



## **BRICS ECONOMIC STRATEGY STUDY GROUP**

**Monday 12 March 2012**

Wits Business School, Parktown, Johannesburg, South Africa

Organized by the South African Institute of International Affairs and the International Development Law Unit, Centre for Human Rights, University of Pretoria

With the support of DFID

## **REPORT**



## **Introduction**

In the run-up to the BRICS Summit at the end of March 2012, the South African Institute of International Affairs and the International Development Law Unit at the University of Pretoria jointly hosted a study group on South Africa's approach to BRICS in support of the core economic priorities of the Government of South Africa. This was also an opportunity to analyse the value-add of BRICS membership to South Africa's economic priorities and to review the progress made so far since South Africa's admission to the group.

In the welcome remarks, the speaker from the Wits Business School applauded the inclusion of South Africa in the BRICS group which she regarded as being an indication that South Africa is now a force to reckon with in global economic governance matters. The speaker also highlighted the usefulness of such study group sessions in helping map a way forward for South Africa's BRICS strategy.

## **Report-back on the BRICS Academic Forum**

The study group session started off with a short report back on the BRICS Academic Forum which was held in India from the 3<sup>rd</sup> to the 8<sup>th</sup> of March 2012. The Academic Forum was an opportunity for academics and think-tanks to make input into critical issues facing the BRICS and it was structured to feed into the deliberations at the BRICS Summit. The South African delegation, widely representative of different disciplines, was led by Aziz Pahad, former Deputy Minister of Foreign Affairs.

The theme for this year's Academic Forum was "Stability, Security and Growth", representing the common aspirations of BRICS for strengthening progressive development trajectories and seeking optimal representation and participation in matters of global political, economic and financial governance. The report-back at the study group was however limited to two main aspects of the deliberations: the BRICS Bank and Impact Investment Fund; as well as broader global governance template issues.

The speaker faulted the BRICS Academic Forum for focusing on global governance instead of global economic governance, finance and development. He indicated that there was a tendency to look at the BRICS politically rather than economically and there was a need to address this anomaly. In this vein, some of the proposals made include the formulation of principles of shared responsibility, multilateralism, accountable and participatory governance, stimulating global public policy, and the consolidation of the Global South.

With particular reference to the Academic Forum's Declaration and the issue of a BRICS Bank, the speaker referred to the Forum's recommendation for a study looking into the establishment and operational modalities of financial institutions such as a Development Bank and/or an Investment Fund that can assist in the development of BRICS and other



developing countries. During the deliberations at the Forum, however, opinions were wide and varied.

A Chinese delegate presented on a number of options for BRICS financing, while an Indian delegate highlighted that this was still at an embryonic stage. Nevertheless, this led to a recommendation for the tabling of a session on BRICS financing. A concept paper on this has been developed by India and is currently being discussed at higher levels.

The Indians made a presentation at the Academic Forum but the session was not very productive since none of the delegates were familiar with the concept note in depth. One Brazilian delegate made a very interesting remark on the idea of a Development Bank, stressing that it would just provide another opportunity to line the pockets of fat cats. In addition, the said delegate asked why such a bank would be relevant given the economic might of China. A delegate from Russia also pointed out that, while he supported the idea, there was no compelling need to establish such a bank given that there is no consensus on the priorities for the BRICS issues. Other delegates pointed to the other multi-national banking structures already in existence in the BRICS realm such as the Asian Development Bank and the African Development Bank. Thus questions were raised around issues of the structure of the proposed bank, similarities or differences with the World Bank, as well as the timing and response to the global financial crisis. In closing, the speaker averred that the overall impression of the BRICS discussions in this regard was of '5 blind men' trying to push a banking agenda fuelled by ignorance.

### **Q & A Session**

On 28 March, the Chinese Development Bank is set to sign agreements with other Development Banks including the AfDB. How does this relate to the proposed BRICS Bank?

