

# Perspectives from the BRICs: Lessons for South Africa

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*Report on a seminar held by the South African Institute of International Affairs, Pretoria, 1 March 2011*

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## Key points

- The invitation to SA to join the BRICs carries symbolic significance as an acknowledgement of the country's role in Africa and on the global stage.
- While BRIC membership presents economic opportunities for SA, these are not automatic. Access for SA investment into their markets is often difficult, while the SA investment environment needs to address some of its shortcomings in attracting FDI.
- The BRICs are competing for markets in Africa with SA. SA has marketed itself as the 'gateway to Africa'; however, the BRIC countries have largely bypassed it in forming their own bilateral relationships with many African states.
- SA's membership of this grouping can reap benefits for the Southern African region even though SA is not formally representing it because aspects of the African agenda will be put on the BRICS table.
- BRICS is emerging as a club within the broader G20 club, and has mobilised successfully on Bretton Woods reform.
- BRICS is not an alliance and it may not be the forum to develop a new global architecture. There is a growing congruence on certain international issues. On other such as climate change or global trade it may be more difficult.
- IBSA has much clearer coherence, especially on the global commons debate, although progress on some initiatives could have been greater.

## Introduction

In December 2010 South Africa received a much-awaited invitation to join Brazil, Russia, India and China in a formation whose appellation came from Goldman Sachs in 2001, and referred to a group of key emerging markets, but which by 2009 had constituted itself into an informal grouping at Summit level. During the first two years of President Zuma's term, joining the BRICs became the central focus of the country's international engagement, manifested in the President's itinerary of state visits to each of these countries.

Now that South Africa will attend its first BRICS summit in April 2011 in Beijing, what does it hope to bring to the gathering? What benefits does it see in membership? What are the implications for the country's role in Africa? What opportunities do South African businesses see in the BRICS?

Similar questions may be asked of the original four members of the BRIC. What value have they derived thus far? How does each of these countries view their participation in this grouping? What does SA's entry into the BRICS mean for IBSA? How are their respective business communities taking advantage of this membership?

## **BRIC and IBSA: Convergence and Divergence**

The opening address was made by the High Commissioner of India to South Africa, Mr Virendra Gupta. He considered SA's invitation to join the BRICs as an acknowledgement of the country's arrival on the world scene.

The primary divide today is between developed and developing countries. While there was a need to reform the UN Security Council, it was likely that it would remain like this for many more years. Thus it was no surprise to see the ascendancy of the G20; the establishment of the BRICs should equally be seen in this context.

All the members of IBSA are now part of the BRICS, so one may well ask why have IBSA at all? However, to argue that point would be to ignore the instrumentalities that have evolved since IBSA's establishment in 2003, including cooperation and exchanges between central banks, electoral commissions, and parliamentarians to name but a few; the existence of 16 working groups where much technical cooperation occurs; and various NGO forums. There is also a space satellite project, very tangible naval cooperation and the IBSA Trust Fund. IBSA has brought together diverse groups from both inside and outside government.

BRIC on the other hand initially focused on economic issues, although its remit has now expanded to include topical global issues. It is a newer organisation and is only now beginning to assume instrumentalities such as those established by IBSA.

What has IBSA done? The execution of concrete projects has not progressed as much as it could have. IBSA has coherence and convergence. The members are all functioning democracies, although they do not make it their business to advance this in their international relations. Yet, events recently in North Africa have shown the importance of democracy.

This unity of purpose is not visible in the BRICs. BRICS still has no clarity about structures, work programme or how the organisation will evolve. There have been rumours that other countries wish to join, most notably Mexico. Should new members be admitted in the near future, in what direction would that take the grouping and what would its impact be on projects of functional cooperation?

Nevertheless, BRICS may also develop into a counterpoint to the G7. Referring to the experiences of the Outreach 5,<sup>1</sup> the high commissioner noted that the O5 was often found wanting in those discussions with their G8 counterparts. The O5 were reacting to ideas being placed on the table by the G8. This experience made it imperative that forums be created that would facilitate dialogue among developing countries on global economic issues.

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<sup>1</sup> The Outreach 5 refers to the initiative of the G8 to invite five countries from the developing world to meet with them during the G8 summits. The five countries were Brazil, China, India, Mexico and South Africa. The process was crystallised into the Heiligendamm Process at the G8 summit in Heiligendamm, Germany in 2007.

