OCCASIONAL PAPER 191

Economic Diplomacy Programme

June 2014

BRICS, Mega-Regional FTAs and South Africa's Trade Strategy

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South African Institute of International Affairs

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SAIIA gratefully acknowledges the Swedish International Development Cooperation Agency, the Danish International Development Agency, the UK Department for International Development and the Swiss Development Corporation, which generously support the EDIP Programme.

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ABSTRACT

Global trade strategy does not appear to be a major focus of the Brazil, Russia, India, China, South Africa (BRICS) grouping, apart from the priority given to completing the stalled World Trade Organization Doha Development Round of negotiations. Mega-regional trade initiatives led by the US – the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) – have stepped into the gap. These initiatives reflect a wider regionalisation of trade dynamics, which the BRICS, both individually and collectively, are already addressing in navigating their response to the TPP–TTIP. The tripartite free trade agreement between the Common Market for Eastern and Southern Africa, the Southern African Development Community and the East African Community reflects one such option for South Africa as it tries to navigate contradictions involving its Economic Partnership Agreement (EPA) with the European Union (EU) and its hopes of not being 'graduated' out of the US extension of the African Growth and Opportunity Act (AGOA). It is in South Africa's interest to promote a US–EU harmonisation between the AGOA extension and the EPAs.

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ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
BRICS	Brazil, Russia, India, China, South Africa
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EPA	Economic Partnership Agreement
EU	European Union
FTA	Free Trade Agreement
GFTA	Grand Free Trade Area
G-7	Group of Seven
G-20	Group of 20
IORA	Indian Ocean Rim Association
IMF	International Monetary Fund
Mercosur	Southern Common Market/Mercado Commun do Sul
RCEP	Regional Comprehensive Economic Partnership
SACU	Southern African Customs Union
SADC	Southern African Development Community
TTIP	Transatlantic Trade and Investment Partnership
TPP	Trans-Pacific Partnership
WTO	World Trade Organization

INTRODUCTION

Global trade strategy does not seem to be an overriding imperative motivating the Brazil, Russia, India, China, South Africa (BRICS) grouping. More attention is paid to issues of local currency internationalisation interacting with accessing natural resource markets for accelerated domestic economic growth. BRICS summits tend to generate a menu of priorities without clearly prioritised aims. However, with Russia now also a World Trade Organization (WTO) member, BRICS as a collective seems better placed to caucus on a multifaceted trade negotiating strategy. Given the BRICS' raison d'etre as the lead change agent in a Euro–US dominated global economy, negotiations underway on mega-regional free trade agreements (FTAs) – the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) respectively – are seen as challenging the BRICS collectively and individually to elevate trade diplomacy as a priority.

The challenge, in this regard, is the prospect of the US-initiated mega-regional FTA negotiations marginalising both the WTO and the stalled Doha Round trade negotiations. For the BRICS and other emerging and developing economies, WTO–Doha is central to the global economic reform agenda regarding trade. Yet the stalemate over WTO–Doha has, at least in part, prompted developed economies, under US leadership, to deepen their own geoeconomic integration while co-opting several developing economies in Asia and Latin America.

Much of the remaining global South has been left to reconfigure multipolar trade architectures under the pressure of having to accommodate outcomes from the TTIP and TPP negotiations that could affect the terms of preferences and reciprocities. At a global level, this situation calls into question the BRICS' presumptive leadership position among emerging economies. The predicament they face (individually and collectively) has to do with formulating coherent strategic responses to mega-regional FTA prospects, the content of such responses and how they might be pursued in the WTO. In the event that no coherent strategic response emerges, this paper looks at how South Africa may have to proceed, in its own national interest, in recalibrating its trade strategy.

EVOLVING GLOBAL ECONOMIC LANDSCAPE: EMERGING FEDERALIST PATTERN

The conceptual point of departure in addressing these questions is premised on recognising global economic integration as an overriding reality. There is wide acknowledgement that this reality has eroded the sovereignty of nation-states in retaining full control over their destinies.[1] Within the multipolar distribution of economic capacities among nations, regionalism has emerged as the salient feature configuring the global economic landscape. Hence, competitive and convergent movements toward varying forms and degrees of regional integration have gained momentum within the context of global negotiating frameworks such as the WTO.

Given the diversity and unevenness of economic development among developed and developing nations, varying convergent interests among groups of states within and external to their regional neighbourhoods have generated a 'plurilateralism' of platforms.

