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Russia–South Africa Relations: Collaboration in BRICS and the G-20

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ABSTRACT

The paper investigates the features of Russia–South Africa relations in light of their membership in BRICS and the G-20. Collaboration with South Africa contributes to the creation of the multipolar world order and strengthens Russia’s position in such global governance institutions as the G-20, IMF and the World Trade Organization (WTO). It also helps to create global legitimacy of the multipolar system of international relations. The BRICS arrangement is an important intermediate negotiation ground between individual countries’ interests and the G-20. If member countries define a joint position on some matter within the BRICS format, it will have a higher chance of being approved by the G-20. New opportunities for economic co-operation provide additional benefits. The study’s results suggest that extensive economic opportunities can be developed through increased economic co-operation between Russia and South Africa. Though historically Russia has had a long-lasting political relationship with South Africa, to date economic collaboration between the countries continues to be very limited, and Russia places more weight on co-operation in international relations rather than on economic opportunities afforded by the BRICS forum. An increase in trade and investment flows is considered as the major area of strengthening co-operation between Russia and South Africa. On the whole, though co-operation within BRICS currently has more political than economic flavour, the development of further economic co-operation, along with an improvement in political relations, will make the overall BRICS forum more credible and reliable, as well as improve its members’ position within the G-20.

ABOUT THE AUTHORS

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ABBREVIATIONS AND ACRONYMS

| | |
|-------|---|
| BRIC | Brazil, Russia, India and China |
| BRICS | Brazil, Russia, India, China and South Africa |
| FDI | foreign direct investment |
| G-7 | Group of Seven |
| G-20 | Group of Twenty |
| GCI | Global Competitiveness Index |
| GDP | gross domestic product |
| IBSA | India, Brazil and South Africa |
| IMF | International Monetary Fund |
| UAE | United Arab Emirates |
| VEB | Vnesheconombank |
| WEF | World Economic Forum |
| WTO | World Trade Organization |

INTRODUCTION

The economic crisis of 2007–09 drew attention to the deficiency of global governance, accumulated over decades. A lack of efficient mechanisms to resolve important worldwide economic and political issues was evident during the last decades, when the global institutions established at the end of the Second World War demonstrated their inability to find compromises and non-conflicting solutions to deal with common challenges. Even the pure economic issues in the Doha Round appeared to be insurmountable obstacles to further global integration. It is not surprising that during this period of world-wide economic slowdown brought on by many causes – including growing world economic imbalances – the leaders of 20 of the largest economies created the rather obscure consultation format of the Group of Twenty (G-20).

Originally established in 1999 with the primary goal to assist in finding common ground between the interests of developed and developing countries, the G-20 remained in the backyard of world politics until 2008, when it was recognised as the most suitable forum to address the urgent needs of a diverse and troubled world. The important feature of the new format was the existence within its structure of the established and recognised group of seven developed countries, the Group of Seven (G-7), which had already accumulated more than 30 years' experience of finding mutually agreeable solutions. On the contrary, the developing countries in the G-20, although engaged in a complicated network of bilateral and multilateral trade and political groupings, lacked a comparable strong format to aggregate their common interests to strike a balance with the developed countries. In this setting, the notion, first of BRIC (Brazil, Russia, India and China) and then of BRICS (with South Africa's inclusion), suddenly acquired a new wind. Created as an acronym for the fastest-growing countries as of the beginning of the 2000s, this format proved a useful platform for leading developing countries to settle their issues in the context of the G-20. Although many still regard BRICS as an artificial formation that is doomed, over the last four years BRIC(S) has received increasing attention, has expanded and has begun to establish some routine procedures. Many experts consider this format geopolitical as opposed to economic. Nevertheless, the development of economic links might become the major driving force for the group's further development.

South Africa's inclusion in BRICS was welcomed by all four initial members because it projected a new image emphasising the group's global legitimacy, since all developing continents and regions are represented by their leading economies. Thus for many observers BRICS stands for a world-wide representation that might be difficult to challenge.

The manner in which BRICS functions on the inside, however, is unclear. First, it is difficult to see how this group can play a leading role in member countries' regions in cases in which member countries face a conflict of interest between their neighbouring states and other BRICS members. Without certain mechanisms in place, it is difficult to see how they could be expected to sacrifice their own interests and those of their neighbours in exchange for BRICS solidarity. Second, being the largest developing economies in the world and interacting among themselves, member countries might face conflicts of interest among themselves while playing strategically on other continents. South Africa provides an illustrative example in these two respects. Both the issue of representation of other African countries' interests in BRICS and the G-20, and the possibility of strategic

interaction of other BRICS countries while strengthening economic ties with South Africa are worth considering.

The paper investigates the features of Russia–South Africa relations in light of their membership in BRICS and the G-20. Findings are based on literature analysis and information from various media sources, data exercises, interviews with researchers from the Russian Academy of Science, members of the South Africa–Russia Business Council, and representatives of the largest Russian state development bank, Vnesheconombank (VEB), in South Africa.