However, there was a danger that some might want to make the BRICS serve as an anti-Western alliance. India firmly opposed this. Divisions today are not constructed along Western or anti-Western lines. Thus such attempts should be resisted, although moving in the direction of greater consolidation of developing country forces would be a positive development.

IBSA and BRICS are both useful, serve different purposes and are still evolving.

During the Q&A the high commissioner responded to a number of questions about club exclusivity versus legitimacy, what areas should be key priorities in IBSA and whether there was talk of pooling sovereignty. The high commissioner responded that in the foreseeable future the groupings (IBSA and BRICS) would remain plurilateral, serving as dialogue forums. This allowed for the creation of pressure groups and the coordination of positions in the UN Security Council and the G20, and indeed in any forum where an opportunity presented itself. All countries were trying to optimise their positions in the various forums.

IBSA is codified. He did not foresee any expansion of its membership on the horizon. In contrast, BRICS has opened its gates. It would be very difficult to resist pressures for additional expansion, he argued, emphasising however that this was his view and not that of the Indian government. If Mexico were to start lobbying like SA did, on what grounds could it be turned down? The same could be said of Indonesia and a number of other emerging markets. He added that there were some in the BRICS who were not in favour of inviting SA, but 'nobody was going to say no'.

Referring to priority areas for cooperation within IBSA, the high commissioner highlighted three: (a) political cohesion and convergence of interests. For India, SA and Brazil are its closest friends in the developing world; (b) business, where more work was being done to realise the potential. SA has made more progress in infrastructure development, while India lags behind in this. There was opportunity to collaborate in this regard, as well as in clean coal technology. From India's side there was potentially great opportunity in the pharmaceutical sector; (c) IBSA Fund provided these three countries with a unique opportunity to interface with least developed countries.

## **The South African perspective: Preparing for the BRICS**

The panel comprised Ms Nelia Barnard, director for economic affairs and regional organisations at the Department of International Relations and Cooperation; Mr Simon Freemantle, an analyst at the Standard Bank; and Dr Kaire Mbuende, SAIIA Distinguished African Visiting Fellow, and former permanent representative of Namibia to the United Nations.

**Ms Barnard** began by noting that the timeline for South Africa's entry was earlier than had been anticipated. As with every club or forum the BRICS was bound to have its own dynamics. Although there were differences among the group, these were well-mediated. She referred to the address given by Minister Maite Nkoana-Mashabane at SAIIA in November 2010, where she emphasised that SA had a normative world view. SA saw the world as interdependent and wanted to ensure that the multilateral frameworks were more representative of the developing world.

SA has a very strong regional agenda in its foreign policy unlike other BRICS. Building alliances was an important element of international relations and the BRICS should be seen in this context. None of these need to be contradictory.

What can SA bring to the BRICS? How SA had comported itself within IBSA gave an indication. In that forum SA has been a good and reliable partner. Within BRICS SA could play a bridge-building role as it has very good bilateral relations with all of the BRICS. She also referred to Minister Rob Davies' comments about the Southern African region's demographics and mineral base: the tripartite FTA between SADC, EAC and COMESA created a large market segment, which could not be ignored. In 50 years the African market would constitute a third of the globe demographically. In many indicators South Africa was ahead of its BRICS counterparts: SA was in the top ten in banking regulation globally, while the JSE was the 18<sup>th</sup> largest exchange by market capitalisation.

The 'Wall Street construct' of Jim O'Neill (who coined the name BRICs) should not be confused with the diplomatic initiative of the BRICS. BRICS was a higher visibility platform than IBSA, which SA hoped to benefit from.

The BRIC summit in Brasilia in 2010 had specifically mentioned reform of the global financial architecture, on which significant progress was made during the course of last year.

For SA it was important to focus on group cohesion. The country would bring the Nepad priority sectors especially infrastructure and the North-South corridor onto the table at BRICS. The country was also hoping for the maximum synergy between the emerging market agenda of the BRICS and the African agenda, although this could be a challenge. Bilaterally SA hoped that the matter of trade imbalances could be addressed.

**Mr Freemantle** began his presentation by referring to an investment conference he had attended earlier in 2011 in Russia, soon after SA had been invited to join the BRICs. The focus of the discussions there made clear that Africa was marginal to Russia's foreign policy. Furthermore, Jim O'Neill, the father of the BRIC term, is now using the term 'growth markets'. SA won't be in those growth markets; it is rather the larger markets of Indonesia, Turkey and others that he includes in that characterisation.

