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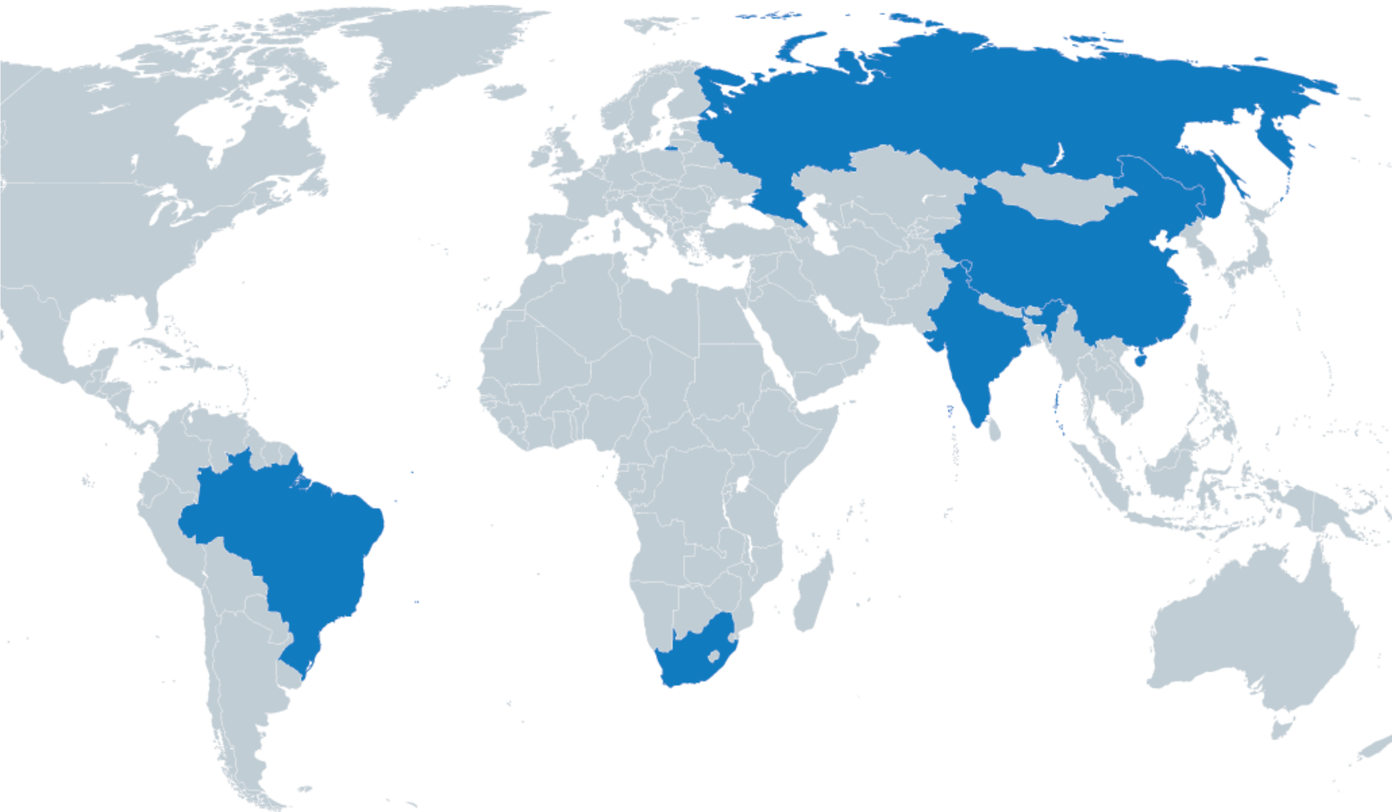

Geopolitical Turmoil: BRICS Economic Windfall?

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African perspectives
Global insights

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS

Executive summary

South Africa is hosting the BRICS Summit for the third time, in 2023. During its presidency, it will again focus on a central pillar of its engagement with the BRICS: enhancing economic relations with the bloc's members. Increasing intra-BRICS trade and investment have arguably been core pillars of the BRICS' agenda since the bloc's inception, along with reforming global governance, promoting economic development, and enhancing south-south cooperation.

The global economic milieu has changed considerably over the past 15 years of BRICS cooperation. Significant changes have also occurred within the past five years since South Africa last hosted the grouping in 2018. These changes have been largely driven by heightened geopolitical competition, the coronavirus pandemic, and domestic changes within the BRICS.

This paper unpacks South Africa's trade and investment relationship with the BRICS over the past five years to understand the nature of economic ties between these partners. It locates this economic cooperation within a broader geopolitical context. Notable developments include, among others, the operationalisation of the AfCFTA under the Guided Trade Initiative and rising geopolitical tensions between the US/West and China with resultant economic impacts, as well as renewed impetus from within and outside BRICS to expand the bloc's membership. The paper concludes with recommendations on how South Africa, Africa and the BRICS can leverage current geopolitical dynamics to enhance and deepen economic cooperation in the bloc.

Introduction

Since its inception, BRICS[1] has challenged the prevailing neo-liberal global order. The bloc aims to change the dominant global order by reforming global governance, reimagining economic development, and strengthening ties among members and other nations across the global South.[2]

After more than 15 years of systematic cooperation among the BRICS, progress has been made on all core priorities of the bloc. However, economic ties between the BRICS, while having strengthened considerably, remain weak. This is especially the case for South Africa when comparing its economic engagements with the BRICS to Pretoria's more traditional partners in Europe and the US. South Africa's intra-bloc trade remains dominated by bilateral trade with China; trade flows remain volatile; exports are dominated by raw

1 A geopolitical forum consisting of leading developing countries and emerging markets comprising Brazil, Russia, India, China and South Africa.

2 BRICS, 'Sanya Declaration', April 13, 2011, https://www.thepresidency.gov.za/content/sanya-declaration-brics%2C-13-april-2011-brics-leaders-meeting%2C-sanya%2C-hainan%2C-china%2C-april?page=6.

commodities, while imports consist mainly of manufactured goods; and Pretoria faces a growing trade deficit with its BRICS partners. Similarly, while bilateral direct investment between South Africa and the BRICS is increasing, it remains marginal compared to investment in South Africa by its traditional economic partners.

> Significant geopolitical and geo-economic drivers offer South Africa, Africa and the BRICS new opportunities to deepen economic ties among themselves

Yet, significant geopolitical and geo-economic drivers offer South Africa, Africa and the BRICS new opportunities to deepen economic ties among themselves. First, the operationalisation of the African Continental Free Trade Agreement (AfCFTA) under the Guided Trade Initiative (GTI) in December 2022, presents significant opportunities for these partners.[3] While the AfCFTA's core intention is to promote industrialisation and development of African economies, third parties have a critical role to play in its success. Partners outside the continent can capitalise on the AfCFTA's establishment by investing on the continent, shifting manufacturing and production processes to African countries, and linking the continent to global value chains.

Second, growing geopolitical rivalry between the US and European countries, and China, has impacted Chinese manufacturing, trade, and investment in two critical ways. In the first instance, increased calls for re-shoring, near-shoring, and friend-shoring[4] manufacturing by the West have threatened to undermine Chinese production processes and trade as 'Chexit' increases among western manufacturers.[5] Further, Chinese investors have been facing increasing scrutiny in Western markets, with growing restrictions placed on Chinese outbound capital. Russia, albeit on the back of different geopolitical considerations, has also been isolated from these markets. This opens significant manufacturing, trade and investment opportunities for China and its BRICS counterparts, as Chinese firms explore alternative markets.

