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The BRICS in the Emerging Global Economic Architecture

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ABSTRACT

The paper argues that South Africa's inclusion in the BRICS will strengthen the organisation, since it is a natural ally of the three developing country members of the grouping. This argument is justified on the basis of the engagement that South Africa, Brazil, China and India have had in several international forums, most importantly those concerning trade and climate change. In the on-going Doha Round of multilateral trade negotiations, these countries have been able to co-ordinate their positions in several critical areas, including agriculture, intellectual property rights and market access for non-agricultural products. These issues are also those in which developing countries have substantial interests and the co-ordination among South Africa, Brazil, China and India has helped to crystallise the developing country positions in the negotiations. The upshot of this has been that the dynamics of multilateral trade negotiations under the World Trade Organization have undergone a change from the erstwhile days of the General Agreement on Tariffs and Trade. Whereas the earlier phase of the multilateral trading system was dominated by the four advanced Quad countries – made up of the US, the EU, Japan and Canada – in the more recent years the new Quad is providing an effective counterpoint.

The climate change negotiations have also seen co-operation between these countries aimed at ensuring outcomes that are based on the principle of equity. The BASIC group, comprising South Africa, India, China and Brazil, have argued that the regime for limiting emissions of greenhouse gases should be such that it does not undermine the development aspirations of the developing countries.

It is in the economic sphere that the BRICS have ushered in the most significant transformations. The new-found confidence of the BRICS has seen them build new partnerships with other developing countries and even with least-developed countries. India, China and Brazil have been at the forefront, with a view to meeting long-term development needs of others as well as themselves. These South–South relationships are thus seeking to redefine the context and content of economic ties.

ABOUT THE AUTHOR

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ABBREVIATIONS AND ACRONYMS

ARV	antiretroviral
BASIC	South Africa, India, China and Brazil
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
COP	Conference of the Parties
DDA	Doha Development Agenda
G-20	Group of Twenty
G-77	Group of 77
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
IBSA	India, Brazil and South Africa
IMF	International Monetary Fund
LDC	least-developed country
NAM	Non-Aligned Movement
NAMA	non-agricultural market access
OECD	Organisation for Economic Co-operation and Development
Quad	the US, the EU, Japan and Canada
S&D	special and differential (treatment)
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNFCCC	UN Framework Convention on Climate Change
WTO	World Trade Organization

INTRODUCTION

When Jim O'Neill of Goldman Sachs predicted in 2001[1] that the BRIC countries (Brazil, Russia, India and China) would emerge as major economies within the next decade, few would have imagined that these economies would play a transformational role on the world stage. In less than a decade, however, not only have the four economies, the largest outside the Organisation for Economic Co-operation and Development (OECD), become powerhouses providing much of the dynamism to the global economy, they are also playing a role in the reformation of global institutions to make them more democratic.

The influence that the BRIC countries have been able to exercise is attributed mainly to two factors. The first is that their economic weight has far surpassed the predictions made by O'Neill. At the turn of the century it was expected that China would be the fifth-largest economy in terms of nominal gross domestic product (GDP) by 2010. The reality is that China has emerged as the second-largest economy. Both India and Brazil have also surpassed expectations, although not in as spectacular a fashion as China. The second and more important factor is South Africa's admission to the group in 2011. Coming as it did within two years of the first summit-level meeting of the BRIC leaders, South Africa's inclusion signalled the coming together of the more prominent emerging economies on a common platform.

The paper assesses the inclusion of South Africa in the BRICS Forum. It is divided into three sections. The first explores the possible raison d'être for the inclusion of South Africa in the group. This is a critical issue, for it provides an understanding of South Africa's potential role, together with the other members, in global processes. The second section considers the areas in which the BRICS can make a difference to global economic governance. The final section provides concluding remarks.