South Africa is now part of the grouping. What should it do?

In the context of the world's growing multipolarity, SA displays the characteristics of a mature foreign policy. This allows it to adopt a far more nuanced and strategic engagement on the international stage. In contrast, other African countries display a more emotional shift from West to East in their foreign relations. It is necessary to caution against this: the BRICS are new poles of growth, but the US and the EU are still the largest export blocs for Africa. Thus a political and economic shift to the East does not need to occur at the expense of relations with traditional partners.

Mr Freemantle addressed the question of SA in the BRICs as a **gateway to Africa**. He noted that it was important not to underestimate the fragmentation in Africa, the multitude of regional trade agreements and the problems of geography compounded by poor infrastructure and low intra-regional trade. Equally there is very little harmonisation even in the Southern African region. This all implies that the BRICs can't (and indeed do not have to) rely on SA to be their only vehicle into the rest of Africa. At the most one can argue that SA may act as a regional rather than a continental base.

Secondly, investment by the BRICs in Africa has largely happened bilaterally. For example, Brazil's or China's investments in Angola are not routed via SA. There are existing synergies between BRIC countries and African states that SA in fact does not have.

Thirdly, by marketing SA as a gateway to Africa, the country may be giving away its greatest competitive advantage. SA corporates have the best opportunity to unlock the potential in the rest of Africa – more than others from the rest of the world. SA should be seeking out these opportunities, rather than 'rolling out the carpet for our biggest competitors'. Companies such as Murray & Roberts' experience of competition with China would provide a more sobering analysis of our political relations with it. In addition, if SA wants to position itself as an investment gateway, it will need to create more incentives to attract businesses. Botswana and Mauritius have also been positioning themselves as investment hubs, while Kenya believes it too can be Africa's gateway. SA is facing huge competition, not only from the BRICs but also from other African countries.

Ensuring reciprocity is also significant. SA is a much smaller economy than any of the other BRICs, but it should push for more opportunities in those countries too. Shoprite (an SA retailer) tried to move into India but it encountered great barriers. On the other hand, SA is offering unfettered access to its markets. SA is by far the easiest place to invest in compared with the other BRICs.

For SA to successfully leverage the opportunities presented it requires a greater linkage between government and the private sector. SA is not liquid enough yet, nor is it offering those gains yet in terms of huge market potential. However, there are gains to be leveraged from the fact that SA is the most diversified and well regulated economy on the continent and politically stable.

**Ambassador Mbuende** in his presentation sought to emphasise the opportunities presented by SA's being invited to sit at the same table as these big economies. SA should be seen as part of a larger political and economic space – Africa. When the region meets at SACU or SADC summits it affords the member states an opportunity to have insight into the discussions at the BRICS level. Thus, the region should view SA's membership of the BRICS as positive.

The region faced two challenges which had relevance for the debate on the BRICS. The first was regional integration and the extent to which the participation of the BRICS could help the process. Diversification was key to the creation of regional economies. How could the BRICS contribute to this? The second was that as small economies Southern African states favoured a strong multilateralism. If BRICS could help strengthen multilateralism this would be positive for the region. The opposite would be true if they were to weaken the process of multilateralism. The example of COP 15 and the Copenhagen Accord was a case in point. The grouping of Brazil, India, China, SA and the US took multilateral decisions outside a multilateral forum. Broad developing country solidarity remains important, but in the case of COP15 had been weakened. However, the BRICS could help advance certain negotiations in the multilateral domain. This is not to say that the BRICS are the natural allies of developing countries on various issues, such as the WTO. For example, Ambassador Mbuende remarked that at the WTO ministerial in Singapore in 1996 the Europeans were closer to the Southern African positions on the Singapore issues than other developing countries. The North-South divide is much more fluid, and it did not replace the East-West divide. It is a dynamic world.

In the Q&A session the questions included why SA was not leading the charge; how the debate within the ANC and government on a code of conduct for SA business operating in Africa could affect

SA's footprint in the continent, compared with less stringent rules that other investors may abide by; and how SA's focus on the BRICS, but less so on key strategic African countries such as Nigeria, was occurring at the same time as the BRICS were making inroads into these countries.