These involve 'like-minded states' pursuing their national interests in advancing economic – and strategic – agendas.[2] This multipolar geoeconomic circumstance results in what often appears to be a chaotic interplay between globalism and regionalism.

As a result, global negotiations tend toward stalemate. Colonial legacies influencing a revisionist politics of redress bogs down the North–South bargaining that multipolarity brings to global negotiations.

The complexity of these talks is reinforced by unevenness within the developing camp. This camp comprises least-developed countries and more capacitated developing economies, as well as that fairly newly-minted 'in-between' category of emerging powers. Throw in residual East–West tensions animating the global geopolitical terrain amid regional upheavals, and regionalism and inter-regionalism emerge as the shape of things to come, given that global negotiations are about the future configuring of the global geopolitical economy.

At the centre of this global-regional interplay are unreformed UN and Bretton Woods institutions such as the International Monetary Fund (IMF), which must referee this dynamic. The WTO and other arenas of global negotiations fall outside the terms of reference of these institutions, yet they form part of a matrix of complementarity comprising the global economic governance bargaining landscape.

Herein may be detected an implicitly incipient federalism in unfolding developments involving the IMF, national and regional central banks and development finance institutions, as well as regional economic communities involved in sundry trade agendas. The point here regarding the BRICS is that the five countries, linked to their regional zones of interests, emerge as the main points of departure in how major emerging economies within the Group of 20 (G-20) and the WTO are attempting to navigate a reconfiguring of the global geopolitical economy.[3]

This trend seems reflected in how they are engaging different multilateral regional trade agendas in their respective regions – or attempting to forge their own regional and interregional configurations: Brazil in terms of Mercosur and the Pacific Alliance, Russia in terms of an Eurasian customs union, India and China regarding the Regional Comprehensive Economic Partnership, and South Africa in terms of the tripartite FTA comprising the Common Market for Eastern and Southern Africa, the Southern African Development Community and the East African Community (COMESA–SADC–EAC).

BRICS AND GLOBAL ECONOMIC GOVERNANCE STRATEGY: NAVIGATING COMPETITIVE TRADE DYNAMICS

Given that the global economic landscape has shifted east into an Asia-centric pattern dominated by the emerging Pax Sinica, the US initiatives are a 'shot across the bow' aimed at breaking the WTO Doha Round stalemate in a manner that advances US interests in the western Pacific. Thus, while the driving force behind the BRICS was a Sino–Russian campaign against the US dollar as the world's reserve currency and main medium of financial transactions, trade (not currency) has emerged as the US' preferred terrain of battle in determining who dominates the Pacific, if not the Asian future. Trade and currency are interlinked. However, a review of BRICS summit communiqués reveals a greater emphasis on reshaping of the terrain of global finance than addressing trade challenges.

For China, preoccupied as it has been with internationalising the yuan/renminbi, this is understandable. Intra-BRICS, Beijing's currency is and has been a major bone of contention in its trade surpluses and competitive positioning in penetrating resource markets in mineral and energy-rich regions. Trade and investment financing in renminbi is a major Beijing priority.

Otherwise, the BRICS' obligatory mantra on trade stresses commitment only to finalising WTO–Doha, while emphasising the importance of the mandate of the UN Conference on Trade and Development 'as the focal point in the UN system dedicated to consider the interrelated issues of trade, investment, finance and technology from a development perspective'.[4]

The BRICS, therefore, is in an essentially reactive mode regarding the TPP–TTIP. However, the issues in play are not zero-sum faultlines between 'the West and the rest', and are interrelated. This is reflected in the mixed developed–developing country make-up of the TPP covering Latin America as well as much of East and Southeast Asia, whereas the TTIP has implications for African trade and investment with both the US and the European Union (EU).

As a means of moving forward on interrelated currency and trade issues, there is no reason why the BRICS could not, within the club governance format of the G-20, establish a dialogue with the Group of Seven (G-7) to hash out these issues as a means of facilitating the post-Bali movement within the WTO. As it is, the geopolitical trade terrain reflects contradictions among the BRICS countries, as well as within the US and with its negotiating partners.