3 Jennifer Freedman, 'AfCFTA's Ali: Watch for More African Trade Thanks to Guided Trade Initiative,' International Institute for Sustainable Development, January 15, 2023, https://www.iisd.org/articles/policy-analysis/african-trade-initiative.

4 'Re-shoring' is the process of relocating production facilities from a third region, back to a domestic environment; 'near-shoring' is the process of relocating production facilities from a third region, to a country geographically closer to the head office; and 'friend-shoring' is the process of relocating production facilities from a third region, to a country considered a geopolitical ally of one's home country.

5 While geopolitical drivers are one motivation for 'Chexit', other key considerations for firms exiting China include supply chain resilience, growth slowdown in China, rising labour costs in China, stronger environmental regulations, and heightened regulatory barriers, among others. See TN Ninan, 'Chexit, in parts: Reshoring, friend-shoring and billions of dollars in sops,' Business Standard, January 20, 2023, and Dubai Multi Commodities Centre, 'The Future of Trade: Global Trade in a New Era of Multilateralism,' (DMCC, 2022).

Finally, increased geopolitical pressure on both China and Russia (albeit for different reasons) has sparked renewed interest from BRICS members and seen greater impetus towards expanding the bloc's membership. Interest from third parties looking to hedge their ideological alliances has also increased considerably, with more than 15 countries expressing an interest in joining the forum. While India has long thwarted such efforts for fear of shifting the balance of power within BRICS, more recently South Africa has indicated its willingness to expand membership, while Brazil's newly elected President, Lula da Silva, has long been a keen supporter of South-South cooperation, and is likely to support membership expansion too. If the bloc is to be expanded, it will offer significant opportunities for the bloc and new partners in areas of trade, investment, and financial cooperation as it would increase systemic coordination among a broader range of countries.

This brief unpacks South Africa's trade and investment relationship with the BRICS over the past five years in order to understand the nature of its economic ties with the bloc. It then locates this relationship within broader geopolitical developments and explores how South Africa, Africa, and the BRICS can exploit ongoing geopolitical turmoil to enhance economic relations within the bloc.

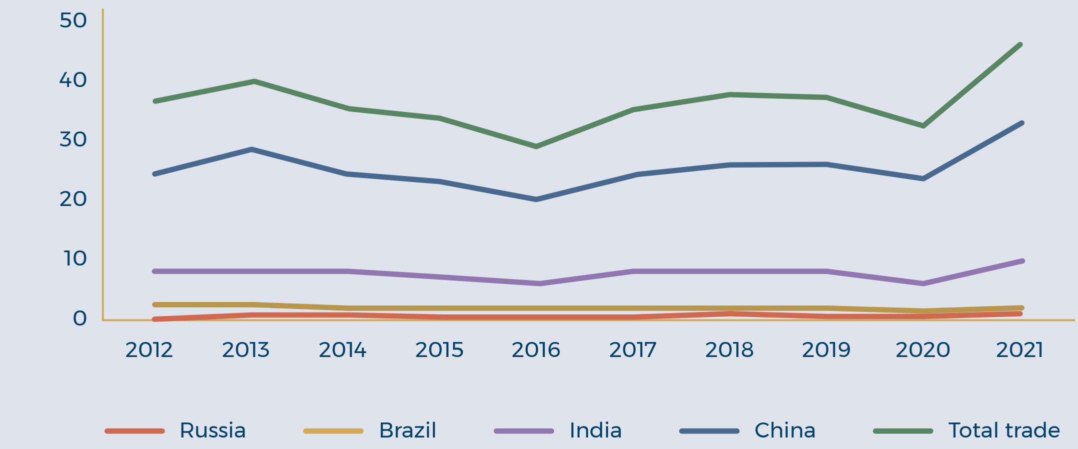
Unpacking South Africa's economic ties with the BRICS

South Africa's economic relationships with the BRICS have grown significantly over the past two decades. Yet, the characteristics of South Africa's trade and investment relationship with the BRICS have remained largely unchanged: trade and investment between South Africa and the bloc remain dominated by its engagements with China; trade flows have been volatile; South Africa's trade deficit with its BRIC partners has increased; and South Africa's exports within the BRICS remain dominated by raw materials, while imports consist largely of manufactured goods. At the same time, bilateral direct investment between these partners remains low. These trends were identified in earlier analysis,[6] and persist.

South Africa's total trade (imports and exports) with the BRICS increased by nearly $10 billion over the past decade, from $36.4 billion in 2012 to $45.5 billion in 2021. However, trade with China alone in 2021 represented more than 70% of bilateral trade, followed by India (21%) (see Figure 1). South Africa's trade balance with the BRICS has fluctuated throughout this period, from $5.8 billion in 2012 to $10.3 billion in 2015, before receding to $7.5 billion in 2021, but Pretoria continues to maintain a trade deficit with all its BRIC counterparts (see Figure 2).

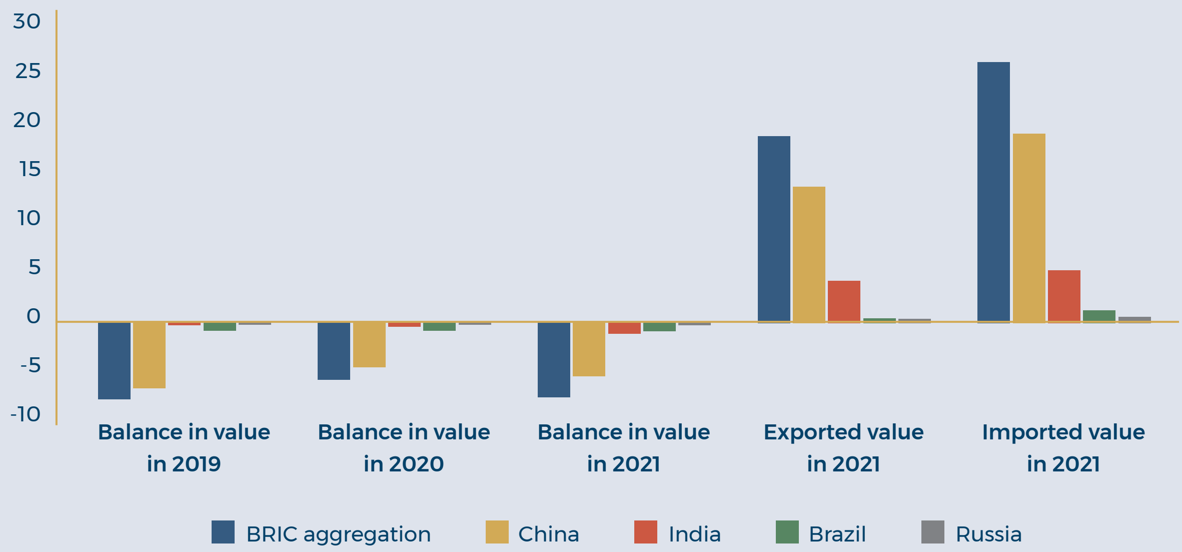
6 Cyril Prinsloo, 'Boosting South Africa's Economic Relations with the BRICS,' (Institute for Global Dialogue: Global Insights Issue 131, 2017).