THE SIGNIFICANCE OF SOUTH AFRICA'S INCLUSION IN THE BRICS

South Africa's inclusion in the BRICS has not been without its controversies. Jim O'Neill, who first coined the term BRIC, fuelled the controversy in 2012 with his assertion that South Africa lacks the necessary credentials to belong to the group, since it has too small an economy, and it does 'not [have] many similarities with the other four countries in terms of the numbers.'[2] O'Neill contended that South Africa's inclusion has weakened the group's power, with its presence being 'a drag on the dynamics of the BRIC grouping'. O'Neill suggested that if any country deserved to be in the BRICS grouping, it had to be South Korea, Indonesia, Mexico or Turkey. Even within Africa, the Goldman Sachs banker showed a preference for Nigeria, which, according to him, was a country that his company had identified as one of the 'Next 11' emerging economies with promising economic outlooks.

O'Neill's arguments against South Africa's inclusion are flawed on a single criterion, namely the size of a country's economy. A more important yardstick for the inclusion of any country in the BRICS, in the author's view, should be the influence that a country is able to exert on the international stage. O'Neill's criterion is justified in his initial identification of the BRICs, when at the time the largest economies in terms of size were also the most influential countries that were not members of the OECD. However, in the intervening decade, the emergence of countries like South Africa as strong protagonists of developing countries' interests has clearly shown that the size of countries' economies does not necessarily reflect the influence that they can exert in shaping the global economic agenda. South Africa has played a key role in bringing to the fore some of the critical concerns of developing countries. It has also provided the basis for forging influential coalitions among these countries. O'Neill's assessment about the inclusion of South Africa in the BRICS is therefore erroneous because he neglects to consider its influence in shaping the evolving global economic governance architecture.

For more than 10 years South Africa has been part of a group of countries, invariably including China, India and Brazil, responsible for forming the elements that have the potential of altering the dynamics of several multilateral processes. South Africa also joined its natural political allies, India and Brazil, in forming the IBSA grouping in 2003, which offers development partnership to other developing countries. The sense of partnership that has developed in the IBSA grouping, especially through sectoral co-operation programmes and the IBSA Fund that contributes to the 'national priorities of other developing countries',[3] has the potential of being adopted within the functioning of the BRICS. South Africa thus should not be seen as a mere representative of Africa in the BRICS; it stands as much for itself as the other countries in the group. At the same time, however, South Africa's pre-eminent position on the African continent, and particularly in the sub-Saharan Africa region, implies that its engagement in a plurilateral forum like the BRICS could have implications for the smaller countries in its neighbourhood.

South Africa's growing stature as a major player among developing countries has been established through its deep involvement in at least two multilateral forums, namely the World Trade Organization (WTO) and the UN Framework Convention on Climate Change (UNFCCC). The context and content of the country's involvement are characterised by the joint efforts of South Africa, India, China and Brazil in these forums to break the dominance of the advanced economies, which controlled the processes in these forums before the advent of the BRICS.

It is important to note that these issues are of critical importance to India, for they hold the key to the realisation of its development aspirations. In the past, India has sporadically joined hands with Brazil in several international forums, besides using formations like the Group of 77 (G-77) and the Non-Aligned Movement (NAM), to articulate the common concerns of developing countries. With the latter two forums facing relative oblivion in the changed geopolitical context, partnership with emerging economies like China, South Africa and Brazil provides India with the ideal launch pad from which to articulate itself.

SOUTH AFRICA'S ROLE IN CHANGING THE DYNAMICS IN THE WTO

South Africa has been an integral part of the proactive role of developing countries in transforming the dynamics of the WTO. This has been particularly visible in three critical negotiating areas in the ongoing Doha Round negotiations, namely the patent regime and access to medicines, agriculture, and non-agricultural market access. The progress of negotiations in these three areas has been a clear demonstration of the developing countries' ability to influence the outcome of the negotiations. Although the advanced countries have been keen to maintain the status quo ante, the developing countries have been able to turn the discussion towards some of the development-friendly issues, which have been among the factors responsible for the stalemate in the negotiations. The following discussion provides some evidence of the above-mentioned dynamics. It needs to be noted that although the initial engagement over the issues discussed below took place when China was not yet a member of the WTO, since its inclusion in 2002, China has been part of joint decisions taken by the three original members of the organisation, namely South Africa, Brazil and India, in the areas of public health[4] and agriculture.[5]

In 1997 South Africa became the first developing country member of the WTO to initiate legislative measures aimed at giving primacy to public health considerations even while it was obliged to strengthen the rights of pharmaceutical majors as owners of intellectual property rights in keeping with its commitments under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). As was widely anticipated, the introduction of the TRIPS-consistent patent law in South Africa resulted in a steep increase in the price of medicines. The worst affected were HIV/AIDS patients.[6] This was of particular concern for South Africa, as the disease had reached epidemic proportions by the late 1990s, with the country becoming home to the highest number of people living with HIV/AIDS.[7] The AIDS epidemic led to a reduction in the country's life expectancy at birth, thus threatening it with serious economic consequences.