One view was that SA was not necessarily speaking to its neighbours before going to the summit; nor was it aligning its goals with regional responsibilities even though it often said that it was. Mr Freemantle said that SA firms (especially in construction) were not able to benefit from donor spending on big contracts. SA companies also had not adjusted their risk models to appreciate the dynamics of the African markets, and thus take advantage of new opportunities. There are firms from advanced economies and the BRICs who are as competitive and have adjusted their risk model and become more nimble. In addition there was the historical disconnect between the state and the private sector in SA. Where the risk is high and companies do not have diplomatic backing the risk is even higher should they invest. The progress in Africa and elsewhere of South African multinational (such as Sasol and the banks) had occurred in spite of the state.

SA companies' success in the ICT sector was largely because this sector was a sure winner in Africa in its present stage of development.

Regarding representation of the continent in such forums, Ambassador Mbuende distinguished between a formal one where the country is nominated to represent a region or grouping, and one where a country holds a position in a grouping by virtue of its economic and political position. In the latter case the country is not formally nominated by a group and thus there is no formal accountability. However, this did not imply that the agenda of the region would not be articulated. Ms Barnard referred to the practice of SA in the context of the G20 where the Committee of 10<sup>2</sup> meet regularly in advance of G20 summits. The AU and Nepad have also been included. SA's trade and industry minister, Dr Rob Davies, also participated in the African Council of Industry Ministers, another forum for exchanges on related issues.

Furthermore, some of the big African countries, such as Nigeria, Kenya and Egypt, who may have seen SA's focus on the BRICS as a slight to them, were themselves either wanting to join the BRICS or becoming part of the CIVETS<sup>3</sup>. Nigeria was currently chairing the D8 (Developing 8), a group of developing countries with large Muslim populations that have formed an economic development alliance.<sup>4</sup>

In response to the point about Shoprite, an Indian participant noted that using the retail sector as an example of the difficulties of entering the Indian market was generalising too much. Retail was not really about unlocking potential and the Shoprite model did not cohere with India's development requirements. On the other hand, the success of SA's FNB in the banking sector in India told a different story. Mr Freemantle remarked that there was substantial goodwill between India and Africa, yet this was not manifesting itself in concrete initiatives. The conference organised by the

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<sup>2</sup> The Committee of 10 comprises eight African states and two regional banks: South Africa, Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, Tanzania, and Central Bank of West African States (BCEAO) and Central Bank of Central African States (BEAC). The African Development Bank, African Union Commission, and Economic Commission for Africa also attend.

<sup>3</sup> Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.

<sup>4</sup> The D-8 comprises Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey.

Confederation of Indian Industries in 2010 was well attended by African delegates. However, the main thrust was about how Indian companies could be assisted to invest in Africa and not vice versa. Africa needs to force the agenda on this matter, especially since SA offers a more benign investment climate.

South Africa should also play a leadership role in developing foreign investment codes in the continent. Companies should be required to operate within an ethical framework, and such a development would be positive for the continent. Operating within such a code would not impinge on companies' competitiveness.

## Indian, Brazilian, Chinese and Russian Perspectives

The session began with an introduction to the book that the Observer Research Foundation, based in New Delhi, had recently published on *BRIC in the New World Order*.<sup>5</sup>

**Mr Samir Saran**, one of the editors of the book, and vice president for Development and Outreach of the Observer Research Foundation, outlined its key elements. The book was not about the BRIC's external interactions but rather about relations within the BRICs. The book covers four broad themes: Institutionalising the BRIC engagement; the global financial crisis and the new financial architecture; energy security and climate change; and cooperation in trade and industry.

He then raised a number of points relating to the preceding discussions. There could be no reciprocity in a multilateral setting. It was fallacious to think so, although it did not mean that advantages could not be made up in other areas. If India tended to be protectionist it was sensible because it had a large poor population. India could not allow Shoprite where India has a robust food sector. SA itself had been bruised by India in some sectors.

It is still far from being an alliance but there is an increasing congruence among members in their approach to international issues. It was always meant to respond to financial architecture challenges and to global issues such as trade and climate change wherever Russia would permit, given that it is not a member of the WTO or strong on climate change matters. BRICs is an outward looking organisation – a club within a club (G20).

Russia saw in the BRIC the opportunity to create an anti-West, anti-American grouping. India views this with great caution. The acronym exuded arrogance, given its origins, and was seen as a catalyst by each country to build up momentum around their global position. They are all unequal societies. So, why should they be together?