Figure 1 South Africa – BRICS total trade ($ billion)



Source: ITC, *TradeMap*, 2023, https://www.trademap.org/

Figure 2 South Africa – BRICS total trade ($ billion)



Source: ITC, *TradeMap*, 2023, https://www.trademap.org/

While South Africa's trade balance with the BRICS members remains undesirable, the nature of South Africa's trade with BRICS is also not conducive to promoting Pretoria's domestic industrialisation and development efforts, as espoused under the National Development Plan and other related national trade and industrial policy strategies. South Africa's exports to the BRICS remain dominated by raw materials. The top five exports in 2021 included ores (48.3% of total exports), mineral fuels (17.8%), iron and steel

(6.3%), precious stones (4.5%), and copper (3.7%) (see Figure 3). At the same time, South Africa's major imports in 2021 consisted of manufactured goods, including electrical machinery (19% of imports), other machinery (17.5%), and vehicles (7.6%) (see Figure 4).

Figure 3 South Africa's exports to BRICS, 2021 (% of total)

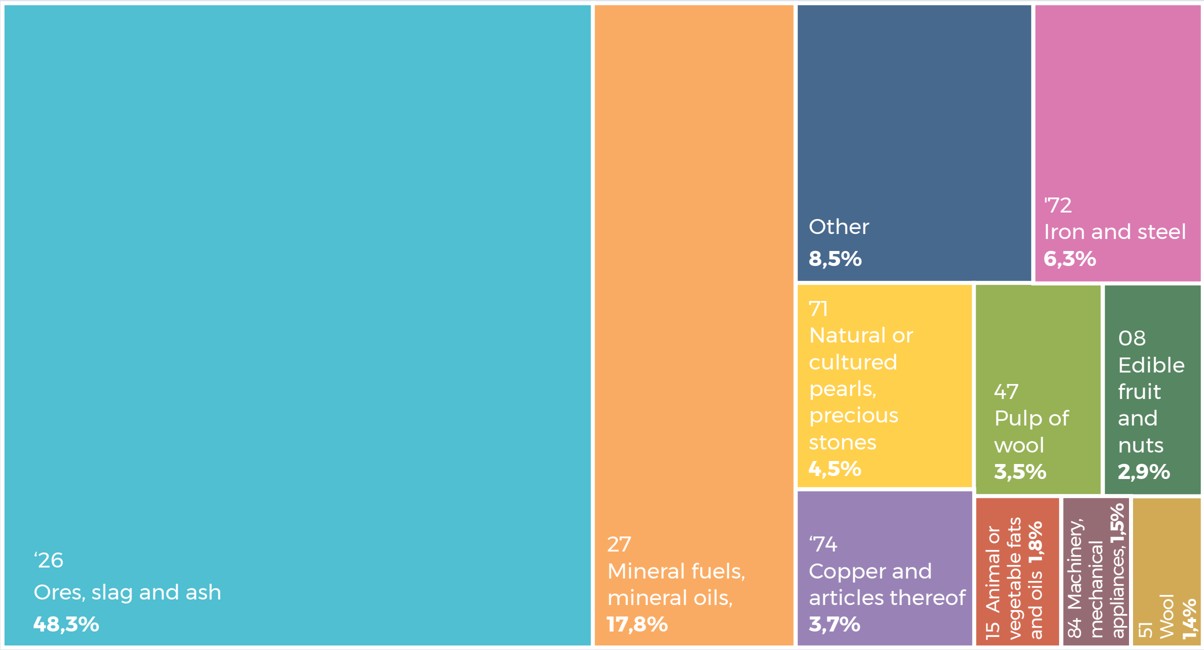
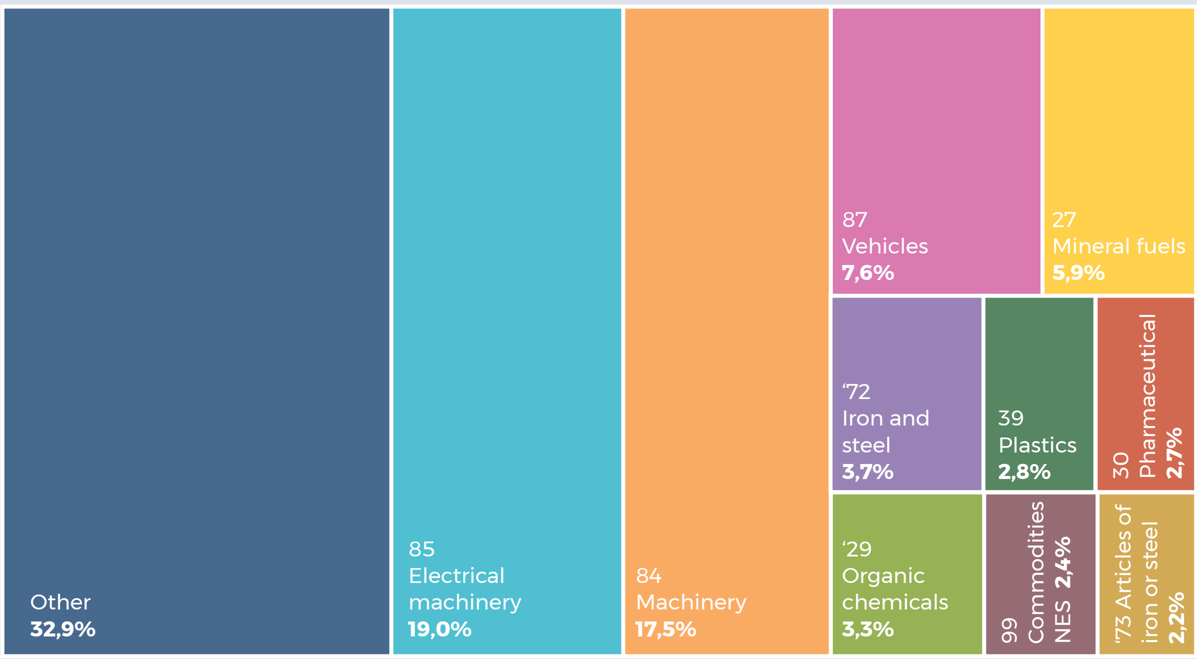


Figure 4 South Africa's imports from BRIC, 2021 (% of total)



Source: ITC, *TradeMap*, 2023, https://www.trademap.org/

This balance also stands in stark contrast to the trade profile South Africa has with other partners, notably the European Union and the US, where South Africa's exports basket features manufactured goods such as automotives, agricultural and agro-processed goods, and machinery, in addition to raw minerals (see Annex 1 for detailed breakdown).

In addition to the bilateral trade challenges faced by South Africa and the BRICS, direct investment between these partners further underscores the relatively shallow economic ties they maintain. While the BRICS' direct investment in South Africa nearly doubled between 2015 and 2021, from R63 million in 2015 ($3,7 million)[7] to R106 million ($6,2 million) in 2021, this represents less than 4% of total foreign direct investment, despite the BRICS accounting for 20.9% of South Africa's global trade (see Figures 5 and 6).