The crisis that South Africa faced was caused by the inability of the majority of people afflicted with HIV/AIDS to afford treatment, since the cost of antiretroviral (ARV) drugs far exceeded their means. The South African Government, under the Presidency of Nelson Mandela, responded to this exceptional situation by amending the Medicines and Related Substances Control Act that had been on the country's statute books since 1965, to introduce provisions[8] that allowed authorities to import cheaper versions of ARV drugs that were being marketed by the pharmaceutical majors. The latter saw this initiative not only as a challenge to their domination in the South African market, but also in the other large markets like India and Brazil. The reaction of the industry was therefore in the extreme: 38 pharmaceutical firms filed a law suit against South Africa arguing that by amending the Medicines and Related Substances Control Act, the country had violated its obligation to respect the rights of the intellectual property owners. Simultaneously, the US Trade Representative threatened unilateral action using the provisions of Special 301 of its Trade Act.[9] In its defence, South Africa maintained that the:[10]

> TRIPS [Agreement] does allow the use of patented subject matter without the authorisation of the patentee, under certain circumstances (Articles 30 and 31). TRIPS also allows the adoption by member countries of measures necessary to protect inter alia public health, and measures to prevent the abuse of intellectual property rights by right holders (Article 8).

South Africa's uncompromising stance made it the rallying point against the moves that the dominant firms in the global pharmaceutical industry made to protect their commercial interests at the expense of the patients in need of affordable medicines. As a result, the pharmaceutical industry could not further its law suit, and by 1999 the suit was withdrawn. This move was preceded by an agreement between the governments of

South Africa and the US, wherein the latter agreed not to use sanctions if the former took measures to provide affordable medicines to its people.[11]

This development had a profound impact on the functioning of the WTO: later developments would testify that the dynamics of the organisation had changed forever. The historical domination of the multilateral trading system by the Quad (the US, the EU, Japan and Canada) has since been met by a formidable countervailing force – a dominant set of developing countries, often led by India, China, Brazil and South Africa. In the past, negotiating rounds of the General Agreement on Tariffs and Trade (GATT), the predecessor organisation of the WTO, including the most recent Uruguay Round,[12] were concluded once agreement among the Quad was reached.[13] Now, however, the Doha Round has seen the new Quad bringing to the table their expectations from the multilateral trading system.

The beginnings of this transformation within the WTO were seen in the shaping of its work programme in the new millennium. The Doha Ministerial Conference agreed that the WTO would work on a 'development agenda', one which was mindful of the needs of the developing countries. A key component of this agenda was the Doha Declaration on TRIPS and Public Health, which asserted that the 'TRIPS Agreement does not and should not prevent Members from taking measures to protect public health.'[14] Thus the rights of patent holders were tempered with public health imperatives.

The Doha Declaration on TRIPS and Public Health was only a step in the collective engagement of the developing countries. A much larger and politically significant step lay ahead in the area of agriculture. The initiative to organise a coalition was taken by India and Brazil in 2003, but soon joined by South Africa. Together, the triad provided the platform for a number of prominent developing countries to make their common cause by forming the agriculture coalition, the Group of Twenty (G-20), which includes all the four emerging economies.[15]

South Africa and Brazil were both members of the Cairns Group of agricultural exporters in the GATT/WTO, whose primary interest was the liberalisation of agricultural markets. However, they were able to find common cause with countries like India and China, both of which were more intent on protecting their domestic producers, especially resource-poor producers engaged in producing food crops. In fact, it was owing to the exertions of the latter set of countries that the Doha Ministerial Declaration strengthened the provisions on special and differential (S&D) treatment to developing countries. It was agreed that the S&D provisions would be made 'operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development.'[16]