The study's results suggest that extensive economic opportunities can be developed through increased economic co-operation between Russia and South Africa. From an international relations point of view, although Russia considers South Africa a leading economy on the continent, its strategy in Africa is also to increase economic and political co-operation with other African countries and to use existing contradictions on the continent for its own interests. Important medium-term impacts of BRICS on the improvement of global governance in Russia's view include the development of the internal currencies payment system in BRICS trade exchange and the joint efforts of BRICS countries to challenge the existing voting scheme in the International Monetary Fund (IMF).

RUSSIA'S VIEWS ON CO-OPERATION INSIDE BRICS AND THE G-20

An analysis of Russia's agenda in BRICS and the G-20 clearly indicates an important difference in the roles Russia assigns to these two forums. Whereas Russian participation in BRICS is co-ordinated mostly through the Ministry of Foreign Affairs with some participation of representatives of the economic parts of the government, Russian involvement in the G-20 is heavily biased towards financial and economic matters with some participation of foreign affairs specialists. However, despite this separation of management authorities, Russian officials emphasise the important role the BRICS forum might play in achieving solutions to global governance problems through co-operation within the G-20.

The opportunities for co-operation within BRICS in the international relations area are significant. Russia emphasises the role of BRICS in co-ordination of positions (up to joint proposals) for global stability, international and regional security, nonproliferation of weapons of mass destruction, resolution of regional conflicts, and maintaining regional stability. Russia hopes that BRICS will make joint efforts to strengthen the central co-ordinating role of the UN in the fight against international terrorism. Other important areas of collaboration include:

- co-ordination of approaches to combat drug trafficking;
- co-operation to ensure international information security, to fight against cyberterrorism and cybercrime;
- strengthening co-operation to fight against sea piracy and to establish an international mechanism for the prosecution and punishment of pirates; and
- relaxing visa regimes among BRICS countries.³

Russia's economic policy agenda within BRICS (and with South Africa as a part of it) is linked closely to the G-20 agenda. Russia places a high priority on interacting on issues of reforming the international monetary and financial systems, including completing the current stage of IMF reforms (on the terms and conditions agreed to in the framework of the G-20), as well as continuing reform of the international monetary and financial systems to create a more representative, stable and predictable system of international reserve currencies.

These goals could be achieved through the G-20 alone. However, Russia emphasises the importance of BRICS co-operation within the G-20 to strengthen the latter as a financial and currency crisis resolution centre and as a main instrument to reform the global financial and economic architecture.

Besides these points, Russia considers BRICS co-operation as an important means of accelerating the modernisation of members' own economies, to ensure food and energy security, and to provide solutions to social problems. An important tool for achieving these goals could be the creation of a common information space for participating countries to improve peer learning processes.

RUSSIA'S VIEWS ON SOUTH AFRICA'S INTEGRATION INTO BRICS

It was not surprising that South Africa was invited to join the BRIC forum. South Africa has developed independent economic relations with all the BRIC countries. It has a long-lasting relationship with India, which is emphasised by Mahatma Gandhi studying politics in South Africa. Over the last decade, South Africa has experienced a booming development in its relations with China. There are also historical connections between the South African ruling party and Russia. Finally, the decade-old trilateral development initiative between India, Brazil and South Africa, IBSA, has value on its own and increases the bargaining power associated with all respective members, and South Africa in particular, within the BRICS format.⁴

Russia recognises the economic merits and achievements of South Africa. South Africa is the largest economy on the African continent with a gross domestic product (GDP) constituting 50% of the aggregate GDP of other sub-Saharan African countries.⁵ South Africa also used to have nuclear weapons, placing it within the interests of global superpowers, which it subsequently and voluntarily gave up. It has a developed infrastructure; one of the most developed financial markets in the world; and has the highest ranking in terms of institutional development among the BRICS countries (see Table 1). Currently the African continent is practically the only place on earth with an abundance of easily extractable natural resources that have yet to be fully developed – an important untapped potential, given the forecast growth in world demand. No doubt, other BRIC countries demonstrate great interest in collaborating with South Africa, and some have invested heavily in its economy.⁶

Table 1: Global Competitiveness Index (GCI), 2011

| | GCI 2010 | GCI 2011 | GCI 2011 | | | | | | | | | | |
|---------------------|----------|----------|--------------------|----------------------|-------------------------------|--------------|----------------|-------|------------------------------|-------------------------------|------------------|-------------------------|-------------|
| | | | Basic requirements | Efficiency enhancers | Innovation and sophistication | Institutions | Infrastructure | Macro | Health and primary education | Higher education and training | Financial market | Technological readiness | Market size |
| Brazil | 58 | 53 | 83 | 41 | 35 | 77 | 64 | 115 | 87 | 57 | 43 | 54 | 10 |
| China | 27 | 26 | 30 | 26 | 31 | 48 | 44 | 10 | 32 | 58 | 48 | 77 | 2 |
| India | 51 | 56 | 91 | 37 | 40 | 69 | 89 | 105 | 101 | 87 | 21 | 93 | 3 |
| Russia | 66 | 66 | 63 | 55 | 97 | 128 | 48 | 44 | 68 | 52 | 127 | 68 | 8 |
| South Africa | 54 | 50 | 85 | 38 | 39 | 46 | 62 | 55 | 131 | 73 | 4 | 76 | 25 |

Source: WEF (World Economic Forum), *The Global Competitiveness Report 2011–2012*. Geneva: WEF, 2011.