Figure 5 South Africa – BRICS total trade ($ billion)

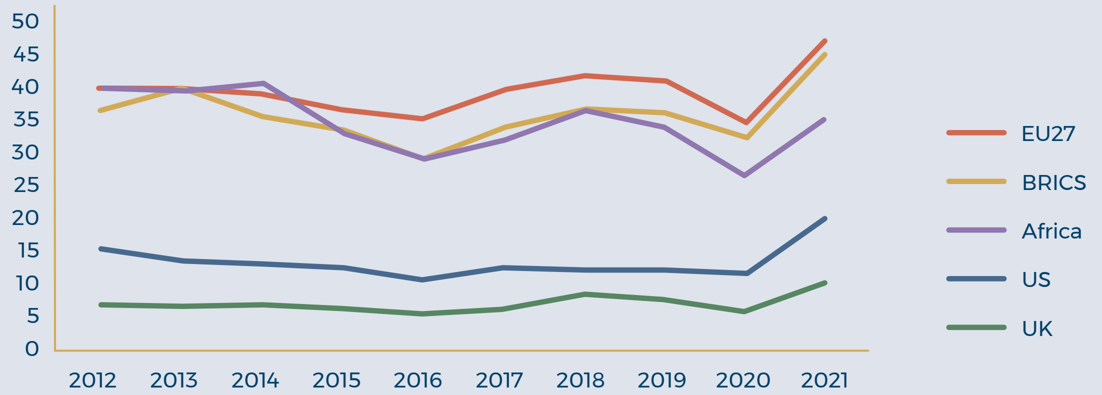
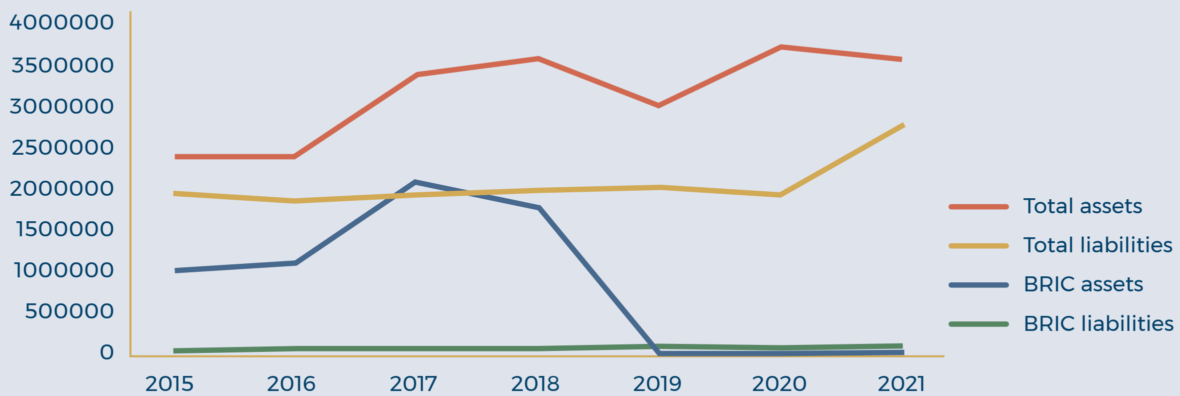


Figure 6 Foreign assets and liabilities of South Africa – BRIC (direct investments, ZAR millions)

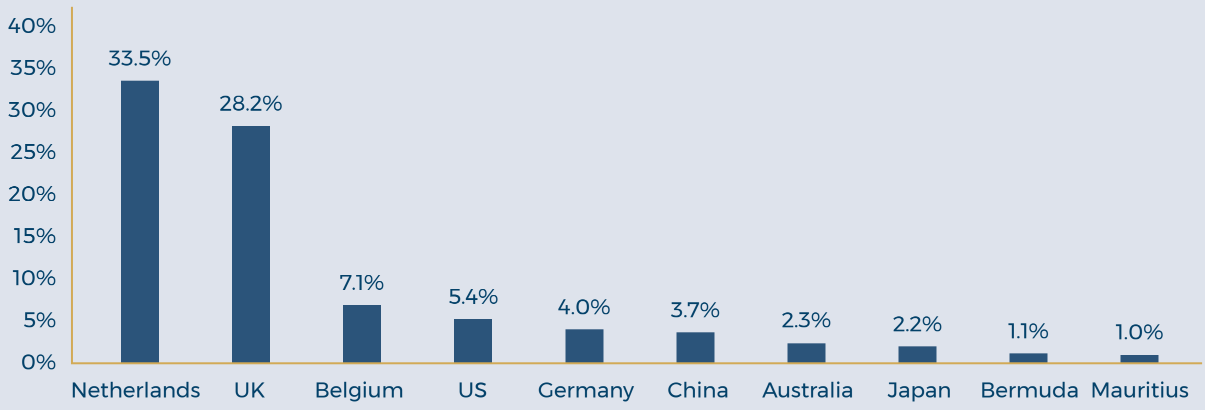


Source 5: ITC, *TradeMap*, 2023, https://www.trademap.org/
Source 6: South African Reserve Bank, 'Data request from the South African Reserve Bank,' (SARB, 2023)

7 Exchange for conversion $1: ZAR 17,08

Unsurprisingly, from the BRICS bloc China is the largest foreign investor in South Africa, with direct investment totalling R102 million ($5,6 million) in 2021, representing 3.7% of South Africa's total foreign investment. This contrasts starkly with European partners such as the Netherlands (33.5% of total direct investment in 2021), the UK (28.2%), Belgium (7.1%) and Germany (4%), as well as the US (5.4%), together making up the top five investors in the country (see Figure 7). South Africa's direct investment in the other BRICS also remains limited. While South Africa's investments in the BRICS countries appear to be significantly higher until 2017/2018, this was almost exclusively linked to Naspers' investment in China-based Tencent. Following Naspers' delisting from the Johannesburg Stock Exchange, a more accurate indication of the country's investment in China is evident, with significantly lower levels of direct investment in the BRICS from 2019 onwards
(see Figure 6).

Figure 7 Foreign liabilities of South Africa by country – direct investments (top 10, % of total)



Source: SARB, 'Data request from the South African Reserve Bank', (SARB, 2023)

It is evident that South Africa's trade relations with the BRICS have grown over the past decades, while direct investment also increased. Yet, as indicated in the preceding analysis, economic ties between South Africa and the bloc remain shallow. As global geopolitical tensions increase, South Africa and the other BRICS members have several opportunities to leverage the grouping to deepen their economic ties. The following section explores enablers brought about by key geopolitical shifts, and offers recommendations on how the bloc can leverage them accordingly.

Geopolitical enablers of economic growth for South Africa and the other BRICS

Global power relations have shifted considerably over the past three decades, away from the unipolar moment enjoyed by the US following the Cold War, towards a growing rivalry between the US/West and China and other emerging nations. The impact of this power shift has been borne out in multiple fora, including bilateral engagements between countries and in international organisations. More recently, this has taken the form of technological competition, industrial policies promoting nationalisation of production and trade protectionism for critical goods, and trade and investment sanctions on sensitive products, among others.

Yet, despite growing geopolitical turmoil (and concomitant instability), the BRICS have an opportunity to capitalise on the opportunities this represents. Several key geo-economic and geopolitical developments could act as enablers to deepen economic ties within the bloc. These enablers include the momentum gained under the AfCFTA; geo-economic and geopolitical rivalries between the US/West and China; and revitalised talks around BRICS membership expansion. The following section explores each of these enablers, and offers recommendations on how they can deepen BRICS economic cooperation.