The Doha negotiations on agriculture have been the most contentious among all areas that are under active consideration, and their progress has been influenced considerably by the G-20. For the first time in the history of multilateral trade negotiations, the hegemony of the advanced countries has been challenged successfully by this group. The G-20's proposals were aimed at changing the balance of forces in the markets for agricultural commodities, to allow the developing countries, which have a natural competitive advantage in producing these commodities, to improve their presence in these markets.[17] The G-20 has also been mindful of its role as the promoter of the development dimension in the WTO disciplines on agriculture.[18] It provided the trigger for smaller developing countries, yearning to protect their offensive and defensive interests, to articulate their demands. Thus while the Group of 33 voiced the interests of the countries whose agriculture was dependent on the small peasantry, the four cotton exporters in West Africa, Benin, Burkina Faso, Chad and Mali, which are among the world's poorest countries, were able to bring their concerns to the fore. With the demands of the Cotton-4 countries included as a specific issue in the agriculture negotiations, there were clear indications that the WTO processes were becoming considerably more inclusive and broad-based than in the past.

The reverberations of agriculture negotiations were seen in the area of non-agricultural market access (NAMA). Here again, India, South Africa and Brazil made efforts to change the course of the negotiations by forming the NAMA-11 group in 2006, which was co-ordinated by South Africa.[19] This grouping aimed to 'advance the development content of the Doha development agenda (DDA) and to ensure that the outcome of the negotiations in NAMA is fair, balanced and in accordance with the mandate of the round agreed in Doha.'[20] The NAMA-11 set itself three key objectives: to 'ensure that development objectives of the Doha round [are] at the centre of the negotiations'; to ensure that 'tariffs, the need for policy space to advance the industrial development of developing countries [is] respected'; and to ensure that the 'principles of less than full reciprocity and special and differential treatment should be respected.'[21] Thus, whereas the advanced countries have strived to obtain an 'early harvest' by fast-tracking the negotiations on NAMA, the emerging economies' grouping has intervened with the view to ensure a development-friendly outcome of these negotiations.

Russia's accession to the WTO has an interesting dimension that could benefit the BRICS negotiating position in future negotiations. Although, like all new members of the WTO, the Russian Federation has had to pay a higher entry ticket to gain membership of the WTO by agreeing to a greater degree of liberalisation, the country has also been able to protect the interests of its domestic entities in some of the important sectors, more prominently the banking and the automobile sectors.[22]

Although their interests did not always coincide, the emerging countries in the BRICS grouping managed to find common positions in some of the more contentious areas in the Doha negotiations. India and Brazil have been co-ordinating their positions as part of the G-77 and making their voices heard for several decades. Post-apartheid South Africa became a natural ally of these two countries through their shared aspiration to change the status quo and to usher in a more equitable and democratic paradigm. However, although the BRICS members have displayed a remarkable degree of clarity in defining their long-term perspectives in the WTO, which has helped them co-ordinate their actions, this approach was not evident in the 2009 climate change negotiations, where South Africa, India, China and Brazil formed the BASIC group to develop a common agenda.

'BASICS' AND THE CLIMATE CHANGE NEGOTIATIONS

In 2009 the climate change negotiations in Beijing witnessed the formation of the BASIC group; the coming together of four countries facing very different challenges on this front. China and India have been the key players in the G-77, which had argued strongly in favour of 'common but differentiated responsibilities', the core principle underlying the commitments that countries are expected to take under the UNFCCC. From this standpoint, both these countries have been rejecting mitigation targets and international monitoring of developing countries' domestic actions. They have argued strongly that the burden of adjustment must lie with the developed countries and that these countries must be subjected to mandatory emission reductions in order to stave off the threat of global warming (to keep the earth's temperature from rising more than 2 degrees Celsius by 2050). In a similar vein, Brazil, too, has argued that developing countries have the right to sustainable development. While aligning itself with the interests of the G-77, South Africa has also emphasised the importance of its relationships within Africa and on promoting the interests of the African Group in the climate change negotiations.

