's economy comes after much turmoil, specifically relating to hyperinflation and a devalued currency.

Increasing international demand for Brazil's natural resources shows that exports are also playing a large role in the growing success of the economy.

South Africa's inclusion into BRICS has many advantages for Brazil. The inclusion enhances Brazil's standing within the group as South Africa replaces it as the new junior member. It also brings about an end to Brazil's geographic isolation, as well as strengthening Brazil's negotiating position within the group.

India

India, with one of the largest services industries in the world and a GDP growth rate of approximately 10%, is a key member of BRICS. Its economy, being the ninth largest and one of the fastest growing in the world, is largely made up of service-related activity contributing approximately 53% to its GDP, followed by industrial and agricultural industries.

One of India's core competencies is its electronics services market, in which it has gained immense expertise.

India's relationship with South Africa has also proven strong, as evidenced by the doubling of trade volumes between the two countries between 2007 and 2010. With the launch of the India African Business Network (IABN) in South Africa, the South African government has made a commitment to grow business relations with India. Large inroads have already been made in the automotive industry with major Indian multinationals. Tata and Mahindra specifically have established a strong foothold in the South African market place.

Russia

Amongst all the BRICS countries, least attention is on Russia. Some may argue that Russia does not even belong in the bloc due to its relative superiority, especially regarding social indicators. Russia currently has the highest GDP per capita among the BRICS nations, and according to Goldman Sachs forecasts, Russia will be the only BRICS country to approach European per capita income levels by 2020.

Russia's strength lies in its nuclear force, and according to some economists its weakness lies in its foreign policy.

The South African government has recently made efforts to deepen its relationship with Russia. During President Zuma's state visit to Russia, the President made mention of the fact that overall trade between the two countries increased from more than US\$400 million in 2008 to over US\$ 500 million in 2010. Furthermore, the new bilateral agreement between the two countries - the South Africa-Russian Intergovernmental Committee on Trade and Economic Cooperation - will make trade easier by establishing lower trade barriers.



Key strengths and weaknesses of all BRICS member countries

Country	Key Strength	Key Weakness
Brazil	Brazil boasts abundant and varied natural resources and a relatively diversified economy with favourable labour costs	Social infrastructure is lacking (e.g., investment in energy, rail, road, and ports) and public debt has remained high and exposed to domestic interest rate trends
Russia	Russia has a wealth of natural resources, a skilled labour force, and relative political stability which has strengthened its regional and energy position	The investment rate is among the lowest for major emerging countries; this has also resulted in the industrial sector lacking competitiveness because of pressures associated with the obsolescence of capital equipment
India	Private Indian companies are a key asset to the country, benefiting from advantages in several economic sectors (e.g., IT, outsourcing, pharmaceuticals, and textiles)	Despite some real progress, the financial situation in the public sector continues to be India's primary weakness, with debt service draining fiscal revenues to the detriment of development spending. Poor infrastructure is another weakness.
China	Industrial competitiveness and diversification have benefited China's trade with other countries, with strong foreign financial investment facilitating the country's strength	A number of key weaknesses exist in China across vastly different areas (e.g., environmental issues are obstacles to sustainable growth; increasing inequality has resulted in growing social tensions; overcapacity threatens several industrial and commercial sectors)
South Africa	South Africa still has stock of most of its natural resources, it's political situation is stable, and it is seen as the gateway to Africa	The country's economic insignificance in comparison to the other BRIC countries and high unemployment rate are factors that represent key weaknesses

Source: Part of table extracted from 'The BRIC Countries' by Tomas Hult (www.lansingbusinessmonthly.com)



Joint Statements of the BRICS Countries

The first BRIC summit was held in Yekaterinburg, Russia on the 16th June 2009, where the BRIC countries called for an increased role in global financial institutions by emerging economies and developing nations. The key conclusions from the summit are listed below:

- BRIC leaders called for an increase in economic reform, demanding a 'greater voice' and representation in international financial institutions, and that their heads and senior leadership should be appointed through an open, transparent, and merit-based selection process.
- The countries urged the international community to push for comprehensive results of the DOHA Round.
- The United Nations reform was discussed. They reiterated the importance attached to the status of India and Brazil in international affairs.
- A joint statement on global food security was issued whereby BRIC countries called for action by all governments and relevant international agencies. They reaffirmed their commitment to contribute to the efforts to overcome the global food crisis.

The second BRIC summit took place on the 15th April 2010 in Brazil. The following key issues were discussed at the summit:

- The countries stressed the need for the IMF and the World Bank to address their legitimacy deficits. They highlighted that reforming these institutions' governance structures requires a substantial shift in voting power favouring emerging market economies in order to bring their participation in decision making in line with their relative weight in the world economy.
- Support for the increase of capital from G-20 members, including a significant contribution from BRIC countries, under the principle of fair burden-sharing of the International Bank for Reconstruction and Development of the International Finance Corporation.