African Continental Free Trade Agreement

The AfCFTA is the culmination of a long process of African regional economic integration in the post-colonial period. Yet, its momentum has arguably also been spurred by geo-economic shifts, in particular the long-running stalemate in the World Trade Organization's Doha negotiations, the rise of plurilateral negotiations to circumvent the impasse, as well as growing de-globalisation trends in favour of regionalism. Within the broader global economy, the AfCFTA offers African countries an opportunity to trade with developing and least-developed peers and in so doing promote structural economic and socio-economic transformation on the continent.

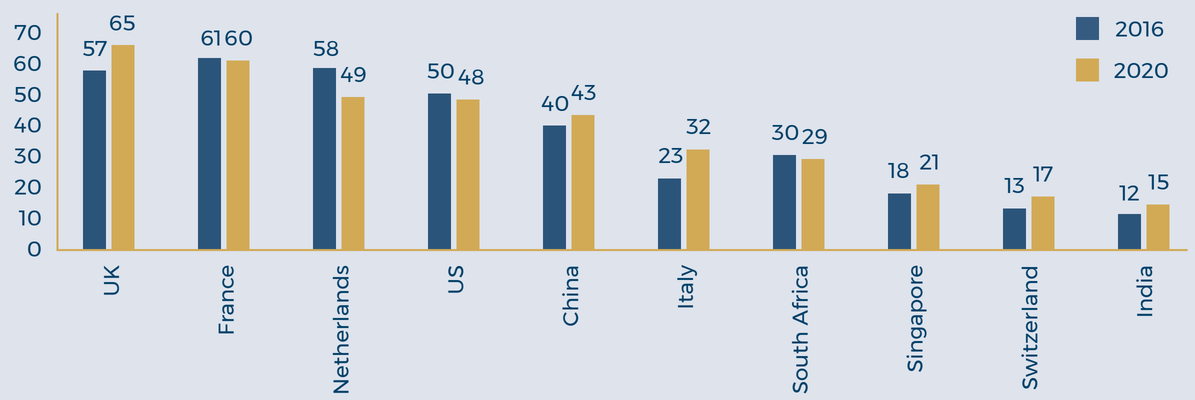
The rapid pace at which the AfCFTA has been ratified by all African countries save one, has sparked renewed business interest in African markets. Once fully implemented, the AfCFTA promises to create a single market of more than 1.5 billion people, with liberalised trade in goods and services across this market. This is an attractive prospect for businesses outside the continent who are struggling in saturated markets elsewhere in the world. The rapid, sustained political momentum the AfCFTA has enjoyed since its inception in 2018 continued with operationalisation of the Agreement in 2022 through the AfCFTA's GTI. The GTI tested the operational, institutional, legal and trade policy environment of the AfCFTA, allowed for meaningful trade under the agreement, and signalled a positive message to business on the continent and abroad as to the feasibility and functionality of the AfCFTA.[8]

8 Alain Pierre Ombanglil, 'Presentation to the AGOA African Ministerial Coordination Meeting,' December 12, 2022.

Eight African countries participated in this streamlined effort to start trading under the AfCFTA, including Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia.[9] In December 2022 a Kenyan firm shipped tea and locally produced car and truck batteries to Ghana under the AfCFTA, while a Rwandese firm exported coffee to Ghana.[10] The countries and products involved in the GTI represent a fraction of the broader AfCFTA, yet it relays an encouraging signal to businesses on the continent and abroad.

While the AfCFTA's core intention is to promote industrialisation and development of African economies and businesses, third parties have a critical role to play in the success of the AfCFTA by supplying intermediate goods and investments. The AfCFTA features a strict Rules of Origin regime to avoid transhipments and ensure that most value addition accrues on the continent.[11] This presents two important opportunities where the BRICS can capitalise on trade and investment with South Africa and the rest of the continent. First, BRICS businesses can increase engagements with African companies to supply intermediate inputs for further domestic African production. Second, BRICS businesses can benefit by investing on the continent to produce goods domestically, taking advantage of duty-free trade under the AfCFTA for export to all 43 countries currently party to the agreement. China has already demonstrated the success of the latter strategy, with around 12% of Africa's industrial production accounted for by Chinese companies producing for domestic (African) markets.[12] This is a mutually beneficial business model that can be expanded by China, and replicated by other BRICS countries. Yet, as noted earlier, investment by the BRICS in South Africa remains marginal, especially compared to European and US counterparts. A similar trend is evident throughout Africa, with European countries and the US dominating the top 10 investors on the continent (see Figure 8).

Figure 8 Africa: Top 10 investor economies by FDI stock, ($ billions)



Source: UNCTAD, 'World Investment Report', (UNCTAD, 2022), https://unctad.org/system/files/non-official-document/WIR2022-Regional_trends_Africa_en.pdf

9 Alain Pierre Ombanglil, 'Presentation to the AGOA African'.

10 Kate Hairsine, 'Africa's AfCFTA free trade agreement takes baby steps,' *Deutsche Welle*, December 5, 2022.

11 Cyril Prinsloo, 'Understanding the Agreement for African Continental Free Trade Area,' (SAIIA, 2020.)

12 'How Chinese firms have changed Africa,' *The Economist*, May 20, 2022.

A critical avenue through which the BRICS can pursue increased investment in Africa is through the plethora of special economic zones (SEZs) located on the continent. African countries host more than 230 SEZs (see Figure 9).[13] These SEZs typically offer foreign businesses incentives to invest, including fiscal (tax exemptions, exemptions from customs duties, etc.) and non-fiscal (eg, investment protection measures, trade facilitation measures) incentives. Typically, they also offer infrastructure and services support and cluster investments across different sectors (eg, technology, automotive, textile and clothing, renewable energy, etc.) creating valuable geographic business eco-systems. The BRICS should leverage these SEZs to drive greater investment, and in so doing enhance economic cooperation.

Figure 9 Number of SEZs per country

Source: UNCTAD, 'Handbook on Special Economic Zones in Africa', (UNCTAD, 2021), https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf

13 UNCTAD, *Handbook on Special Economic Zones in Africa*, UNCTAD/DIAE/IA/2021/3 (Geneva: UNCTAD, 2021), https://unctad.org/system/files/official-document/diaeia2021d3_en.pdf.

The upcoming BRICS Summit in South Africa will be an important opportunity for Pretoria to attract investment interest from BRICS peers to leverage the AfCFTA for mutually beneficial growth. But South Africa has also long considered itself as the 'bridge' between the continent and the BRICS.[14] It has done this by considering African positions ahead of BRICS Summits (typically through regional outreaches at key continental policy gatherings) and by inviting African counterparts when they hosted the bloc (eg, 2013 in Durban and again in 2018 in Johannesburg). South Africa will again invite African counterparts when it hosts the BRICS in 2023. It will also host a series of business-to-business (B2B) engagement activities for African firms and each of the BRICS countries, as well as a B2B/Business Dialogue (see Table 1).[15] Such engagements will be important opportunities for African countries to strengthen economic ties with the BRICS.