The coming together of the BASIC countries has changed the contours of the climate change negotiations quite considerably. Just before the commencement of the 15th Session of the Conference of the Parties (COP 15) to the UNFCCC in Copenhagen, each of the BASICs announced mid-term targets for unilateral cuts in CO_2 emissions. Brazil announced that it would voluntarily reduce its national emissions by 36–39% below the 'business-as-usual' levels by 2020. South Africa made a commitment to reduce its emissions to 34% below 'business-as-usual' levels by 2020. India announced that it would reduce the 'emissions intensity' of its GDP by 20–25% in 2020 compared with that of 2005. Similarly, China pledged to reduce the 'emissions intensity' of its GDP to 40–45% by 2020 over the levels obtained in 2005.[23]

The BASICs announcements were significant for several reasons. Firstly, these countries had gone against their long-held position of not making any voluntary cuts in their emissions levels. As discussed, their position was that the burden of adjustment should be borne by the advanced countries, which they upheld as being responsible for occupying the carbon space. Even though the BASICs had not accepted binding commitments, many commentators see this as a significant shift from their original negotiating positions. The second significant development was that their announcement changed the dramatis personae on the negotiating table: it brought forth a more proactive US, a non-party to the Kyoto Protocol, replacing the EU and its member states. The third and vital development that followed was the advanced countries' agreement to make financial commitments to meet the adaptation and mitigation needs of the developing countries. The developed countries made a commitment to provide new and additional resources, including forestry and investments through international institutions, approaching $30 billion for 2010–12, with balanced allocation between adaptation and mitigation. The beneficiaries of this funding were identified as the most vulnerable developing countries, such as the least-developed countries (LDCs), the small island developing states and Africa. Additionally, developed countries agreed to a goal of jointly mobilising $100 billion dollars a year by 2020 to address the needs of developing countries. This funding was expected to come from a wide variety of sources, including public and private, bilateral and multilateral.

Although the Copenhagen Accord restored an apparent sense of balance as far as the BASIC group was concerned, at the following two COPs, mechanisms were introduced based on 'pledge and review' principles that require developing countries, in particular the emerging economies, to be treated in much the same way as the developed world with regard to their climate mitigation and reporting obligations. This approach was reinforced through the 'Durban Platform for Enhanced Action', which, unlike the Bali Action Plan of 2007, makes no clear distinction between developed and developing nations with their approach on emission cuts. The Durban platform sought the 'widest possible cooperation by all countries' while launching a new process to develop a 'protocol, another legal instrument or an agreed outcome with legal force' by 2015, which would be 'applicable to all Parties'[24] and would enter into force from 2020. How the BASICs are able to deal with their apparently divergent interests in the ensuing COP 18 and beyond will surely define their trajectories for future roles in the UNFCCC.

A GLOBAL ROLE FOR THE BRICS

It is in the economic sphere that the BRICS have ushered in the most significant transformations. They have not only put the economic meltdown – which afflicted the entire global economy – quickly behind them, but their emergence as the new hubs for the growth of Southern countries needs to be recognised. The new-found confidence of the BRICS has seen them build new partnerships with other developing countries and even the LDCs. India, China and Brazil have been at the forefront, with a view to meeting long-term development needs of others as well as themselves. These South–South relationships are thus seeking to redefine the context and content of economic ties.

In the sphere of trade and investment, the BRICS are making major contributions by increasing their links with low-income countries impressively over the past decade. The BRICS critical support has largely been responsible for the growth momentum that low-income countries have seen in recent years. An International Monetary Fund (IMF) study[25] that included the BRIC countries estimated that since 2001, trade between the two groups has grown by at least 25% each year. As a result, trade with the BRICS now accounts for one-half of low-income countries' combined trade with the EU and the US. Along with South Africa, which on its own is an important actor on the African continent, the BRICS are making an increasingly important contribution towards the upliftment of the world's poorest economies.