Given the leading economic role of South Africa on the continent and that South Africa is the only African country represented in BRICS and the G-20, Russia recognises its potential to play a role in improving global economic governance. The extent of this input will be defined by the overall economic weight of Africa in world GDP and the amount of development problems associated with Africa. Hence, Russia's overall official position recognises the constraints imposed on South Africa by its regional and continental role and realises that it will have to take into account and solve, besides its own, other problems on the continent. Inevitably, this could have problematic and even negative implications for South Africa's position in global economic governance, since it has to shape its position accordingly in BRICS and the G-20.

Russia also recognises the limitations of South Africa's ability to represent the position of Africa as a whole. Indeed, South Africa's foreign policy of late has focused on becoming the voice of Africa. Economic and financial benefits from being 'the' African representative are certainly South Africa's assets. Although South Africa's leading economic role is recognised by its neighbours, it also creates tensions around South Africa's ability to represent the interests and needs of the continent in the system of global governance.⁷ Given the gap in development levels, it would be difficult and almost impossible for South Africa to aggregate and efficiently incorporate the needs of less-developed countries, as this might require sacrificing its own interests. This consideration is very specific to South Africa and is hardly applicable to other BRICS countries. Nevertheless, South Africa currently represents the whole African continent; a fact that Russia has to acknowledge and consider while building relationships.

On the other hand, the BRICS forum might play an important role in promoting South Africa's role on the continent. For example, Russia believes it is possible to increase South Africa's influence among its neighbours and in the overall global economic arena through

the development of a national currency exchange within BRICS. If the BRICS countries manage to execute trade in national currencies, all remaining African countries might settle accounts with Russia, Brazil, India and China in South African rands. The possible consequences might be very influential and significant for the US dollar and, as a result, for the world economy. Indicators of Chinese trade with Africa might serve as further evidence.⁸ As a very first step in this direction, VEB, together with other banks of the BRICS member countries, signed a contract for conducting their credit policy in national currencies.⁹

Concerning the economic weight of South Africa and its ability to act independently in BRICS discussions, Russia recognises that the trade structure and dominant position of one of the BRICS members in trade flows of another member might be an important instrument to influence the partners' bargaining power. As Table 2 indicates, this consideration is applicable to China, which is the major trade partner for the rest of the BRICS economies and especially important for Brazil and South Africa, for which China is also a major export destination. Thus the only threat for the independence of South Africa's position within BRICS might come from the high dependency of South Africa's trade flows on China. It is worth mentioning that Brazil is also characterised by the same degree of vulnerability in this respect.

Table 2: Mutual trade links between BRICS countries, 2011

| China | | | | | |
|----------------------------|------------------|--------------------------------|-------------------------------------|------------------|----------------------|
| Export destination | Share of exports | Rank among export destinations | Import from | Share of imports | Rank among importers |
| US | 17.99% | 1 | Japan | 12.66% | 1 |
| Hong Kong | 13.84% | 2 | Korea | 9.91% | 2 |
| Japan | 7.67% | 3 | Other Asia, not elsewhere specified | 8.29% | 3 |
| Korea | 4.36% | 4 | US | 7.36% | 4 |
| India | 2.59% | 7 | Brazil | 2.73% | 9 |
| Russia | 1.88% | 12 | Russia | 1.86% | 12 |
| Brazil | 1.55% | 15 | India | 1.49% | 15 |
| South Africa | 0.68% | 29 | South Africa | 1.07% | 23 |
| India | | | | | |
| Export destination | Share of exports | Rank among export destinations | Import from | Share of imports | Rank among importers |
| United Arab Emirates (UAE) | 12.44% | 1 | China | 11.78% | 1 |
| US | 10.70% | 2 | UAE | 8.83% | 2 |
| China | 7.91% | 3 | Switzerland | 6.34% | 3 |
| Hong Kong | 4.31% | 4 | Saudi Arabia | 5.82% | 4 |

| Brazil | 1.66% | 15 | South Africa | 1.97% | 18 |
|--------------------|------------------|--------------------------------|--------------|------------------|----------------------|
| South Africa | 1.66% | 16 | Russia | 1.03% | 29 |
| Russia | 0.63% | 37 | Brazil | 0.92% | 30 |
| Russia | | | | | |
| Export destination | Share of exports | Rank among export destinations | Import from | Share of imports | Rank among importers |
| Netherlands | 13.49% | 1 | China | 15.69% | 1 |
| Italy | 6.82% | 2 | Germany | 10.74% | 2 |
| Germany | 6.27% | 3 | Ukraine | 5.69% | 3 |
| Ukraine | 5.78% | 4 | Japan | 4.90% | 4 |
| China | 5.08% | 6 | Brazil | 1.64% | 17 |
| India | 1.60% | 18 | India | 0.86% | 26 |
| Brazil | 0.45% | 35 | South Africa | 0.19% | 49 |
| South Africa | 0.01% | 104 | | | |
| Brazil | | | | | |
| Export destination | Share of exports | Rank among export destinations | Import from | Share of imports | Rank among importers |
| China | 15.58% | 1 | US | 15.07% | 1 |
| US | 9.75% | 2 | China | 14.15% | 2 |
| Argentina | 9.34% | 3 | Argentina | 7.99% | 3 |
| Netherlands | 5.18% | 4 | Germany | 6.51% | 4 |
| Russia | 2.10% | 10 | India | 2.35% | 10 |
| India | 1.76% | 16 | Russia | 1.06% | 21 |
| South Africa | 0.66% | 35 | South Africa | 0.41% | 38 |
| South Africa | | | | | |
| Export destination | Share of exports | Rank among export destinations | Import from | Share of imports | Rank among importers |
| China | 11.38% | 1 | China | 14.35% | 1 |
| US | 9.88% | 2 | Germany | 11.29% | 2 |
| Japan | 8.99% | 3 | US | 7.28% | 3 |
| Germany | 7.74% | 4 | Japan | 5.30% | 4 |
| India | 4.17% | 6 | India | 3.54% | 8 |
| Brazil | 1.00% | 25 | Brazil | 1.69% | 17 |
| Russia | 0.40% | 41 | Russia | 0.13% | 56 |