TABLE 1 BUSINESS TO BUSINESS DIALOGUES

Activity	Venue	Date
Africa-Russia Inclusive Economy B2B Conference	Gauteng TBC	13–17 February 2023
Africa-Brazil Inclusive Economy B2B Conference	Venue TBD	May 2023
B2B/Business Dialogue	Kruger National Park, Mpumalanga TBC	July 2023
Africa-China Inclusive Economy B2B Conference	Venue TBD	August 2023
Africa-India Inclusive Economy B2B Conference	Venue TBD	November 2023

Source: Government of South Africa, 'Draft BRICS Calendar of Events for 2023 – Working Copy of 21 December 2022'

Geo-economic trends and geopolitical rivalries

The second enabler of deepened economic ties within the BRICS bloc comprises two major geo-economic shifts related to manufacturing, both of which hold significant potential for South Africa and the BRICS to deepen their economic relations. First, global manufacturing processes have been disrupted by a combination of factors, including the coronavirus pandemic, geopolitical competition, and changing consumer demands. Second, as geopolitical rivalry between the US/Europe and China increases, Chinese investment has faced growing scrutiny in these markets.

The coronavirus pandemic and the accompanying lockdowns highlighted the vulnerability of long supply chains and single source production lines. The pandemic interrupted production processes, causing stoppages of entire production lines. The ensuing production risks caused by stoppages following the pandemic, and ongoing disruptions following further sporadic outbreaks, as well as soaring ocean freight costs as a result of the Russia–Ukraine conflict, have further convinced business leaders to simplify and shorten

14 Pranjal Sharma, 'South Africa is the bridge in BRICS,' *The Sunday Guardian*, November 5, 2022.

15 Government of South Africa, 'Draft BRICS Calendar of Events for 2023 – Working Copy of 21 December 2022'.

manufacturing chains.[16] A recent survey among European executives found that up to 60% of participants expect some elements of 'near-shoring' – shifting manufacturing away from Asia to geographically closer locations – in the near future.[17] Many firms were also influenced by changing consumer demands, with increasing focus on sustainability of production and ethical labour practices, which have often been neglected in Asia.[18]

However, even before the pandemic, policy support for reshoring production processes away from China had increased among US and European policymakers. Driven by geopolitical competition (eg, fear of technological domination, self-sufficiency in essential and strategic products, etc), policymakers in the US and Europe advocated for the re-shoring of critical manufacturing operations. In the US calls for re-shoring manufacturing started in earnest under the Trump administration.[19] However, under the Biden administration such calls have further accelerated, including near-shoring, and continued calls for friend-shoring (shifting manufacturing to allies of the US, eg, South Korea, Japan and Taiwan).[20] Notably, both Apple and Google have shifted phone manufacturing facilities from China to India and Vietnam, respectively, to enhance resilience of their supply chains.[21] An estimated 260 000 jobs opportunities were also created from reshoring of manufacturing in the US in 2021.[22]

The ensuing manufacturing production shifts can be a boon for South Africa, African countries, and the BRICS as Western countries seek alternative manufacturing locations and Chinese firms seek alternative partners for their manufacturing value chains. South African and African businesses should use the upcoming B2B engagement activities under South Africa's BRICS chairship to leverage these opportunities. At the same time, policymakers from the BRICS countries should engage their firms accordingly to ensure the success of these activities. While industrial policies at bilateral, regional, and continental levels dictate different sectoral priorities for development, common value chains prioritised include agro-processing, pharmaceutical, textile and clothing, and automotive sectors.[23]

Driven by similar geopolitical motives, Chinese investment in Europe has faced increasing scrutiny. Chinese investments in Europe have grown considerably over the past two decades, with top recipients between 2000 and 2021 including the UK (EUR 79.6 billion),

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16 Consultancy.eu, *European companies increasingly moving to reshore Asia production*, 2022, https://www.consultancy.eu/news/7430/european-companies-increasingly-moving-to-reshore-asia-production.

17 Consultancy.eu, *European companies increasingly moving*.

18 Consultancy.eu, *European companies increasingly moving*.

19 Nurullah Gur and Serif Dilek, 'US–China Economic Rivalry and the Reshoring of Global Supply Chains,' *The Chinese Journal of International Politics*, January 11, 2023, https://academic.oup.com/cjip/advance-article-abstract/doi/10.1093/cjip/poac022/6983719?redirectedFrom=fulltext.

20 Alexander Benard, 'What America's Plan to Bring Home Technology Manufacturing Gets Wrong,' *Foreign Policy*, 2022.

21 Alexander Benard, 'What America's Plan.'

22 Harry Moser, 'Geopolitical Forces Drive Record-Breaking Reshoring,' *Assembly*, 2022.

23 For a detailed overview of regional priority value chains, see Joseph Upile Matola, 'Leveraging the AfCFTA Under a Unified Industrial Policy for Africa,' SAIIA, 2022.

Germany (EUR 30.1 billion), Italy (EUR 16 billion), and France (EUR 15.7 billion).[24] Chinese investment in Europe has focused on several sectors, including automotive, health, pharmaceuticals and biotech, information and communications technology, and energy.

However, Chinese investment in these markets is increasingly being blocked, typically on grounds of national security or where assets are viewed as critical infrastructure, such as electricity production in a particular country (see Table 2 for this example and others).[25] European fears stem largely from Chinese government involvement in investment in the form of subsidised finance, as well as the perceived intimate nature of government–business ties in China, which could give the Chinese Communist Party undue influence in European countries.

TABLE 2 SELECTED CASES OF SCREENED CHINESE INVESTMENTS IN EUROPE, 2020–2021

Chinese Investor	European Asset	Country	Sector	Status
Syngenta	Verisem	Italy	Agriculture	Blocked
China General Nuclear	Nuclear power station in Suffolk	UK	Nuclear power	Removed from project
China Aerospace Science and Industry Corporation	IMST	Germany	Satellites	Blocked
Shenzhen Investment Holdings	LPE	Italy	Semiconductors	Blocked
Zheijiang Jingsheng Mechanical	Applied Materials	Italy	Semiconductors	Blocked
Nexperia	Newport Water Fab	UK	Semiconductors	Under review
Taurus International	Perpetuus Carbon Technologies	UK	Advanced materials	Blocked
CRRC	Alpi Aviation	Italy	Drones	Post-deal review

Source: Agatha Kratz, Max Zenglein, Gregor Sebastian, and Mark Witzke, 'Chinese FDI in Europe 2021 Update: Investments remain on downward trajectory – Focus on venture capital' (Merics and Rhodium Group, 2022), https://rhg.com/wp-content/uploads/2022/04/MERICS-Rhodium-Group-COFDI-Update-2022-2.pdf

Considering the heightened scrutiny Chinese investors face across European markets, the BRICS and other African economies would offer good alternative markets. For African countries this would be a boon, as investing in these sectors would help diversify Chinese investment on the continent away from construction and mining, which made up 35% and 21% respectively of total Chinese investment on the continent by 2020.[26] While China's investments in Europe arguably targeted sectors which offer them geopolitical advantages (eg, infrastructure and dual-use technologies), constraints seem set to continue to drive Chinese investors elsewhere.

24 Agatha Kratz, Max Zenglein, Gregor Sebastian, and Mark Witzke, 'Chinese FDI in Europe 2021 Update: Investments remain on downward trajectory – Focus on venture capital' (Merics and Rhodium Group, 2022), https://rhg.com/wp-content/uploads/2022/04/MERICS-Rhodium-Group-COFDI-Update-2022-2.pdf.

25 Jo Harper, 'Will the EU move to curb Chinese investments?' *Deutsche Welle*, October 25, 2022.

26 Yike Fu, 'The Quiet China-Africa Revolution: Chinese Investment', The Diplomat, 2021, https://thediplomat.com/2021/11/the-quiet-china-africa-revolution-chinese-investment/..