Despite the relatively small volume of this trade (compared with that between LDCs and developed countries), investment flows and development assistance provided by the BRICS to these low-income countries have started making an impact in some critical areas.[26] Investment flows have started from a very low base, but have increased rapidly in recent years. A sizeable proportion of the investment was initially made in the natural resource industries of the host countries. However, with time, money is now flowing into not only agriculture and manufacturing, but also into a number of service sectors, most noticeably telecommunications. A feature of the involvement has been firms from the BRICS partnering with small and medium-sized enterprises in LDCs. Besides contributing financial resources, the BRICS have also provided technologies that are in keeping with the resource endowments of their low-income partners.

The BRICS role in altering the contours of global economic governance has emerged prominently in the post-crisis world. This is evidenced in the deliberations between the G-20 countries,[27] an influential forum that is now considering changes in the rules governing global finance and trade, besides a host of issues that are essential for shaping the development paradigm. One of the most important points put forth by the BRICS on this forum is the need to reform the Bretton Woods Institutions to reduce legitimacy deficits. An important first step, according to the BRICS, is to alter the governance structures of these institutions by increasing the voting shares of emerging market countries in keeping with their larger presence in the global economy.

In furtherance of their aspiration to have a greater say in the functioning of the IMF, the BRICS have pledged $75 billion to boost the institutions' crisis reserves. This would enhance its capacity to support the eurozone substantially. The move is likely to have an impact on the reform of the IMF's quotas and governance, which began in 2010 and is expected to be completed by January 2013. This sentiment was reflected in the statement issued by the BRICS leaders while pledging their support to the fund: 'These new contributions are being made in anticipation that all the reforms agreed upon in 2010 will be fully implemented in a timely manner, including a comprehensive reform of voting power and reform of quota shares.'[28]

A real test of the grouping would lie in its capacity to change the dynamics of some of the major international processes, including the reform of the international financial architecture. Developing countries have long argued that decision making in these institutions should recognise the changed global economic realities, and, therefore, there should be a shift of control away from the traditional economic powers to the emerging ones. Although some of these changes are expected in 2013–14,[29] it will be important to see how the BRICS are able to provide a joint front to ensure that the changes do indeed reflect the present-day realities.

CONCLUSION

Over the past few years, the global economy's centre of gravity has been moving away from the advanced countries, as the emerging economies have become the new growth poles. The focus on the emerging economies has increased considerably since the BRIC countries not only convened the first meeting of their leaders in 2009, but also added South Africa in less than three years. The paper examined the nature of co-ordination among the BRICS countries, and whether the presence of South Africa has made a difference to the group's dynamics.

There are areas in which the emerging economies have co-ordinated their positions, and have thereby been able to put up a joint front. This has been most visible in the WTO negotiations on intellectual property rights and agriculture, the two areas in which the developed countries have dominant positions. But while in the WTO, the emerging economies were proactive in making joint interventions in the climate change negotiations to further their aspirations.

It is the ability of the BRICS to set the global economic agenda in forums like the G-20 that would mark the coming of age for the grouping. Thus far, they have not made any substantive alterations in the dynamics at the 'high table'. A more co-ordinated approach on issues that unify them would better enable and strengthen them, and would help to justify their presence on the 'high table'.

ENDNOTES

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11 In a speech given at the 1999 WTO Ministerial Conference in Seattle, President Bill Clinton made it clear that the US would adjust its trade policies to enable poor countries, such as South Africa, to gain access to essential medicines.

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26 Although the fund flow from the emerging economies to their development partners in the South has not been quantified properly, the importance of these funds have been recognised increasingly. The most significant of these was in the 4th High Level Forum on Aid Effectiveness held in Busan in December 2011. The 'Busan Partnership for Effective Development Co-Operation', the statement endorsed by the participating countries at the end of the meeting stated that 'developing nations and a number of emerging economies have become important providers of South – South development co-operation' paragraph 14, http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf.

27 In this section, the term G-20 has been used to refer to the one that has brought the most influential countries together, and is not to be confused with the grouping formed by the developing countries during the agriculture negotiations in the WTO.

28 *Times of India*, 'BRICS pledges $75 billion contribution to IMF's bailout fund', 19 June 2012.

29 IMF (International Monetary Fund), 'Factsheet: IMF Quotas', 24 August 2012, http://www.imf.org/external/np/exr/facts/quotas.htm.

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