Source: UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

Regarding whether South Africa is capable of acting independently or whether it has to seek a coalition format, Russian experts acknowledge that South Africa has opportunities to act independently. It might form alliances with one or another country to pursue its interests while negotiating within BRICS and then proceed with a joint position at the G-20 or on other ground. Such alliances would have no connotation of South Africa being an appendage.¹⁰ Thus South Africa's participation in the BRICS forum might be an important instrument to counterbalance the economic bias of its trade relations with China.

Russia officially considers South Africa an independent player, despite its modest economic weight compared with the other BRICS countries. The meeting between the South African President, Jacob Zuma, and the former Russian President, Dmitry Medvedev, at the latest BRICS Summit in New Delhi clearly demonstrated this.¹¹

Besides economic considerations behind the issue of bargaining power, some Russian international relations experts believe that South Africa could be independent so long as the issues are not concerned with the interests of the UK or the US.¹² In their view South Africa's position could be influenced by the positions of these countries, either to support their position or to hinder possible negative effects for South Africa.

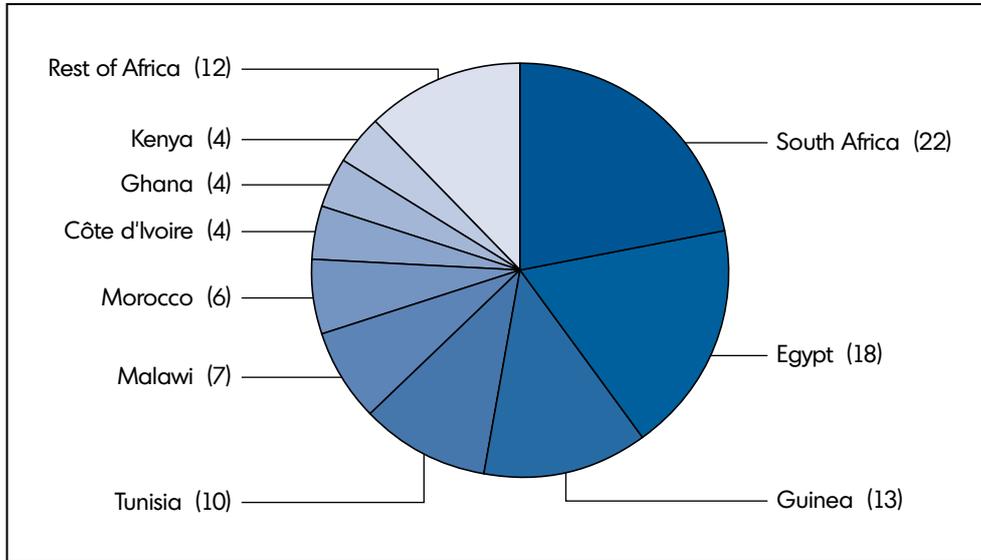
AXES OF COLLABORATION BETWEEN RUSSIA AND SOUTH AFRICA WITHIN THE BRICS AND THE G-20 CONTEXT

Historically Russia has a long-lasting political relationship with South Africa. For instance, Russia contributed to the struggle to abolish apartheid by supplying the African National Congress with weapons. Economic data unambiguously demonstrates that South Africa is one of the most advanced economies on the African continent. Russia acknowledges this leading economic role of South Africa and the potential positive impact South Africa's development would have on its neighbouring countries. At the same time, however, both historically and economically, Russia has stronger ties with other African countries (see Figures 1 and 2) which it will also rely on, and invest in, along with further development of economic relations with South Africa.

In addressing the potential axes of collaboration, it is necessary to distinguish political collaboration from economic. Russia considers BRICS to be one of its key directions of foreign policy development in the medium and long run. Collaboration with South Africa fits well with Russia's economic and political diplomacy. It contributes to the creation of the multipolar world order and strengthens Russia's position in such global governance institutions as the G-20, IMF and the World Trade Organization (WTO). It also helps to create global legitimacy of the multipolar system of international relations. New opportunities for economic co-operation provide additional benefits.