- *There is need for a more coherent strategy that is agreed upon by all the parties rather than simply relying on ongoing bilateral engagements.*

Does the BRICS' Global Economic Governance strategy seek to reform existing financial institutions or establish entirely new ones

- *There are references to the establishment of a new bank but this is a first for BRICS who have traditionally worked within existing institutions. The reasons for the establishment of a development bank include the shrinking resources of the World Bank as well as the leverage that the combined BRICS economies have politically and economically. However, new priority areas will have to be determined, together with the implementation of existing institutional mechanisms versus new generational mechanisms.*

In summing up the discussion, the moderator pointed to the various issues that the BRICS countries need to address. He further added that there is a need to rethink global norms to stabilize the world economy.



### **Panel Discussion: SA's Approach to BRICS**

In introducing the session, the moderator highlighted the fact that the membership and acronym of BRICS is unlikely to remain static. It has mutated from BRIC to BRICS and may change to BRINCS, for example, should Nigeria join the BRICS as well. The moderator indicated that there are 'bricks and briquettes' in international political economy. He also noted that there are other emerging economies that can be included in global economic governance debates, such as Indonesia, Mexico, Turkey, Vietnam and Oman. As such the BRICS acronym would likely turn into something unpronounceable. The moderator reminded the panelists that at the first BRICS Summit in 2009 there was a discussion around the BRICs' financial policies, which remain incoherent, and this highlighted the fact that there a number of challenges that hamper the development of a logical BRICS strategy.

### **Global Financial Issues**

The first panelist indicated that South Africa's invitation to join the BRICS a year ago has allowed for greater economic cooperation and the unlocking of trade opportunities. A year's grace was allowed for South Africa to study relevant texts before signing them. South Africa is finally catching up and will sign the Memorandum of Understanding (MoU) on Interbank Agreements in Delhi in 2012.

There are various ways in which the value-add of BRICS to South Africa can be measured. There is the BRICS Economic Report which provides economic indicators, projections, surveys and showcases best practice in economic management. It also provides a general economic picture of the five economies. The Interbank Cooperation Mechanism is designed to make trading easier among banks through the provisions of long term credit lines and the use of each other's currencies in trade. The National Treasury is keen on further unpacking this and is looking at the other government agencies that this agreement (the Inter-bank Cooperation Mechanism) affects, such as the Export Credit Insurance Company for instance. There are also issues around trade financing and the institutions that facilitate trade and export financing. Such issues have led to discussion and debates on South-South development banks and/or a BRICS Development Fund.

The panelist pointed out that the questions being dealt with between governments are the same as those raised at the Academic Forum. BRICS countries are using the BRICS as a caucus mechanism going into the G20 meetings, particularly on issues of global economic governance, the reform of international financial institutions and even issues around the resourcing of the World Bank, in particular during this period where Europe is in crisis. If the BRICS resource the World Bank then they are in essence financing the recovery of Europe and the BRICS are looking at the options in this regard.

However, this is quite challenging at times, given that the BRICS are different countries with different policies and national priorities. For instance:



- (a) South Africa has a small, open economy with a floating currency, while China has a large, closed economy with a fixed exchange rate.
- (b) The BRICS economies compete, therefore what unifies them? Is it a global economic group or caucus and how does the BRICS move forward with such dynamics?
- (c) The BRICS countries are also members of other groups. What is the impact of this on BRICS decision-making? For instance, does South Africa wear the South Africa, SADC or Africa hat when in the BRICS?

The BRICS are also working on knowledge exchange and sharing on finance issues where South Africa is very advanced. Within the context of this, the DBSA has entered into an agreement with the China Credit Bank on financing.

### Trade and Investment

The second panelist drew attention to the conflict between competition and cooperation in the BRICS and the challenge of trying to balance the two. He cited the alleged dumping of Brazilian chicken in South Africa as a case in point. Nevertheless, with the BRICS being the new source of global economic growth, and Africa being the second fastest growing economy, the future lies with the BRICS. In South Africa's approach to the BRICS on trade matters, the key is to try and sort out a few structural imbalances. Issues have been identified such as:

- The structure of intra-BRICS trade – South Africa exports low-value added products and imports finished goods.
- The trade deficit with each of the BRIC countries that has to be remedied.
- The fact that the BRIC countries are difficult markets to crack particularly for small to medium businesses. In this case, South Africa is busy trying to identify the relevant non-tariff barriers and high tariffs that South African business encounters in its trade with the BRIC countries.
- South Africa seeks to promote high levels of FDI from BRICS to SA and the region, particularly in minerals beneficiation as part of South Africa's industrial policy. The strategy on FDI must serve the objectives of both the Trade Policy Strategy Framework as well as the New Growth Path.