Russian economic ties with Europe and the US, meanwhile, have also been strained, albeit for different geopolitical reasons. US and European financial sanctions followed shortly after the Russia-Ukraine conflict started in February 2022. However, strained relations precede the latest round of sanctions, with effective economic and financial isolation following the annexation of Crimea in 2014 aggravating tensions. Not only has this limited Russia's ability to trade with these countries, but equally their ability to invest there. None of the BRICS have imposed similar sanctions against Russia, instead reiterating their respective positions in the UN General Assembly and the Security Council and calling for 'talks between Russia and Ukraine'.[27] This, again, could present an opportune time to explore different markets to deepen ties among the partners.

Not only do the preceding examples illustrate the increasing geopolitical tension between Western and non-Western countries, they also underscore how such geopolitical rivalry translates into the economic milieu. This could be a boon for BRICS partners by deepening intra-BRICS economic relations through increased trade and investment. While it certainly presents opportunities for South Africa and the continent, it is important for African countries not to alienate Western partners in favour of BRICS partners. As noted earlier, the US, the UK and EU countries remain important economic partners. African countries should consider strategic non-alignment as the preferred option in an increasingly divided world, having suffered domestically over many centuries as a result of externally instigated big power rivalry.

Membership expansion and financial resilience

The third potential enabler of deepened economic ties within the BRICS bloc is membership expansion of BRICS, which has long been on the bloc's agenda, driven by both internal and external interests. China has been a key proponent of membership expansion, in order to enlarge its global influence and reach through the BRICS forum. Russia too has favoured membership expansion to counteract Western sanctions. However, India has opposed such expansion for fear of upsetting the bloc's existing balance of power.[28]

Nevertheless, the recent heightening of geopolitical tensions has brought renewed impetus to consideration of membership expansion, both from within the BRICS, and by third parties looking to hedge their ideological alliances. South Africa has already intimated its support for membership expansion, with President Ramaphosa noting that 'we support considerations for the expansion of BRICS by admitting new members on the basis of formally agreed criteria, principles, and values.'[29] Brazil's newly elected President Lula, a long-time champion of South-South cooperation, will likely also be in favour of membership expansion. However, while publicly South Africa and Brazil are likely to

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27 The Presidency: Republic of South Africa, 'XIV BRICS Summit Beijing Declaration,' (The Presidency: Republic of South Africa, 2022), https://thepresidency.gov.za/content/14th-brics-summit-beijing-declaration?page=126.

28 Andrej Pavicevic, 'BRICS Expansion: Five New Members in 2023?', *Impakter*, July 18, 2022.

29 Amanda Khoza, 'ANC resolves to intensify international solidarity in all forms, says Ramaphosa,' *Times Live*, January 8, 2023.

support expansion of the bloc's membership, internal reservations around dilution of their privileged access to China through regular bilateral engagements on the side-lines of the BRICS meetings might be lamented.[30]

Countries who have officially applied for BRICS membership include Algeria, Argentina, and Iran. Others who have reportedly shown interest include Afghanistan, Egypt, Indonesia, Kazakhstan, Nicaragua, Nigeria, Saudi Arabia, Senegal, Thailand, Turkey, and the United Arab Emirates.[31] Depending on the new members admitted, expansion of BRICS membership will certainly bolster the BRICS' global influence by virtue of the formation's increased share of the global economy, control of mineral resources, or increased coordination in multilateral fora such as the G20, World Bank, IMF, UN, etc. But more so, it will likely be a boon for economic cooperation, including expanding cooperation on trade and investment by broadening the economic base for cooperation.

The inequitable nature of trade between South Africa and the BRICS described in the previous section is not by design. Instead, the complementarities between BRICS economies are less than conducive to equitable trade. In varying degrees, key BRICS exports comprise natural resources and energy products (Russia, Brazil, South Africa) and agricultural products (Brazil, South Africa), whereas key imports for others include raw materials and agricultural produce (India and China). While this does not preclude these countries from working towards shifting their respective import/export profiles, it is expected that without active intervention from these partners, their trade profiles will gravitate towards their respective competitive advantages. Furthermore, the geographic distances between some of the BRICS has undermined the logistical ease of doing business. Provided the right member countries are added to the block, it will open significant opportunities for the bloc to expand its trade and investment ties with new members in a more systemic manner. This should be an important consideration for current members in considering BRICS membership expansion.

BRICS membership expansion will also bolster the BRICS' efforts in increasing their financial cooperation and creating a more resilient and equitable global financial architecture. BRICS financial cooperation has long been geared towards limiting Western influence in international financial institutions (IFIs) and global reliance on the US dollar in efforts to create a more equitable and resilient global financial architecture. Predictably, such efforts have been challenged by the reluctance of the US and its allies to relinquish their power within IFIs. Nevertheless, the BRICS have actively pursued this objective by establishing new financial institutions (the New Development Bank and the Contingent Reserve Arrangement), advocating for reform of IFIs (including growing the emerging markets and developing countries' voting share in the World Bank and the IMF, and increasing the

30 Elizabeth Sidiropoulos and Cyril Prinsloo, ''A Global 'new normal': South Africa, The BRICS and the EU,' (South African Institute of International Affairs, 2016), Unpublished Report.

31 Alexander Jones, 'Why The BRICS Bloc Will Play a Crucial Global Economic Role in 2023,' *International Banker*, December 20, 2022.

Chinese Renminbi as an IMF reserve currency), and considering an intra-BRICS payment mechanism, mooted as far back as 2011.[32]

More recently, interest toward moving away from the dollar accelerated following tensions between the US and China, and notably following the imposition of Western financial sanctions against Russia. Practically, the BRICS wants to develop a new basket-based reserve currency, comprising real, roubles, rupees, renminbi, and rand. Such a basket will present an alternative to the IMF's special drawing rights (SDR, currently dominated by the USD).[33] However, ING, an investment bank, warns that for a reserve currency to be credible, it needs to pass the three criteria of 'safety, liquidity and return'.[34] Given the volatility and credit-worthiness of some of the BRICS members, ING questions the feasibility of such a basket currency.[35] Nevertheless, it will offer the BRICS and other countries an alternative to the SDRs, with membership expansion making this option more attractive as uptake will likely be higher.

However, while BRICS membership expansion can offer the bloc considerable opportunities to expand trade, investment and financial cooperation, it will likely be a strained process. First, reaching consensus on eligibility criteria and partners is likely to be arduous, considering the divergent interests of the current BRICS members. Second, expansion of the BRICS could be viewed as a counterpoint to Western powers, potentially heightening geopolitical antagonism.[36] Third, the plethora of engagements across different tiers of government, civil society and the private sector will likely present logistical and administrative challenges for all parties involved.

Conclusion and recommendations

Following nearly 15 years of cooperation, South Africa and the other BRICS have made considerable gains in enhancing their economic relations. Nevertheless, South Africa's trade with the bloc remains unbalanced, with bilateral flows dominated by trade with China, characterised by volatility, dominated by exports of raw commodities and imports of manufactured goods, and a growing trade deficit. At the same time, while bilateral direct investment between South Africa and the BRICS is increasing, it remains small compared to South Africa's traditional economic partners.