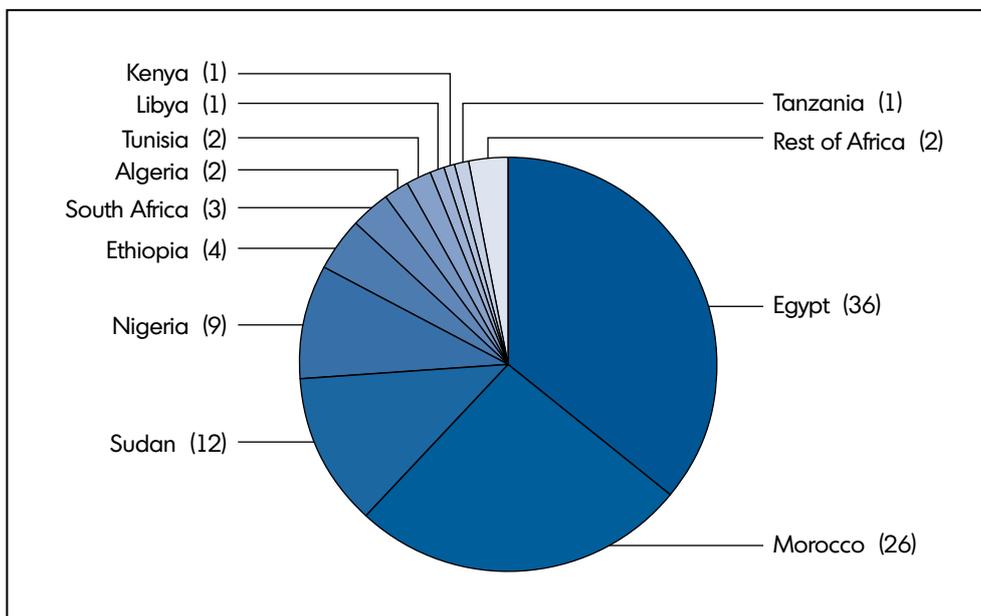
Brazil, Russia India, China and South Africa to some extent consider the BRICS arrangement as an important but intermediate negotiation ground between individual countries' interests and the G-20. If member countries define a joint position on some matter within the BRICS format, it will have a higher chance of being approved by the G-20, both because of the joint economic weight of the BRICS countries and the higher probability of getting support from other developing countries in the G-20.

Figure 1: Russian imports from Africa (%), 2010



Source: Authors' calculations based on UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

Figure 2: Russian exports to Africa (%), 2010



Source: Authors' calculations based on UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

Undoubtedly, every country considers global governance as an instrument to pursue its interests, rather than as an end in itself. Russia aims to create and support multipolarity

that allows it to fulfill its own development plans, as well as to halt the policies that hinder Russian growth and strategies. For Russia, multipolarity is a phenomenon wherein several ‘poles’ of interests in the world exist with none being strictly dominant. This state impedes supremacy of ‘big powers’ and provides consideration of smaller economies’ interests and concerns.

On economic matters, Russian businesses recognise South Africa as the economic leader on the African continent and consider at least two main ways to utilise this productively. First of all, Russia could use its rapidly developing relationship with South Africa for mutually beneficial co-operation in the development of joint representation in neighbouring countries, at least in the Southern African Development Community. Second, Russia’s government also identifies areas of special interest in South Africa; its core interest lies in mineral resources collaboration. Since South Africa possesses a very rich and broad resource base, it is of high importance for Russian metallurgy.

Capital investments play an important role for Russia, as South Africa has a developed financial market and reliable banking and insurance sectors. The Johannesburg Stock Exchange is one of the top 15 worldwide, and in 2011 the WEF placed South Africa’s financial market in fifth position out of 141.

Russia places a high priority on co-operation in high technology sectors. The South African markets for mobile services and IP-based technologies are among the fastest growing in the world. There are also highly innovative mining technologies and development of mining equipment; and substantial research potential to find new energy sources. Lastly, South Africa has a favourable geographical position. It has large ports that guarantee access to all seas, which provide ample opportunities for co-operation in the economic and military areas.

Russia’s experts also believe that there might be a very special role for Russia in South Africa’s globalisation agenda. When China penetrates various South African markets by making huge investments in the country, South Africa might need some sort of a counterbalance against Chinese influence. Accordingly, South Africa might consider a broader Russian presence in various economic sectors and projects to help strengthen its ability to bargain and to protect its interests.¹³ The opportunities for Russia in South Africa are vast and might become an important driver for the development of mutually beneficial projects in the future.

PROBLEMS ARISING FROM THE CURRENT LACK OF CO-OPERATION BETWEEN RUSSIA AND SOUTH AFRICA

To date economic relations between Russia and South Africa are very limited. As seen in Table 3, the share of Russia’s exports to South Africa during the last decade has not reached even 0.1%; exports peaked in 2009, with a 0.06% share of Russia’s total exports to South Africa. Russia’s experts believe that over the last two decades, Russia undermined its possible gains from collaboration with South Africa. In this regard, from a strategic point of view, Russia’s policy does not appear to be thoroughly thought out.¹⁴ This might be illustrated by the fact that 10 years ago Russia did not have any business or trade representatives in South Africa. As a result, Russia’s only option was to push state-owned companies to launch projects in the country. For instance, VEB first established

representation in South Africa 10 years ago. Even today Russia does not have a trade mission there, and its share of the South African market is relatively small compared with China, Brazil and India.¹⁵ Russia ranks 41st as an export destination for South Africa and 56th as an import source country (see Table 2).