First, IMF reform: BRIC played a key role in the decision to reform the voting shares within the IMF to bring them more in line with purchasing power parity indicators. 'Geo-economics' are a key area where BRICs will be engaging.

Second, each country's huge inequalities and poverty also provide the opportunity for them to learn from the experiences of the others in the socio-economic realm, e.g., the Brazilian welfare programme Bolsa Familia, or the Chinese village food schemes. The discussion has indeed shifted to

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<sup>5</sup> The book is available from [www.macmillanpublishersindia.com](http://www.macmillanpublishersindia.com)

concrete cooperation and sharing and learning in areas such as energy, education, social policies, governance and migration.

What BRICS should not be doing is representing the developing world; nor should the grouping be directed against others. Its focus should not be ideologies, but ideas. Neither should expansion be stopped. In each country there are large groups that see themselves more aligned with Europe and the US, and their closest bilateral partnership may be the US. Thus it can never be a tool against the US.

There is a 'market BRIC' and a 'political BRIC'. The latter cannot displace the former. Business and investments do not work in a political grouping. Business will invariably make their own decisions. In this regard, however, SA could be a land bridge to Latin America for Asia.

**Ambassador HHS Viswanathan**, a Distinguished Fellow at the Observer Research Foundation, focused his presentation on a comparison between IBSA and BRICS. IBSA began with a very clear coherence unlike the BRICs. The members were drawn from three developing continents, had experienced colonialism, were democracies, multilingual and multi-ethnic. They were large economies in their regions, and had no political problems among them, unlike within the BRICs.

IBSA rested on three pillars: it was a forum for consultation and coordination on issues of international importance (such as terrorism, nuclear issues, UN Security Council, climate change); functional trilateral cooperation via the 16 working groups; and a contribution to South-South cooperation (assisting other developing countries through the IBSA Fund). Each country has niche capabilities which can be leveraged to benefit all.

Will expansion of the BRICs make IBSA irrelevant? He argued that as BRICS expand, IBSA may become more relevant, although the weakest link in IBSA is the trilateral trade (amounting to some US\$ 15 billion). A target of US\$25 billion has been set for 2015, but even this is very modest. Discussions on a trilateral trade agreement are likely to take time. The IBSA Business Council was established in 2005, with the intention to identify new areas of cooperation that would help to foster increased trade.

Both IBSA and BRICS can form poles (not only geographic ones). They can build consensus on contentious issues (such as climate change) for larger more formal forums to them take up.

**Mr Srinath Sridharan**, senior vice president and head of strategic alliances of Wadhawan Holdings, gave an Indian business perspective. He noted that Russia was largely a commodity based economy, while China could be characterised as a manufacturing economy, India as a services economy, and Brazil combining elements of all three. Africa's collective GDP was equal to Brazil and Russia's. Africa's urbanisation was equal to China's. BRICs should engage not just SA, but also Africa. In terms of brand and consumer products Africa provided the most exciting opportunities for business. Local entrepreneurship was also vital and the issue of competition needed to be tackled with that in mind.

Businesses looked at the following criteria for investment: they needed political assurances (especially SMEs); regulatory stability; and market growth prospects. Trade was all about relationships, as long as it was profitable on both sides.



Speaking of the BRICs, he said that when reality exceeded expectations, it was unlikely that the BRICs would survive.

In the discussions, members of the audience noted that India probably had the most to lose from an anti-American posture within the BRICS. Furthermore, on key global issues such as the 'currency wars' the BRICs were divided. What kind of global system did the BRICs aspire to, especially in the context of the provision of global public goods?

BRICS was a good forum to critique the system, but not necessarily to develop new architecture. IBSA was more suited for the global commons debate, although it had a much weaker voice.

Mr Saran noted that it was likely that China would make Africa its manufacturing hub in the future, exporting to the rest of the world from there. China was investing US\$ 10 billion in Indian power plants. It was important to create co-dependencies to offset lop-sided trade.

There was also a cautionary note about the utility of business councils in driving business, as well as the necessity of consolidating business structures. In the case of the Indo-US council, there were positive outcomes, as it acted as a pressure point for government. In the case of the India-Russia Council, the Russian interlocutor had become the gatekeeper.

- *SAIIA's programmes on South African Foreign Policy and African Drivers (SAFPAD) and Emerging Powers in Africa (EPA) are supported by the Swedish International Development Cooperation Agency (SIDA) and the Danish International Development Agency (DANIDA).*