32 Louie Redvers, 'SA backs BRICS common currency plan,' *Mail and Guardian*, November 18, 2011.

33 The SDR currently comprises five currencies, including the USD (43,38%), Euro (29,31%), Yuan (12,28%), Yen (7,59%) and Pound (7,44%). IMF, 'Special Drawing Rights', (IMF, 2023), https://www.imf.org/en/Topics/special-drawing-right.

34 Chris Turner, 'BRICS: The new name in reserve currencies', (ING, 2022), https://think.ing.com/opinions/brics-the-new-name-in-reserve-currencies.

35 Chris Turner, 'BRICS: The new name in reserve currencies.'

36 William Daldegan, 'Challenges for the Expansion of the BRICS,' *E-International Relations*, June 9, 2022, https://www.e-ir.info/2022/06/09/opinion-challenges-for-the-expansion-of-the-brics/.

As South Africa hosts the BRICS in 2023, it should leverage ongoing geopolitical and geo-economic dynamics to further enhance engagements between itself, African countries, and the BRICS. These dynamics include the operationalisation of the AfCFTA, ongoing geopolitical tension between the US/West and China, as well as exploiting the potential of membership expansion. Accordingly, some of the specific recommendations in this brief to achieve this include:

- Leveraging South Africa's chairship of the BRICS to advocate for greater uptake of SEZs across African countries, attracting BRICS investment keen to exploit trade and investment opportunities under the AfCFTA;
- Using dedicated B2B events scheduled under South Africa's presidency of the BRICS to connect South African and African firms with BRICS counterparts. Policymakers from BRICS partners should likewise encourage their firms to participate in these events, notably across sectors such as agro-processing, pharmaceutical, textile and clothing, and automotive, which are prioritised under African industrial policies;
- Considering whether membership expansion of the BRICS could potentially bring significant economic cooperation opportunities and benefits, but note that there are risks to consider. As such, this discussion should be navigated carefully.

Annex 1: South Africa's exports to EU27 & US

Figure 10 South Africa's Exports to the EU27, 2021 (% of total)

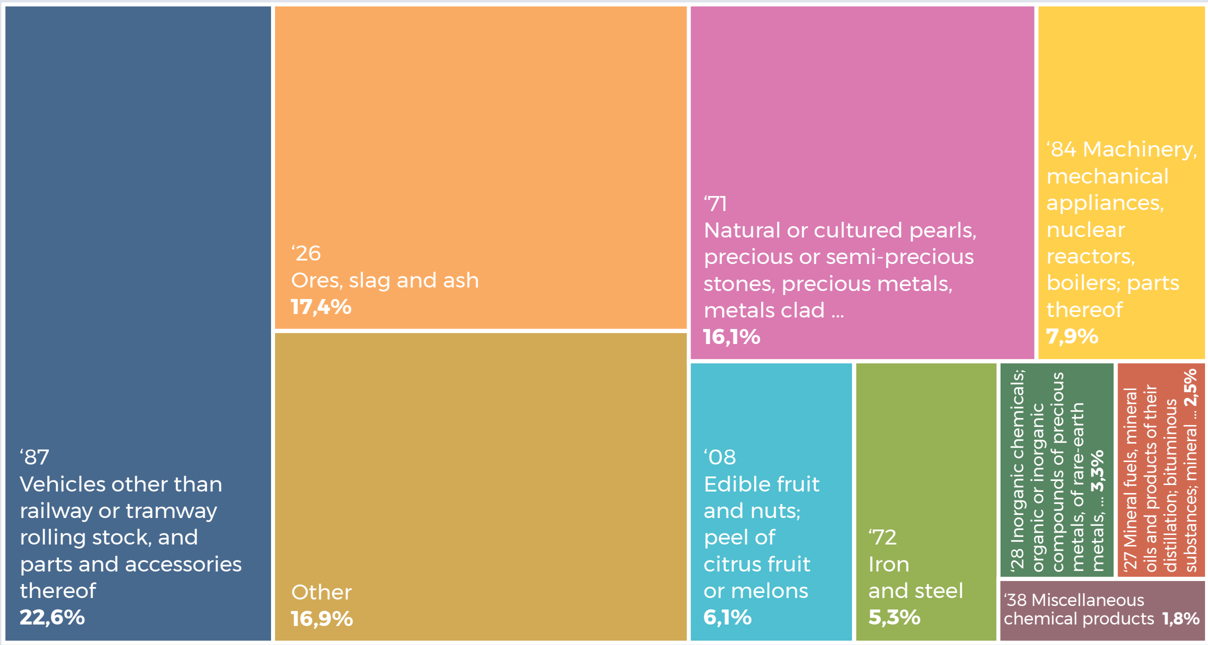
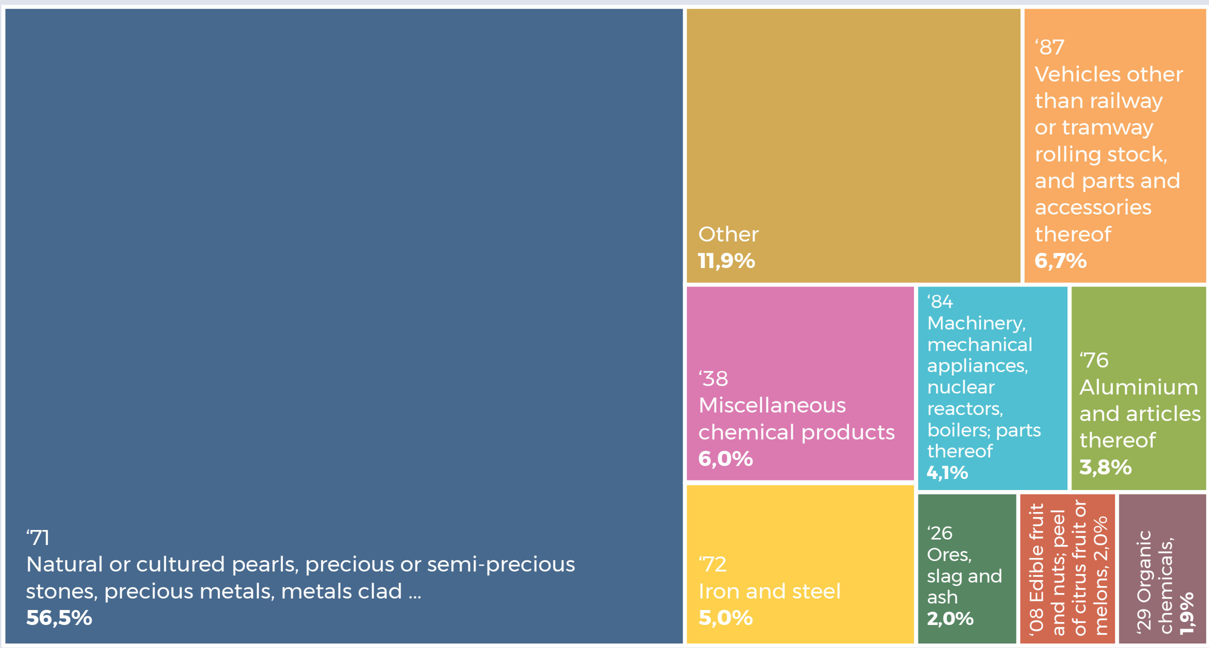


Figure 11 South Africa's Exports to the US, 2021 (% of total)



Source: ITC, 'TradeMap', (ITC, 2023), https://www.trademap.org/. Accessed 26 January 2023

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Please note that all currencies are in US$ unless otherwise indicated.

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