The BRICS also provide enormous opportunity to restructure global economic relations and some of the initiatives towards that end include increasing value-added exports to BRICS countries e.g. the DTI has signed a MoU with China prioritising 10 value-added products that China will import from South Africa. A Contact Group on Economy, Trade and Investment has been set up by the BRICS. This is with a view to fast-tracking the identification and resolution of non-tariff barriers as well as diversifying the investment opportunities for BRICS countries. Other initiatives include looking at appropriately structured PTAs (as



opposed to FTAs); formulating common positions on the WTO Doha Development Agenda (DDA); formulating joint studies on trade flows; cooperation in green industries; as well as cooperation on trade in services.

### Private Sector

The third panelist spoke to the relations between business and government in the BRICS. There is a massive disconnect between government and the private sector in South Africa which best manifests itself through the fact that BRICS provide business opportunities that are not being harnessed. The blame for this disconnect falls on both sides. There is a general optimism about South Africa's inclusion in the BRICS in terms of foreign policy and economic policy but there are concerns as well. The failure to clearly state a strategy with regards to South African engagement in the BRICS, and to discuss this with stakeholders, is hampering coordinated participation.

South Africa risks losing the support of the rest of Africa by making too much of its 'gateway' status to the other BRICS countries. South Africa has a trade deficit with the BRICS and a trade surplus with SADC. It therefore stands to gain more through trade with SADC and the rest of Africa in comparison to its BRICS trade. South Africa continues courting BRICS trade at the expense of its African advantage. Even decades from now, South Africa's advantage will still be in the region.

The DDA has showed the limits of multilateral engagements and hence it would be to South Africa's advantage to bolster bilateral ties. South Africa does not need the BRICS for this. There are immense differences in the economies of the BRICS countries: major resource exporters versus major resource importers; and floating versus controlled currencies. There is also the issue of the configuring of emerging partners. In pursuing the BRICS countries, South Africa has lost track of other emerging economies. For example, Nigeria and Turkey are more important to South Africa than Russia in terms of trade. By focusing solely on the BRICS, South Africa could lose sight of the multipolar dimension of trade and thus the country needs to look beyond BRICS when dealing with emerging economies. As an illustration, while Standard Bank used to publish a BRICS and Africa Report, this has been changed to an Emerging Market 10 and Africa Report to encompass other emerging powers.

The panelist urged that reciprocity in trade should be maintained if the BRICS mechanism is to work. India's FDI stock in South Africa is quite tremendous but the opposite does not hold true. The challenges of doing business in India prevent South African firms from investing more. He made reference to an Indian Report which highlighted the fact that while Indian firms had invested up to US\$6 billion in South Africa, South African companies had only invested US\$500 million in India. This was not due to a lack of interest or capacity but rather the barriers that are in place in the Indian economy.

In closing, the panelist stressed the need for cooperation on global issues. Thus the idea of a new development bank should be maybe shelved in favour of cooperation on other



prioritised issues such as the role of traditional partners in FDI and aid, and also ensuring coherence on infrastructure development when both developed and emerging economies put up aid for such projects. On the traditional partners again, the panelist noted that in this multipolar world, the developed countries are going to re-launch their advances into Africa and hence the traditional partners should not be ignored.

### Inequality and Development Challenges

The final panelist spoke to the issue of inequality and inclusive growth in the BRICS. He stressed that the key focus of his organization, Oxfam, was not the eradication of poverty, but the elimination of inequality. He cited the BRICS as being some of the most unequal countries in the world. Inequality has increased in Russia while the only country in the BRICS that has succeeded in fighting inequality is Brazil. The BRICS are very unequal, with inequality continually growing in many cases. The BRICS should take the concept of inclusive growth more seriously and should actually be leading in the G20 on such matters. If trends continue as they are, there will be one million more poor people in 2020. Inequality should also be dealt with as it is an obstacle to growth – inequality translates to less internal markets and less people to buy products and it also leads to social and political instability. He however stressed that economic growth does not necessarily mean the automatic reduction of poverty. It is a lie that countries have to increase growth in order to reduce inequality. One fights poverty by fighting inequality. He also referred to the growing gap between the rich and the poor in South Africa, where 10% of the population controls 40% of the nation's wealth, while the poorest 20% control only 5% of the economy. This provides fertile ground for social tension and political instability