Within the India, Brazil, South Africa (IBSA) wing of the BRICS, the lack of movement on a trilateral preferential trade agreement reflects wider problems of alignment among the BRICS and the broader emerging economies spectrum.[5] Meanwhile, political headwinds in the US make it unlikely that President Barack Obama will be given 'fast track' authority to push these deals until after the November mid-term elections. This window might narrow further as 2016 presidential campaigning gets underway in 2015. Further complicating matters, US business groups attacked Japan and Canada for resisting tariff cuts in such sensitive sectors as agriculture on the eve of a critical ministerial negotiating meeting.[6]

WTO AS A BRICS VENUE OF RESPONSE: GLOBALISM VS. REGIONALISM

The stakes in these negotiations are high, as trade is now at the forefront of geo-strategy in the jockeying for position in the transitioning global economic scenario. As this scenario unfolds, it may well be that the WTO evolves into a culminating venue at the centre of eventually converging negotiations at the regional peripheries of the global economy.

This was a point made by Pascal Lamy as his term in office as WTO director-general ended ahead of the entry of the BRICS-friendly Roberto Azevêdo of Brazil. Sceptical though he was of how the TPP and TTIP could add value to liberalisation efforts (and of their coherence), Lamy pointed out that 'experience showed that bilateral and regional deals could be "stepping stones" rather than "stumbling blocks" for big multilateral deals'.[7] In other words, regionalism and inter-regionalism become the 'federalist' geo-economic basis shaping global trade integration.

If this is the scenario that is unfolding, the G-20 could serve as a venue for the BRICS as the lead emerging power 'caucus' to explore the preconditions of a post-Bali finalisation of Doha, rather than the WTO itself. Complicating this option, however, could be the emergence within the G-20 of the so-called MKTA bloc of Mexico, South Korea, Turkey and Argentina as a caucus in its own right. These limitations seem to reinforce a more regionalist tilt in trade negotiating options. The unfolding Asian scenario underlines these prospects.

From the regionalist and inter-regional perspectives, the BRICS' options could include any number of possibilities. In the Asia-Pacific, the Regional Comprehensive Economic Partnership (RCEP), which includes China but not the US, counterpoises the TPP. Most if not all of the Association of Southeast Asian Nations (ASEAN) economies, Indonesia included, are aligned with the RCEP, which is much less ambitious than the TPP. The RCEP may have the added weight of intersecting with the launch of the ASEAN Economic Community in 2015, but there seems to be a fair amount of hedging. Thus, both the TPP and RCEP could be seen as potentially transitional to a super mega-regional Asia-Pacific Economic Co-operation FTA encompassing a US–Japan–China triangle along with Russia and South Korea and the ASEAN Economic Community extending to India, Australia and New Zealand.[8]

On the other side of the Indian Ocean, with possible interregional convergence potential with whatever Asia-Pacific scenario emerges, there is the Grand Free Trade Area (GFTA) 'Cape to Cairo' initiative. It aims to consolidate COMESA, SADC and the EAC. With the EAC as the apparent emerging epicentre of COMESA–SADC–EAC momentum, it might not be too far-fetched to envision an incipient Indian Ocean geo-economic configuration emerging between the Eastern and Southern African tripartite FTA and the ASEAN Economic Community.[9] However, the integrationist potential of the GFTA may be limited due to resistance to sign on to a COMESA customs union that could serve as the interregional glue binding SADC and the EAC (not to mention the fact that a SADC customs union is on hold while its Southern African Customs Union [SACU] core faces a crisis of sustainability as currently constituted).[10]

Meanwhile, Brazil (which, like India, has long been in negotiations with the EU) seems driven by a fear of isolation given what is widely seen as the Southern Common Market's (Mercosur) declining momentum amid the emerging dynamism of the Pacific Alliance (the Latin American component of the TPP).[11] This pro-TPP inter-American alignment includes Mexico, Chile, Peru and Colombia, and will soon expand to include Costa Rica and Panama. This has prompted the Brazilian National Confederation of Industry to call for the opening up of FTA talks between Brasilia and Washington in an about-face after Brazil's major role in torpedoing the Free Trade Area of the Americas.[12]

However, Brazil's Foreign Minister Luis Alberto Figueiredo is on record as favouring full co-operation between Mercosur and the Pacific Alliance, saying that 'integration between the two blocs is possible by accelerating the tariff reduction processes'.[13] Unlike India and China, this could signal Brazil's accommodation of the TPP instead of countering its Pacific Alliance momentum, in what may amount to 'if you can't beat them, join them'. A transatlantic preferential or free trade arrangement with Angola and/or the Economic Community of West African States is not anticipated.