The situation with exports from South Africa to Russia fares a little bit better (see Table 3). Its share in overall South African exports is significantly higher, and since 2000 it has shown consistent growth (from 0.1% to 0.4% in 2010).

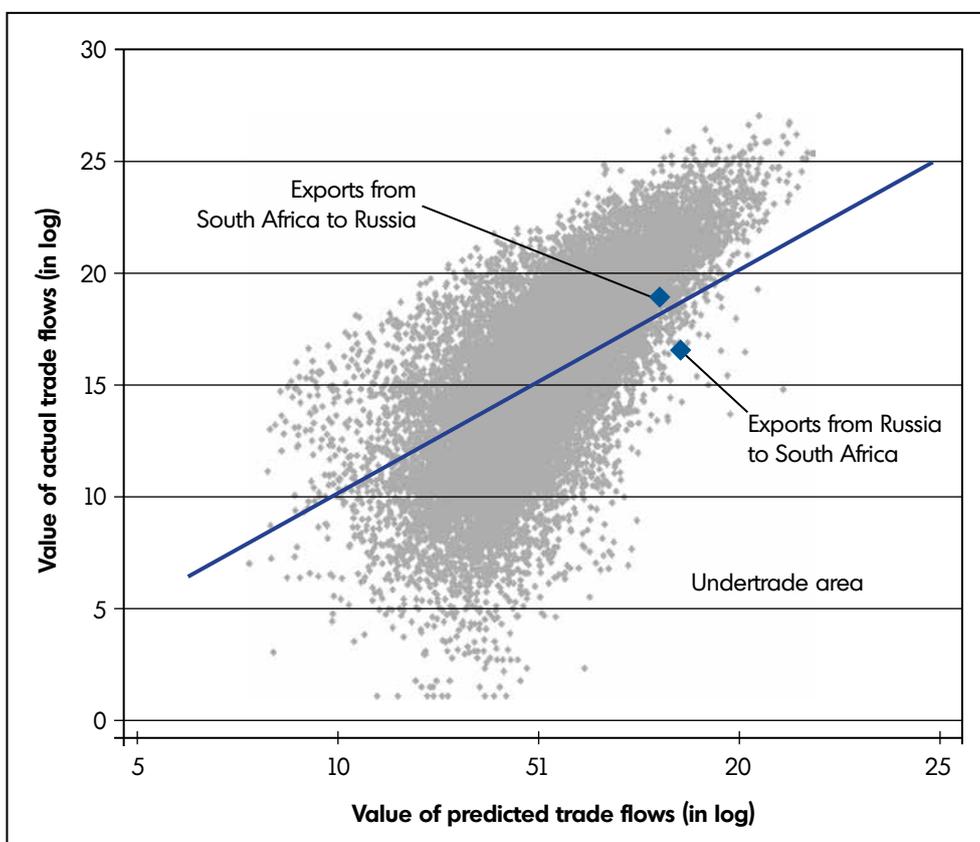
Table 3: Economic relations between Russia and South Africa, 2000–10

| Year | Russia's exports to | | | South Africa's exports to | | |
|------|---------------------|--------------|------------------------------|---------------------------|------------|------------------------------------|
| | World | South Africa | | World | Russia | |
| | \$ billion | \$ million | Share in Russian exports (%) | \$ billion | \$ million | Share in South African exports (%) |
| 2000 | 103 | 34 | 0.030 | 26 | 30 | 0.10 |
| 2001 | 100 | 6 | 0.010 | 26 | 30 | 0.10 |
| 2002 | 107 | 40 | 0.040 | 23 | 42 | 0.10 |
| 2003 | 134 | 7 | 0.005 | 32 | 75 | 0.23 |
| 2004 | 181 | 9 | 0.004 | 40 | 98 | 0.24 |
| 2005 | 241 | 25 | 0.010 | 47 | 70 | 0.15 |
| 2006 | 301 | 20 | 0.006 | 53 | 106 | 0.20 |
| 2007 | 352 | 14 | 0.004 | 64 | 151 | 0.23 |
| 2008 | 467 | 40 | 0.008 | 74 | 242 | 0.32 |
| 2009 | 302 | 195 | 0.060 | 54 | 178 | 0.32 |
| 2010 | 400 | 46 | 0.010 | 71 | 284 | 0.40 |

Source: UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

Figure 3 demonstrates the extent of the deficit of Russia–South Africa trade flows with an estimated gravity trade model to evaluate the potential value of exports from Russia to South Africa. The results show that Russia's actual trade flows are far below their potential.