- BRIC members underlined the importance of maintaining relative stability of the major reserve currencies and sustainability of fiscal policies in order to achieve a strong, long-term balanced economic growth.
- An agreement was made on the steps needed to promote dialogue and cooperation among BRIC countries in an incremental, proactive, pragmatic, open, and transparent way.
- The countries stressed the importance of the multilateral trading system embodied in the World Trade Organisation for providing an open, stable, equitable, and non-discriminatory environment for international trade. The countries committed themselves and urged all states to resist all forms of trade protectionism and fight disguised restrictions on trade.

The third summit took place in Sanya, China on the 14th April 2011. This was South Africa's first meeting as an official member of BRICS. At this meeting, the Sanya Declaration was put forward. Some key points from the Declaration are:

- The countries agreed that based on universally recognized norms of international law and in a spirit of mutual respect and collective decision making, global economic governance should be strengthened, democracy in international relations should be promoted, and the voice of emerging and developing countries in international affairs should be enhanced.
- Major economies should continue to enhance coordination of macro-economic policies and work together to achieve strong, sustainable, and balanced growth.
- The support for reform and improvement of the international monetary system with a broad-based international reserve currency system providing stability and certainty.
- The countries encourage the development and use of renewable energy resources. They recognize the important role of renewable energy as a means to address climate change.
- Support was also provided for infrastructure development in Africa and its industrialization within the framework of the New Partnership for Africa's Development (NEPAD).



Laying the foundation for the BRICS cooperation, an Action Plan was formulated to strengthen the cooperation and benefits to the citizens of their countries. The salient points that emerged from the Action Plan are:

- The strengthening of financial cooperation among BRICS Development Banks
- A release of a Joint Statistical Publication by BRICS countries
- The exploration of the feasibility to cooperate in the field of the green economy
- The establishment of a 'BRICS-UNESCO Group' at UNESCO that is aimed at developing common strategies within the mandate of the Organisation
- The continuation of the BRICS Think-tank Symposiums and consideration of establishing a network of research centres of all BRICS countries.

BRICS – Opportunities for South Africa

South Africa's entry into BRICS creates many opportunities for the country in spite of critics warning that the country is in over its head. South Africa's relationship with emerging economies is usually characterised by foreign direct investment inflows and it is a suitable time for the country to build on this by encouraging local companies to grow their businesses in those markets.

South Africa's opportunities lie at a national level as well as a sectoral level. As these opportunities present themselves, South Africa as a country cannot remain dormant. Increased international trade will allow the country to gain access to the latest technology, improved efficiencies, economies of scale in production, and foreign markets.

Another advantage is the enhancement of South Africa's profile as a global player. This will result in the level of exports rising, numerous infrastructure projects being undertaken locally (as a result of increased investment), employment creation, and poverty reduction at a social level.

This is an ideal time for the country to promote Sub-Saharan Africa's development issues and to promote South Africa as an investment destination. Being part of the BRICS bloc also affords South Africa the opportunity to cooperate with fellow BRICS countries in the realms of finance, agriculture, statistics, business development and exchange, science, technology, climate change and energy, and sport.

A number of sectors within South Africa will benefit directly from the country's admission into the bloc. These sectors need to ensure that all opportunities are realised in order to allow their respective industries grow. Sectors that will likely benefit the most from South Africa's inclusion in BRICS are Tourism, Information, Communications and Technology (ICT), Business Process Outsourcing (BPO), Mining, Energy (especially in relation to China as China is already exploring opportunities in South Africa), and Finance.