SOUTH AFRICA'S TRADE DILEMMAS WITHIN AFRICA AND BRICS CONTEXTS: A LOOMING CRISIS?

South African trade policy has to balance and create synergies among the following priorities:

- integrating trade within Africa, especially the COMESA–SADC–EAC tripartite FTA, as its overriding integration imperative;
- forging a wide net of trade relations in the global South, especially in the South Atlantic and with members of the Indian Ocean Rim Association (IORA); and
- navigating two major developed northern initiatives, namely the EU's Economic Partnership Agreement (EPA) agenda in SACU/SADC and the extension of its inclusion in the US African Growth and Opportunity Act (AGOA).

The fact that China and Japan are South Africa's two largest Asian trading partners also has to be factored into this mix. Both are 'dialogue partners' in IORA (along with the US, UK, France and Egypt), which has a trade and investment agenda. This suggests the need for creating an IORA dialogue forum on trade and investment with active 'dialogue partner' participation.

It is unclear to what extent South Africa has a balanced strategic perspective on this contradictory matrix of trade priorities. US and European officials believe that South Africa is fixated on the BRICS at the expense of relations with 'the West'.[14] If this is the case, it could complicate South Africa's developmental agenda, given the importance of its trade relations with both the US and the EU. South Africa needs to safeguard these trading interests while preventing contradictions between the EU and US trade agendas in Africa from clashing in a manner that undermines the African agenda.

The EU aims to bring closure to its EPAs in Africa by October 2014. Given the controversies and complications these have caused (which could affect non-European third country trading partners such as the US), the US and South Africa could have common ground for pressing the EU to delay EPA implementation until the terms of the AGOA extension have been sorted out.

The AGOA–EPA equation is something that South Africa and the African Union should want placed in the 'bucket of global issues' to be negotiated between the US and the EU in arriving at a TTIP deal. This is based on a detailed proposal of the Woodrow Wilson International Centre for Scholars Africa Programme in collaboration with the Manchester Trade Group.[15]

However, US officials and AGOA extension supporters also stress the importance of South Africa's addressing Washington's emphasis on a 'level playing field' being established in relationship to the EU. The US sees itself as being as much in competition with the EU as with China and the other BRICs (minus South Africa).[16] It is imperative that South Africa recalibrate its trade strategy by taking advantage of the TTIP as leverage with the EU in managing the contradictions posed by the EPAs. Its focus should be on both developing its trade relations with the US and safeguarding the African integration agenda in Eastern and Southern Africa.

POLICY RECOMMENDATIONS

As an overarching umbrella strategy, the BRICS may have to elevate regional and interregional economic integration to the top of their agenda. The BRICS need to consolidate leverage in influencing the terms of global integration by undertaking several measures.

- As a 'caucus' within the G-20, initiate an open-ended dialogue on trade with the G-7.
- Navigate seperately an accommodation with the TPP–TTIP in accordance with the geo-economic balance of forces in their respective regions to avoid isolation, depending on how much momentum these mega regionals generate toward becoming realities.
- Effect a North-South balance in trade strategies, as these are not either-or and zero-sum options. As such, the WTO may need to be reconceptualised as the culminating point in a 'bottom-up' periphery to the centre process of reforming the global trading system.
- South Africa should show greater urgency to accelerating regional integration in Southern Africa and within the COMESA–SADC–EAC FTA context, at the same time promoting US–EU harmonisation between an AGOA extension and the EPAs within the 'bucket of global issues' in their TTIP negotiations in the interest of Africa's overall integration agenda.

ENDNOTES

1 Stevens P, 'A transatlantic tale of paralysis', *Financial Times*, 19 April 2012.

2 See International Centre for Trade and Sustainable Development & Inter-American Development Bank, *The E15 Initiative: Strengthening the Multilateral Trading System*. Geneva, 2013.

3 This characterisation of the BRICS is elaborated on in Kornegay Jr. FA, 'Laying the BRICS of a New Global Order: A conceptual scenario', in Kornegay Jr. FA & N Bohler-Muller (eds), *Laying the BRICS of a New Global Order: From Yekaterinburg 2009 to eThekwini 2013*. Pretoria: Africa Institute of South Africa, 2013, pp. 1–32.