BRICS countries have to take action nationally and be more pro-active internationally. To that end, the panelist recommended five action points designed to help countries reduce inequality:

- Redistributive cash transfers.
- Investment in free, publicly managed universal health systems.
- A progressive taxation system which would include companies as well when they invest.
- Equal economic rights for women and bringing women more into the formal sector.
- Land ownership and redistribution as well as investment in small-scale farmers.

### **Q&A Session**

By pushing a BRICS agenda, is South Africa likely to lose bilateral gains?

- *Despite the desirability of bilateral agreements, a multi-lateral focus is essential, especially with regards to trade.*





African Perspectives. Global Insights.



Is Trevor Manuel or anyone else from the BRICS countries going to be nominated for the Presidency of the World Bank?

- *There are divisions amongst the BRICS; hence it would be difficult to come to an agreement to support one candidate.*

Would the inclusion of Nigeria in BRICS diminish South Africa's "gateway" status?

- *It is useful to have more than one gateway so there is nothing to diminish. South Africa is keen to see other countries develop and does not see itself as a gatekeeper. It is good for Africa if other countries are able to develop and also become gateways.*

What is the real priority of the BRICS: (a) power from leading the old institutions; or (b) a new way of doing business?

- *The BRICS is an issue-based alliance. However, there are differences regarding the level of institutionalisation. Some want a more formal arrangement while the others merely seek to increase connectivity.*
- *If the opportunity is missed, the BRICS will merely cooperate in matters of economic diplomacy similar to the nature of business with other trading partners.*
- *There is need to follow a clear strategy regarding whether the BRICS represent the interests of emerging capital or poor people.*

Is the South African Government sufficiently engaged with the private sector? Are CEOs who attend the BRICS Business Forum sufficiently briefed on government policy?

- *At NEDLAC, consultations are held constantly. Government is considering the establishment of task teams to facilitate the resolution of non-tariff barriers. There is also an online reporting system which the private sector can use to report any barriers they experience in the Southern and Eastern African region. This could be extended in the future.*
- *The CEOs are not always sufficiently briefed. At other times, they carry out their own business at the expense of the delegation sent to the Forum.*

What is government doing about the services agenda?

- *South Africa's GATS commitments are extensive; hence they are constantly in the minds of trade negotiators. The BRICS Contact Group on Economy, Trade and Investment will include discussions on trade in services issues. There is also a technical working group on services being set up as part of the SACU-India PTA negotiations.*

Will there be an Africa strategy focus when South Africa hosts the BRICS in 2013?

- *There is no single African voice, perhaps regional voices. South Africa's strategy is based on infrastructure development to increase intra-Africa trade and that is where South Africa's Africa focus comes in where the BRICS is concerned. Infrastructure is a domestic priority for South Africa, including at the regional and continental level. It makes sense for it to also be part of our BRICS strategy.*





Is there any strategy to increase BRICS investment?

- *South Africa has only been in the BRICS for a year. Perhaps it would be right to temper expectations. The government is not making a choice between Africa or the BRICS. Rather, it is looking at Africa and the BRICS.*
- *The government is keen to hear from business on its experiences in investing in BRIC countries and will pursue problems where necessary.*

### **Conclusion**

The study group session addressed a diverse range of issues which emphasised the broad agenda and diverse issues that the BRICS countries have to address, both at a domestic and international level. The session also served to highlight the differences and similarities in economies and development that will have an impact on how the BRICS countries progress going into the future. It was very clear that while South Africa, and particularly the government, has some specific objectives vis-a-vis the BRICS, the success of this strategy and the associated initiatives also depends on the other BRICS members as well as the broad-based engagement with stakeholders. Further such interactions were encouraged.