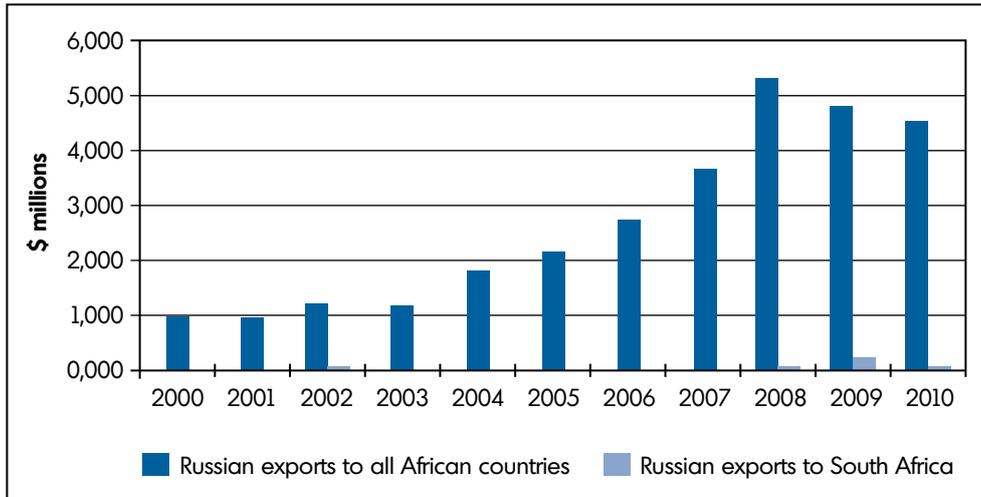
Figure 3: Gravity model of world-wide trade (in logarithms of dollar value of trade flows), 2007



Source: Authors' calculations based on UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

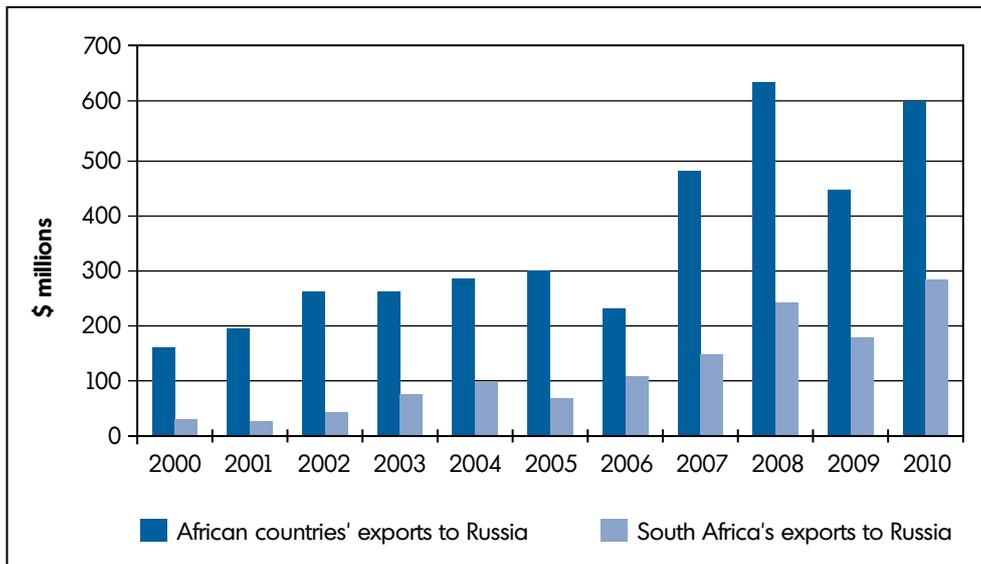
Figure 4 also shows that although Russian officials state that Russia recognises South Africa as an important partner on the African continent, to date it remains barely recognisable in the geographical portfolio of Russia's trade.

Figure 4: Exports from Russia (\$ million), 2000–10



Source: Authors' calculations based on UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

Figure 5: Exports to Russia (\$ million), 2000–10



Source: Authors' calculations based on UN Commodity Trade Statistics Database, Statistics Division. New York: UN, 2012.

The pattern of trade flows between South Africa and Russia indicates that although the export structure of Russia to South Africa is sufficiently diverse, Russia's imports from South Africa are mostly in agricultural production. According to Russian Customs Statistics, in 2011 the structure of Russian exports to South Africa was mainly comprised of chemicals (32%); timber, pulp and paper (24%); food and agriculture (21%); metals

(11%); and machinery and transport equipment (10%). The trade flow from South Africa to Russia mainly consisted of food and agricultural products (47%); mineral products (19%); machinery and transport equipment (19%); metals (7%); and chemicals (6%).

Along with the development of trade links, foreign direct investment (FDI) might be an important instrument for strengthening collaboration and an important vehicle for modernisation. However, although FDI flows are growing between Russia and South Africa their absolute value remains small (see Tables 4 and 5).

Table 4: FDI from South Africa to Russia (\$'000), 2006–10

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------|----------|----------|----------|-----------|-----------|
| Accumulated FDI | 1,841,28 | 6,674,78 | 5,096,12 | 18,226,78 | 16,023,58 |
| Inflow FDI | 4,597,76 | 396,96 | 878,00 | 1,664,41 | 523,52 |

Source: Russia, Moscow, Central Base of Statistical Data, Federal State Statistic Service, 2012.

Table 5: FDI from Russia to South Africa (\$'000), 2007–10

| | 2007 | 2008 | 2009 | 2010 |
|------------------------|--------|----------|-----------|-----------|
| Accumulated FDI | – | 671,30 | – | 32,500,00 |
| Inflow FDI | 671,30 | 1,636,60 | 32,500,00 | 267,00 |

Source: Russia, Moscow, Central Base of Statistical Data, Federal State Statistic Service, 2012.