4 SAFPI (South African Foreign Policy Initiative), 'BRICS: eThekwini Declaration'. Communique of the 5th BRICS Summit, 27 March 2013, point number 15.

5 Stuenkel O, 'Why is there still no IBSA free trade agreement?', *Post-Western World*, 23 February 2014, http://www.postwesternworld.com/2014/02/23/still-trade-agreement/.

6 'US business on attack over tariffs', 'Japan and Canada defy agriculture cuts, critical talks on Pacific trade deal.' *Financial Times*, 21 February 2014.

7 'Pascal Lamy questions US-led regional trade talks', *Financial Times*, 18 July 2013.

8 See, for example, in the case of India: Dogra S & JJ Woo, 'Where does India stand amid changing Asia-Pacific trade dynamics?', *Financial Express*, 4 April 2013.

9 'Forget about SA and Nigeria: Michael Power on why the smart money is on East African growth', *Financial Mail*, 6 February 2014; and 'SA business in Kenya: treading carefully', *Financial Mail*, 6 February 2014 – a companion article speculating that preferential bilateral trade terms could happen by default as the COMESA–SADC–EAC tripartite is expected to establish its FTA in 2015, the same deadline for the ASEAN becoming an economic community.

10 See: TradeMark Southern Africa, 'COMESA: The Customs Union', 26 February 2014, http://www.trademarksa.org/news/comesa-customs-union.

11 'Shaping US–Brazil relationship after the Snowden affair: A conversation with Ambassador Thomas A Shannon', *Brazil Institute Special Report*, February 2014, pp. 18–19. Ambassador Shannon responds to the following partially quoted question: 'There are indications in Brazil that Brazilians are starting to feel a little bit isolated in international commerce due to the formation of the Pacific Alliance, the TPP negotiations, TTIP negotiations, and others. On the other hand, the Brazilians seem to still be hog-tied by their participation in Mercosur and by certain kinds of barriers within their own still quite protectionist society to be able to make a break through on trade issues …'

12 'Brazil industry keen on trade talks with US – industry group', *Wall Street Journal*, 14 November 2013, http://online.wsj.com/article/BT-CO-20131114-707892.html.

13 'Mercosur interested in trade integration with members of the Pacific Alliance, says Brazil', *MercoPress*, 8 February 2014, http://en.mercopress.com/2014/02/08/mercosur-interested-in-trade-integration-with-members-of-the-pacific-alliance-says-brazil.

14 This was voiced by an EU parliamentary delegation that visited South Africa last year in a session at the Human Sciences Research Council (HSRC) arranged to discuss South Africa and the BRICS.

15 McDonald S, Lande S & D Matanda, *Beyond AGOA: An Updated Case for a Trans-Atlantic Trade & Investment Partnership Between Africa & the United States*. Washington DC: Wilson Center and Manchester Trade, April 2013. This is an eight-page policy position paper proposing that 'the US *use the bucket of global issues* under the impending negotiations for a Transatlantic Trade and Investment Partnership (TTIP) to develop consensus on issues of mutual concern with the EU … The US should renew AGOA in its present non-reciprocal form until 2025, and the EU should delay its negotiations of economic partnership agreements (EPAs) until the next decade as well. *This would not only allow Africa sufficient time to complete negotiations for a continental FTA and CET but once in place would allow Africa the benefits of negotiating as a group*…' (italics added)

16 'Gaspard warns SA to heed AGOA-extension opposition from US farmers', *Polity.org.za*, 20 February 2014. Report on US Ambassador to South Africa Patrick Gaspard's address at the University of South Africa, organised by the Institute for Global Dialogue.

SAIIA'S FUNDING PROFILE

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being funded by, among others, the Bradlow Foundation, the UK's Department for International Development, the European Commission, the British High Commission of South Africa, the Finnish Ministry for Foreign Affairs, the International Institute for Sustainable Development, INWENT, the Konrad Adenauer Foundation, the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the Canadian International Development Agency, the Organisation for Economic Co-operation and Development, the UN Conference on Trade and Development, the United Nations Economic Commission for Africa, the African Development Bank, and the Open Society Foundation for South Africa. SAIIA's corporate membership is drawn from the South African private sector and international businesses with an interest in Africa. In addition, SAIIA has a substantial number of international diplomatic and mainly South African institutional members.

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