South Africa as a Major Investor in Africa

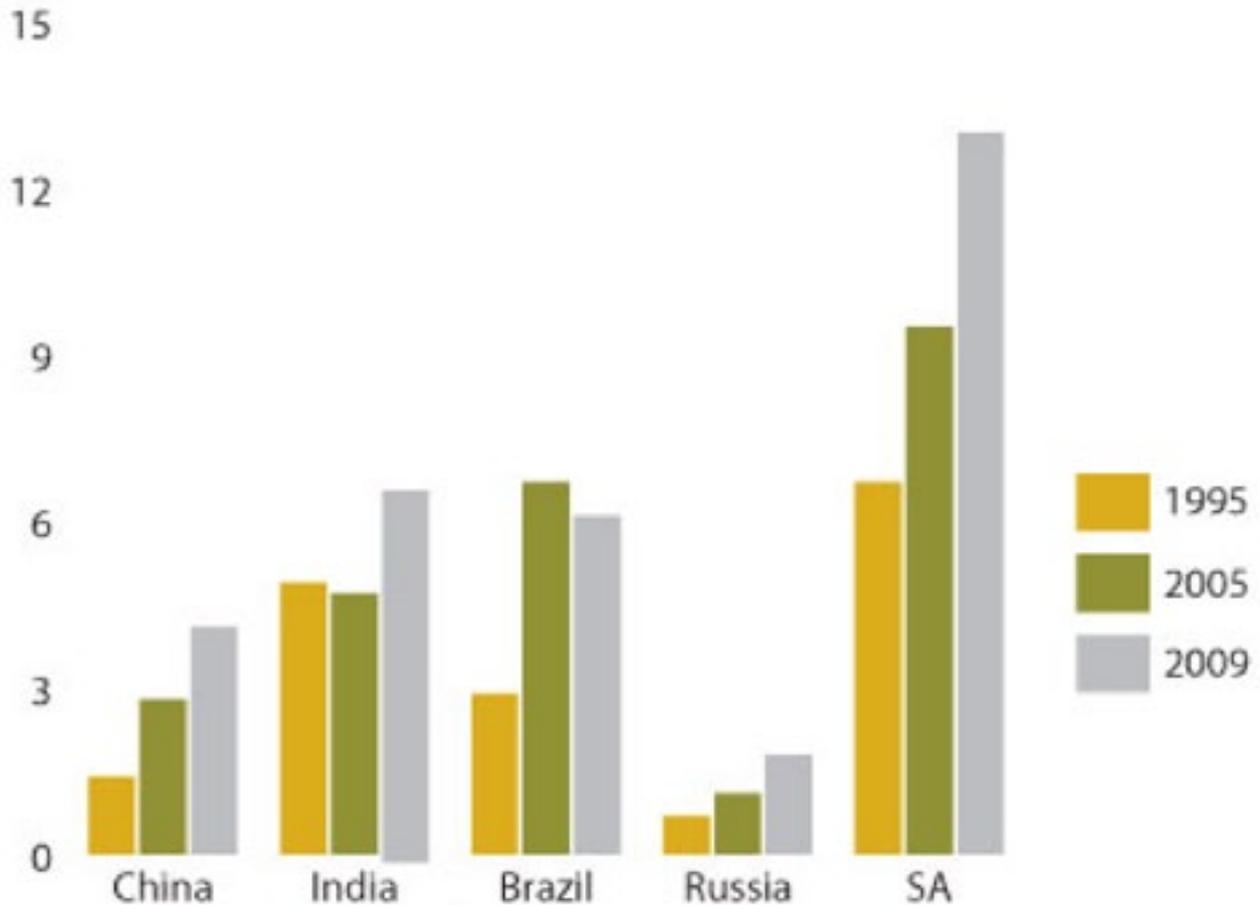
South Africa is a major investor in Africa and, as others may see it, a springboard into Africa. Its investment footprint in Africa enhances its position and allows it to put the African agenda on the BRICS table. South Africa is currently the biggest investor in the Sub-Saharan region and has a relative advantage with respect to its economic structure and geographical proximity.

Since companies such as SAB Miller and cellular service provider MTN led the way into the risky terrains of Africa, a larger number of South African companies have increased their investment and foothold in Africa. These include Massmart (recently acquired by Wal-Mart), Shoprite, Tiger Brands, and Standard Bank. The country's intra-Africa trade has fluctuated between \$14 to \$15 billion. Of South Africa's global trade total, 8.7% accounts for trade with Africa. When looking at the global trade profile of the other BRICS countries, India is at the forefront with 6.7%, followed by Brazil at 6.1%, then China at 4.1%, and lastly Russia at 1.8%.

South Africa is critically important to Africa as a financial intermediary, as well as in relation to its exports of technologically-intensive products and managerial know-how.



Africa's Trade Coupling with BRICS (As % of Country's Global Total, 1995 vs. 2005 vs. 2009)



Source: UNCTAD Statistical Yearbook 2010

Implications for Durban

At a local level, South Africa's entry into BRICS has many impacts on the economy. Various sectors will be affected as well as the Port of Durban, Africa's biggest and busiest port.

With the envisaged increase in trade between South Africa and BRICS countries, the Port of Durban is set to experience a spike in volume and port traffic. The new Dig out Port will assist in this regard. The transport sector in Durban may also experience growth as a result of BRICS, though this is not predicted for the near future.

As mentioned earlier, South African sectors that are likely to grow as a result of South Africa's inclusion in BRICS are the tourism sector, BPO, and ICT / electronics. Concerning Durban, there is a growing BPO hub in the northern Durban region

where huge potential exists for expansion. This expansion will result in employment creation and skills development.

Durban is also home to a well established ICT and electronics sub-sector. Given its lack of world class infrastructure and relatively low research and development levels, Durban needs to focus on eliminating these issues to ensure that international investment in this sector is maximised.

With Durban being one of the tourist capitals in South Africa, the expected arrivals from BRIC countries will be much higher. This too will result in job creation opportunities and infrastructure improvements.

The City needs to ensure that a BRICS action plan is established and all opportunities are realised in this regard.



Conclusion

While South Africa's role within BRICS is still to be discovered, its inclusion into the bloc - due to its status as the "gateway to Africa" and its international and continental political ties - has left many doors open to the South African economy.

Along with these opportunities however, are many hurdles that exist with South Africa's inclusion into BRICS. The most important element for South Africa going forward is not to lose sight of its vision and national objectives, and to use BRICS-related opportunities to achieve these. South Africa needs to enhance investment in many areas from infrastructure to the reduction of trade barriers.

The fact that South Africa has been chosen to form part of this highly influential bloc of emerging countries not only demonstrates its significance as a developing economy, but also recognizes it as the most advanced economy on the continent, and in so being, a representative of Africa. South Africa is definitely more than just another BRIC in the wall.

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