Despite broad opportunities that co-operation might bring to Russia and South Africa, both countries recognise the problem of the current lack of co-operation and have put efforts into improving ways for further economic collaboration. To help achieve these goals the South Africa–Russia Business Council was created in 2006. The council considers mutual FDI as a major vehicle for enhancing economic interdependency. The most promising sectors are:

- the exploration, extraction and processing of minerals;
- the construction of energy facilities, including hydropower plants;
- the construction of oil and gas pipelines;
- engineering;
- agriculture; and
- the military–technical sphere.

Priority areas are also science and technology, nuclear energy, space exploration, as well as co-operation of Russian regions with the provinces of South Africa. Russia also believes that an increase in bank co-operation might be mutually beneficial. Representatives of Russian businesses believe that strong relations on economic grounds will help to bridge political axes, especially concerning matters that might influence the impact of economic co-operation.¹⁶

Russia is not alone in its efforts to increase co-operation with South Africa. All BRICS countries actively compete with each other in practically all South African markets. Russia competes with China, India and Brazil in accessing infrastructure projects and projects in extraction sectors in South Africa. It competes with China and Brazil with regard to participation in energy programmes, and the natural resources extraction sector. If Russia receives any preference in the economic co-operation sphere in South Africa, it might affect its relationship with other BRICS countries. For example, currently Russia is interested in participating in nuclear power plant construction projects in South Africa. South Africa plans to build eight nuclear power plants by 2050 (the cost of the programme is estimated at \$50 billion). Among the BRICS countries only Russia and China possess the required technologies. If South Africa chooses Russia, it may lead to tension in relations between Russia and China. Indeed, no country would relinquish the opportunity to enter the market, especially where it has a competitive position.¹⁷ However, the Russian government and Russian businesses believe that given the negligible current Russian links with South Africa compared with China–South Africa integration, the amount of potential Russian investments in this project will not change the situation dramatically, and any conflict is unlikely.¹⁸

CONCLUSION

Currently economic collaboration between Russia and South Africa is very limited, and Russia places more weight on co-operation in international relations rather than on economic opportunities afforded by the BRICS forum.

Nevertheless, South Africa's representation in BRICS raises its profile with Russia and should stimulate political and economic awareness of possible channels for further co-operation. Co-operation between South Africa and Russia within BRICS might trigger mutual trade and economic co-operation on the one hand, and might become an important instrument for strengthening global governance on the other.

The following points may be concluded.

- Although Russia recognises South Africa as one of the most promising markets in the developing world, and the most promising and reliable partner in Africa, the current trade and investment positions between Russia and South Africa are far below their potential.
- An increase in trade and investment flows is considered as the major area of strengthening co-operation between Russia and South Africa. The high information costs of entering partners' markets for private business might be facilitated by public investments in developing integration infrastructure.
- The return on such improvements could be substantial, especially given the current low base. Although Russia–South Africa relations are not strong at the moment, there are long-lasting historical connections which require a new injection.
- Co-operation within BRICS currently has more political flavour than economic.¹⁹ However, development of further economic co-operation, along with an improvement in political relations, will make the overall BRICS forum more credible and reliable, as well as improve its position within the G-20. BRICS global legitimacy will be attained

through opportunities to agree upon certain issues within the BRICS format and then to pursue those interests and strategies of the developing countries within the G-20. Undoubtedly, since the BRICS countries have a substantial overlap in their own development agendas, they are more likely to compromise. A joint position of the largest developing countries on pressing issues on the international agenda might also prove to be an important tool to foster global governance.

ENDNOTES

- 1 Natalya Volchkova's email address is nvolchkova@nes.ru.
- 2 Maria Ryabtseva's email address is mryabtseva@cefir.ru.
- 3 Personal interview, representatives of the VEB, CEFIR, 13 June 2012.
- 4 Personal interview, representatives of the African Institute of the Russian Academy of Sciences, African Institute of the Russian Academy of Sciences, 5 June 2012.
- 5 World Bank data, *World Development Indicators*. World Bank, Washington, DC, 2012.
- 6 Personal interview, representatives of the African Institute of the Russian Academy of Sciences, *op. cit.*
- 7 *Ibid.*
- 8 Telephonic interview, representatives of the Russia–South Africa Business Council, 14 June 2012.
- 9 VEB Press Service, 'VEB signed multilateral contracts with the authorized banks of the BRICS', available in Russian, 29 March 2012, http://www.veb.ru/press/news/arch_news/index.php?id_19=28889.
- 10 Personal interview, representatives of the African Institute of the Russian Academy of Sciences, *op. cit.*
- 11 Telephonic interview, representatives of the Russia–South Africa Business Council, *op. cit.*
- 12 *Ibid.*
- 13 Personal interview, representatives of the VEB, *op. cit.*
- 14 Personal interview, representatives of the African Institute of the Russian Academy of Sciences, *op. cit.*
- 15 Personal interview, representatives of the VEB, *op. cit.*
- 16 Telephonic interview, representatives of the Russia–South Africa Business Council, *op. cit.*
- 17 *Ibid.*
- 18 Personal interview, representatives of the African Institute of the Russian Academy of Sciences, *op. cit.*
- 19 Personal interview, representatives of the VEB, *op. cit.*

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